





ABOUT THE REPORT



n our Annual Report this year we focus on our key stakeholders – our Depositors, Borrowers, Owner, Employees, Community and Regulator, the key institutions and persons behind the Bank's success and how we have evolved to serve their diverse needs over 50 years of banking operations.

In an age where annual reports tend to constitute a complex fabric of involved data and financial jargon, which deny the average stakeholder the right to a simple and proper appreciation of its value and purpose, People's Bank has endeavoured to make its report simple and highly readable, whilst being informative.

We are confident this Report will offer the reader a sound understanding as regards to the evolution of the Bank over its 50 year history and an appreciation of the diligence with which we pursued and achieved a record performance in 2011, thus positioning the Bank as an undisputed leader in the Sri Lankan financial landscape.

It is our sincere wish that readers will derive as much satisfaction from reading this Report as we did in producing it.

As in previous years Sinhala and Tamil versions of this Annual Report are in production and will be available before June 2012.





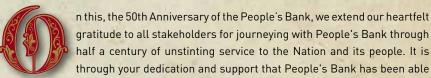
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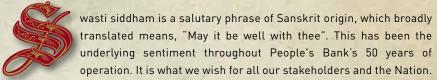


Thank you! 是到新語! 巧确別!



to record its best ever performance in 2011, not just in the history of the Bank but in the history of the banking industry in Sri Lanka as well.





In it is embodied our gratitude for jointly journeying with the Bank through history. It has been our privilege to serve them and in turn they have enriched the Bank through unique relationships we value beyond measure.





To be the Bank of the aspiring People of Sri Lanka: Empowering People to become value creating, competitive and self-reliant.



FOR OUR CUSTOMERS

To take pride in providing an excellent service in the most caring, responsive and professional manner.

FOR OUR OWNERS

To generate benefits for the national economy whilst being independent and commercially viable.

FOR OUR EMPLOYEES

To create opportunities for our employees to benefit from their high performance by becoming value creating, skilled, self-confident and professional individuals who are also team players.

FOR OUR SOCIETY

To support empowerment and sustainable development by contributing to the upliftment of education, culture and environment island-wide.



We recognise that the primary reason for our existence is to create value for people of the nation.

In all our activities we exercise our duty with utmost care in the interest of our depositors.

We promote long-term ethical relationships with our customers through true and fair dealing.

We put our customers at the centre of everything, by minimising bureaucracy, demanding hands on management, quick decision making and implementation.

We empower staff and require them to be accountable.

We demand the highest standards of personal integrity at all levels, putting the Bank's interest ahead of individuals.

We create an environment of mutual respect and trust where employees can demonstrate their performance and achieve their full potential.

We develop our business by encouraging high performing teams that recognise and support the skills, commitment and links to the community of every employee.

We are committed to comply with the spirit and letter of all laws and regulations, adhering to the highest standards of Corporate
Governance, transparency, disclosure and ethical conduct.

We conduct ourselves as good citizens promoting the environment and sustainable development.



ABOUT THE BANK

eople's Bank was set up in 1961 to mobilise rural savings and channel it towards the process of development. It was established to provide banking services to population groups that had previously been excluded from the financial services industry. In these fifty years we have used financial products to catalyse development in rural and urban areas and to provide support to an economy in transition.

The Bank commenced business in a very different economic environment. The country had received independence a mere 13 years previously and many parts of the financial services industry were at an early stage of development. There was an emphasis on state-led economic growth and state-owned enterprises were seen as the driver of the economy.

Today we function in a very different environment. The country's *per capita* GDP has crossed the US\$2,500 threshold and the state and private sector work together to drive development. We are looking at doubling the *per capita* GDP over the next five years and joining the ranks of emerging economies of the world.

A state-of-the-art financial services industry is crucial if the country is to sustain its present growth rates. The current moment calls for innovation, proactive engagement with new market segments and calculated risks. People's Bank is today ready to play this new role. It has a pool of highly-motivated employees, a sound risk management strategy, a customer base in excess of 13 Mn, 714 branches and service centres, 382 ATMs and an asset base of Rs. 663 Bn. We are constantly strengthening our product portfolio and enhancing customer service. Our record pre-tax profit of Rs. 15.3 Bn and post-tax profit of Rs. 10.2 Bn in 2011 coupled with a low non-performing loan ratio of 3.4% make us well placed to support Sri Lanka's growth drive in the years to come.



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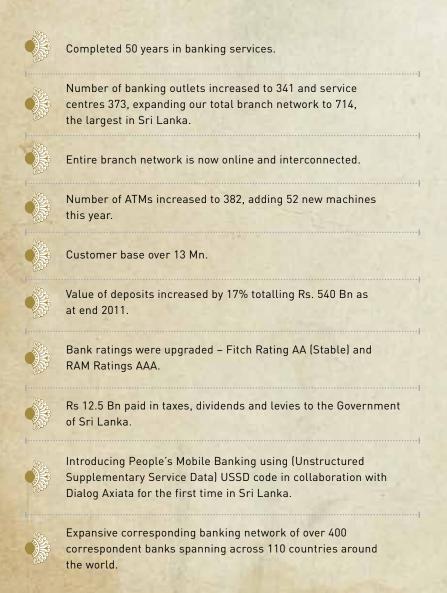
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		Cost	/Inco	me Ra	atio	3.8	
%	. 10				Y.		
90=					10		
75 =- 60 =-							
45=							
30-							
15-							
0-	S¥¢.						-
	2006	2007	2008	2009	2010	2011	

Gross Loans & Advances						
Rs. Mn 600,000	W	5)	Щ			
500,000-						
400,000 -						
300,000-						
200,000 -					1	
100,000						-
0-	\$\$77	3572		337	3572	SW.
	2006	2007	2008	2009	2010	2011

	2011	2010	Change %
BOTTOM LINE PERFORMANCE			
Profit before Taxation (Rs. Mn)	15,311	8,771	74.6
Capital in Hand (Rs. Mn)	26,495	20,838	27.1
2			
PRODUCTIVITY			
Net Revenue (Rs. Mn)	37,123	31,897	16.4
Cost/Income Ratio (%)	50.7	60.2	_
Head Count (Permanent)	8,249	8,399	(1.8)
Profit per Employee (Rs. '000)	1,231	620	98.6
CREDIT MANAGEMENT			
Loans & Advances (Gross) (Rs. Mn)	478,345	371,804	28.7
Non-Performing Loan (NPL) Value (Rs. Mn)	16,062	18,738	(14.3)
NPL Ratio (%)	3.4	5.0	_
Provisions for NPL's (Rs. Mn)	13,095	13,782	(5.0)
NPL Coverage Ratio (%)	81.5	73.6	_
CUSTOMER CONFIDENCE			
Value of Deposits (Rs. Mn)	539,862	462,140	16.8
No. of Customer Accounts (Mn)	13.2	12.9	2.4
KEY PERFORMANCE INDICATORS			
Return on Assets (%) - Before Tax	2.5	1.7	MY TO
Return on Equity (%)	42.9	26.9	
Capital Adequacy Ratio (%)	14.8	12.8	
Non-Funded Income/Net Income (%)	18.9	18.8	
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CHAIRMAN'S MESSAGE





MORE THAN A BANK



he Bank completed 50 years last year and had its best year ever in terms of earnings and key

performance indicators. Net income increased by 16.4% and our pre-tax profit of Rs. 15.3 Bn was the highest in our history. Deposits grew by 17%, advances by 29% and the asset base by 21%. The NPL ratio dropped to 3.4%.

The People's Bank has played a special role in the post-independence growth of Sri Lanka. We were established in 1961 to mobilise funds from diverse sectors and to provide financing especially for those from outside the urban centres.

Today we are more than a Bank. We provide all the services that any financial institution offers in this country. Beyond that, we have aligned our business plan and practices with national priorities and national goals. We are one of the biggest contributors to the national treasury and our country-wide network has taken 'the bank' to the people.

Our diversified product range, our high levels of customer care and our growing network are aimed at empowering people and unleashing social and

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The Bank completed 50 years last year and had its best year ever in terms of earnings and Key Performance Indicators.

economic growth for diverse groups in all parts of the country. Banking remains a priority as does investing in our people and the prosperity of the country as a whole.

Today we are proud to be driving growth in post-war Sri Lanka, creating new opportunities and looking to a new future where security and economic well-being will prevail for all our people.



A HIGH PERFORMING **ECONOMY**

The Bank is proud to be part of a high performing economy and proud to be playing its role in powering all sectors of the economy. The economy grew at eight per cent for the second year running with almost all indicators showing better figures than the previous year.

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The Bank is proud to be part of a high performing economy and proud to be playing its role in powering all sectors of the economy.



A HIGH PERFORMING INDUSTRY

The banking industry had a stellar year and is currently the best performing sector in the country. After a year of negative growth in 2009, it was reassuring to see most banks recover and post good performances in 2011. The People's Bank is happy to be part of this financial revival.

Banking industry deposits grew by 19%, gross loans and advances grew by 32% and assets overall grew by 20%. The gross NPL ratio dropped to 3.8% from the previous year's figure of 5.4% and the year closed amidst a liquidity challenge as the demand for credit grew.

This growth was achieved in the context of a positive business environment and renewed market sentiments. Corporate taxes were reduced to 28%, financial VAT came down to 12% and the debit tax was abolished. These changes stimulated business confidence and helped banks promote growth in different sectors of the economy.



GROWING COMPLIANCE

Banks will have to manage a complex regulatory environment in the short-term as the Basel II advance approach take effect. Banks will be required to adhere to this from 2013.

The Central Bank introduced a
Corporate Governance Code and this
has placed greater responsibilities on
banks to tighten their internal oversight
mechanisms. The new accounting
standards of the Institute of Chartered
Accountants of Sri Lanka, LKAS 32 and
39 will also come into effect from 2012.
In adopting these new developments
within the regulatory framework I am not
aware of any material violations of any
of the provisions of the Code of Business
Conduct and Ethics of the Bank.

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MANAGING NEW **CHALLENGES**

The Bank is upbeat about the future. Despite the economic downturn in some of the developed economies, the Asia-Pacific region has so far managed to stay on even keel. Yet should some of the worst effects of the 'Eurozone' crisis spill over into this part of the world, we know that we have put in place a solid foundation and are well equipped to meet those challenges.

On the other hand, should the Sri Lankan economy continue to show the buoyancy that it has shown over the past two years, we can then expect enhanced levels of growth for the banking industry and several new opportunities for the different sectors of the economy. People's Bank will make sure that the Bank and country capitalise on these opportunities.



CONTINUING TO CATALYSE GROWTH

A warm word of thanks to the CEO/ General Manager and our dynamic team for the tremendous performance they delivered in the past year. It is our employees who are the primary driver of our outstanding performance and their dynamism and commitment have been truly commendable. To my colleagues on the Board, thank you for your advice and support. My thanks are also due to the Secretary to the Treasury, the Governor and other officials of the Central Bank, the Auditor General and staff at the Auditor General's Department, and the officials of the Ministry of Finance, for their support. My thanks go out to the employee trade unions of the Bank for being supportive of the Bank's progress and future direction. I would like to thank our customers for the confidence they have placed in us. We look forward to another year in which the Bank can play its role in driving the economy of the country and empowering the Sri Lankan people.

W. Karunajeewa

Chairman

19th March 2012

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PROPELLING GROWTH IN A NEW FRA



eople's Bank completed fifty years of service to the nation in 2011 and ended the year with its best ever financial

performance. The Bank's pre-tax profit of Rs. 15.3 Bn and its post-tax profit of Rs. 10.2 Bn are the highest in its fifty-year history.

Fifty years ago the Bank was established to mobilise funds from diverse social segments and to drive economic growth throughout the country. Today with a customer base of over 13 million, 714 branches, 382 ATMs and with customers from all sectors of the economy, we look with pride at the footprint we have stamped on Sri Lankan society. We are the second largest financial institution in the country in terms of assets and are still growing. We contributed Rs. 12.5 Bn to state coffers in 2011 by way of taxes and dividends, the largest contribution by a bank to the National Treasury.

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Today with a customer base of over 13 million, 714 branches, 382 ATMs and with customers from all sectors of the economy, we look with pride at the footprint we have stamped on Sri Lankan society.



SUSTAINING GROWTH IN VOLATILE TIMES

The Bank's performance was achieved despite challenging market conditions. Global economic conditions were mixed and sometimes volatile. Europe is in a state of acute crisis and the United States is still struggling to turn its economy around. Brazil, China, India, Russia and South Africa were relatively stable and seem to be adjusting to the turmoil in other parts of the world. The March 2011 tsunami in Japan added to the list of challenges that financial institutions had to manage.

The Sri Lankan economy on the other hand grew over 8% yet again and the country is now well-placed for an economic take off. Inflation was kept under control for most of the year. Post-war confidence continues to grow and consumer and investor activity has more than doubled. Most sectors performed well and tourist arrivals are beginning to grow.

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The Bank is proud that it delivered this performance which is an all time high. It is an indication of the prudent management policy we have followed, the impact of our new business plan, the careful oversight provided by the Board and the strategic decisions made by our staff over the years.

The Bank is proud that it delivered this performance in which is an all time high. It is an indication of prudent management policy we have followed, the impact of our new business plan, the careful oversight provided by the Board and the strategic decisions made by our staff over the years. The Bank's performance is illustrative of our resilience and our capacity to ride out the rough times and deliver consistent value to all our stakeholders, in all parts of the country, over the long term.



OPERATIONAL HIGHLIGHTS

The highlight of the year of course was the Rs. 15.3 Bn pre-tax profit, our highest ever. Our assets grew by 21% to reach Rs. 663 Bn at the end of the year. Deposits grew by 17% and stood at Rs. 540 Bn at the end of the year. Gross loans and advances grew by 29% and stood at Rs. 478 Bn. The gross NPL ratio came down to an all time low of 3.4%. The industry average for asset growth was 20% for deposit growth was 19%, and for gross loans and advances was 32%. The gross NPL in the industry was 3.8%.

We contributed Rs. 12.5 Bn to the state during 2011. Rs. 8.0 Bn in the form of taxes and a further Rs. 4.5 Bn as dividends. This is the highest contribution by any banking entity to the national Treasury.

The highlight of the year of course was the Rs. 15.3 Bn pre-tax profit, our highest ever.

Among our deposits, the Bank's rupee savings balances grew by 11% to surpass Rs. 211 Bn at the end of 2011. This resulted in rupee current and saving account balances reaching Rs. 254 Bn at the end of the year, a growth of 10% over the 2010 figure.

We have always had to manage with high operational costs. However, a few years ago, under our new business plan, we initiated several cost-managing initiatives that have resulted in our costs

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being controlled at reasonable levels. Overheads in 2011 were Rs. 5 Bn against the Rs. 7 Bn in 2010. We kept our cost/ income ratio at 50.7%.

We now have over 13 Mn customers accounts, over 714 branches, and over 382 ATMs in different parts of the country. We are one of the most easily accessible banks with one of the most diverse customer portfolios.

Rs. 1.5 Bn was disbursed to the pension fund and to the new pension scheme for those who joined the bank after 1996. A debenture issue in December 2011 attracted Rs. 5 Bn, a much needed long-term liability that boosted the Bank's CAR to its current levels.



PROMOTING NATIONAL **DEVELOPMENT**

The Bank is a strategic partner in the Government's national development plans. It plays an important role in stimulating the economy at the national, regional and local levels and sustaining growth in different sectors.

At the regional level we have mobilised funds from rural customers and at the same time financed rural industrialists. and entrepreneurs and supported them with strategic advice on how to grow their businesses. Supporting growth in the regions is a key aspect of our Business Plan and the development of vibrant regional economies is vital if the country is to achieve inclusive and sustainable growth in the future.

We have paid particular attention to reviving life in the North and the East. A special responsibility rests on banks to help uplift life in those areas devastated by conflict and to help populations affected by the conflict, and the People's Bank has taken this responsibility seriously. In the past two years we have opened 44 branches and 82 ATMs in those areas. We have also provided a range of products to small entrepreneurs who are recovering from thirty years of conflict. Special attention has been given to reviving agriculture, fisheries and trade in those regions. The Bank's branches in the North and East are connected electronically to the rest of the branches in the country and this has enabled customers in those areas to have access to the best of modern technology.

We have paid particular attention to reviving life in the North and the East.



INTEGRATING STATE-**OF-THE-ART IT**

We continue to grow the range and quality of our products. We make every effort to identify customer needs and aspirations and then tailor our products to respond to those needs and to further those aspirations.

We continued to invest in cutting-edge technology to strengthen our products and service delivery channels. We have invested in strengthening our IT infrastructure and are making the best use of technology to give added sophistication to our products.

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We continued to invest in cutting edge technology to strengthen our products and service delivery channels.

The Bank now offers internet banking, palm top banking, and SMS banking for our customers. 'People's Net, our internet banking products was launched in 2010.

Our credit/debit cards fee structure is the lowest among banks in the country and this has helped attract diverse market segments. The credit card may now be used at Visa ATMs and at Visa Merchant Outlet. We have now integrated global innovations and the added value benefits of a global product into our credit card.

PROMOTING SUSTAINABLE DEVELOPMENT

The Bank is committed to promoting sustainable development and emergence of a larger social wealth for all our citizens. We are committed to economic, social and environmental systems that produce sustainable outcomes for multiple stakeholders. As one of the leading players in the financial services industry we are conscious of the obligations we bear and will discharge

them. Our goal is to grow the Bank while at the same time delivering value to several social segments.

We are committed to economic, social and environmental systems that produce sustainable outcomes for multiple stakeholders.

PROPELLING GROWTH IN A NEW ERA

We have finished a scintillating innings of fifty rewarding years and are looking forward to the next one with great anticipation. For fifty years we have provided energy to the economy and fuelled growth in a number of different sectors and for a diverse group of social segments.

For fifty years we have provided energy to the economy ...

Today the country has entered a new era with the end of the war. The Bank, with its rich asset base, its broad portfolio of customers, its state-of-the-art products, and its well-equipped human resource pool, is well-placed to propel social and economic growth in this new era. The end of the war has opened several new opportunities and the Bank will make sure our customers and the rest of the country capitalise on these opportunities.

We are currently in the middle of our 2009–2016 strategic plan where the emphasis will be on enhancing service delivery, generating a performance oriented culture and consolidationamong other things. We are proud of what we have achieved in the first three years and will look at a process of consolidation over the next two, so that we would have a solid platform for our next phase of growth.

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The changing economic environment provides many challenges and the Bank will have to be cautious in its growth strategy. Post-war developments have unleashed several new opportunities in the country, including in the former conflict areas. Yet the uncertainties that affect some of the more advanced economies call for caution and foresight.

Our outstanding performance in 2011 was achieved in conditions that were challenging and amidst intense competition from other banks. We trimmed our costs, grew our profit centres and managed our human capital effectively. As a result we were able to attract new clientele record healthy profit growth and deliver a sterling year.

We trimmed our costs, grew our profit centres and managed our human capital effectively.

We have a constantly evolving risk management framework and a sound governance framework. Prudent management that blends risk with reward in a balanced way can lead us into a new phase of growth that will reward the Company and the country. We will continue to invest in new technology and in developing products that further customer aspirations. We will invest in growing the human resource skills of our staff and ensure that they have access to opportunities for learning and growing as individuals. Our employees have been one of the drivers of our success and we will ensure state-of-the-art facilities, continuous training and development and constantly motivate them to ensure that they perform at optimum levels.

My thanks go out to all our employees for the dynamism and commitment they have shown. To the Chairman and the Board of Directors thank you for your guidance and the oversight you

have exercised. My thanks go out to the Governor of Central Bank, the Monetary and Regulatory Boards, and the rest of the officials of the Central Bank for their co-operation and support. Thanks are also due to the Secretary to the Treasury and the officials of the Ministry of Finance. A similar word of thanks is due to the Auditor-General and his staff. I owe a word of appreciation to the correspondent banks for the support they have extended. To the employees thank you for the co-operation extended and ensuring that the Bank kept sight of its goals. Finally I would like to thank our customers for the support they have placed in us and assure them that we will constantly look at new ways of adding value to their lives. I look forward to another fruitful year and another phase of growth beyond that.

N. Vasantha Kumar Chief Executive Officer/ General Manager

19th March 2012





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BOARD OF DIRECTORS





MR. W. KARUNAJEEWA

Mr. W. Karunajeewa assumed duties as Chairman to the People's Bank Group in May 2007 and was reappointed in 2010. He is also the Chairman of People's Leasing Company PLC, People's Finance PLC., People's Leasing Fleet Management Ltd. and People's Leasing Property Development Ltd.

Prior to this, he served as Chairman and working Director at Employees' Trust Fund (ETF) Board and Ceylon Fisheries Corporation from 2005 and 2001 respectively.

An Honorary Fellowship was awarded to him by the Institute of Bankers of Sri Lanka (IBSL) in recognition of the contribution, commitment and outstanding services rendered to the Sri Lanka Banking Industry.

He is also a senior and reputed Attorneyat-Law and holds a B.Com. Degree from the University of Ceylon.





DR. D.J.D. JAYAKODY

Dr. D.J.D. Jayakody was appointed to the Directorate of People's Bank in 2007. He is also on the Board of People's Leasing Company PLC and People's Finance PLC. He is a Management Consultant.

Obtained Ph.D. in Management from International University of America (UK). Graduated in B.Sc., Public Administration an MBA from PIM of Sri Jayewardenepura University. A Fellow Member of IPFDA, Member of the Institute of Management of Sri Lanka and Member of Institute of Internal Auditors. Functioned as an Accountant, Chief Internal Auditor, Deputy General Manager and Additional General Manager. Was a Senior Lecturer in the Faculty of Business Studies and Finance at Wayamba University and a Visiting Lecturer in University of Colombo for Faculties of Management & Finance and Graduate Studies. Member of NLDB Board of Directors and a Member of National Labour Advisory Council Ministry of Labour. Served as a Reserve Assistant Superintendent of Police.





MR. JEHAN P. AMARATUNGA

Mr. Jehan Amaratunga is an Associate Member of The Institute of Chartered Accountants of Sri Lanka and was awarded First in Order of Merit Prize at the final level examination

He has over 24 years of extensive experience in Finance and Management and has been a Consultant and Director to a large number of corporations and private entities. He is currently the Country Head of MTD Walkers PLC Sri Lanka, overseeing the operations of MTD Walkers and its subsidiaries.

Amongst his many achievements, he has presented a paper titled "Value for Money Accounting" at the National Conference of The Chartered Accountants of Sri Lanka in 1987. He was also a Member of the Governing Council of The Institute of Chartered Accountants of Sri Lanka.

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Mr. Panditharatne was appointed to the Directorate and to its Associate: People's Merchant Bank PLC as the Chairman in June, 2010. He is the Executive Director of Sri Lanka Export Development Board and Consultant/ Director (Special Projects) of Globe/ Monta Group of Companies. He had served on the directorates of National Paper Corporation as Working Director and subsequently as the Chairman during the year 2001, Working Director -Lanka Cement Ltd. from January 2002 to April 2004 and Chairman - Paranthan Chemicals Corporation from October 2003 to April 2004. His experience in serving directorates counts over 10 years.

He is also the Chairman of the People's Merchant Finance Co. Ltd., which is a subsidiary of the People's Merchant PLC and a Director of the People's Leasing Property Development Ltd., which is a subsidiary of People's Leasing Company PLC.



MRS. LAKSHMI K. SANGAKKARA

Mrs. L.K. Sangakkara was appointed to the Board of Directors of People's Bank in May 2010. She is also the current Chairperson of People's Travels (Pvt) Ltd., a subsidiary of People's Bank, and serves as a Board Member of People's Leasing Fleet Management Ltd.

She is an Attorney-at-Law.

Mrs. Sangakkara served in the Directors Board of Sellers Sportswear Garments, Ronbro International Garments, and Sun Island Village Holiday Resort. Mrs. Sangakkara has a vast amount of experience around 31 years in the fields of Law, Management, Marketing, Hospitality and Apparels.



MRS. DHARMA N. GAMMAMPILA

Mrs. Dharma N. Gammampila was appointed to the Board of Directors of People's Bank in May 2010 as a Non-Executive Director. She is also a member of the Board of People's Insurance Ltd.

Mrs. Gammampila is an Attorney-at-Law and Notary Public and a registered Company Secretary of Sri Lanka and a Solicitor of England and Wales. She counts over 30 years experience in England and Sri Lanka. She held the position of Company Secretary of Forbes and Walker Ltd. and was Director-Legal and HR of the Subsidiary Companies of the Forbes and Walker Group for a period of thirteen years. Whilst, currently serving as Director in private Companies involved in plantations, travel, tourism and hospitality. Mrs. Gammampila is actively involved in the practice of Corporate Law, Employment Law and Conveyancing.

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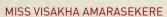
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Miss Amarasekere was appointed to the Directorate of People's Bank in June 2010 as the representative of the Treasury, Ministry of Finance & Planning.

She holds a MA in Development
Economics (2007) from Vanderbilt
University, U.S.A., B.Sc. (Hons.) in
Economics and Management (ISE) (2002).
She is a passed finalist of the Chartered
Institute of Management Accountants
(1999) UK and a Member of the Institute
of Public Finance Development
Accountancy (Sri Lanka).

She is at present attached to the Department of Public Enterprises as a Deputy Director (Acting) and she also represents the Treasury on the Boards of several State-owned enterprises.



MR. PRIYANTHA MAYADUNNE

Mr. Priyantha Mayadunne holds a Bachelor's Degree in B.Sc. (Business Administration), offered by the University of Sri Jayewardenepura and a Master of Public Administration Degree, attained from the Postgraduate Institute of Management of University of Sri Jayewardenepura. He obtained a Bachelor of Law Degree (LLB), offered by the Open University of Sri Lanka and holds a Diploma in Professional Diplomacy and World Affairs, obtained from the Bandaranaike International Diplomatic Training Institute.

As a SLAS Officer he has gathered experience in Regional Administration as well as in Departmental and Ministerial Level Administration. He has also served in Statutory Institutions on secondment basis. Mr. Mayadunne has been involved in improving productivity and quality assurance in the Public Sector.





MR. PAWARA DASSANAYAKE

Mr. Pawara Daasanayake was appointed to the Directorate of the People's Bank on 21.02.2011.

He is an eminent entrepreneur who counts more than 15 years experience in the field of business. Mr. Dassanayake is also the Chairman of Building Material Corporation Ltd.



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CORPORATE MANAGEMENT





Chief Executive Officer/ General Manager

Mr. N. Vasantha Kumar holds a Master's Degree in Business Administration and counts 32 years experience in Treasury Management. He joined the People's Bank in March 2001, prior to which he served as Treasurer at ANZ Grindlays Bank, Colombo for many years.

He is a past President of the Association of Primary Dealers and of the Sri Lanka Forex Association.

He took over as the Chief Executive Officer/General Manager of People's Bank on 22nd February 2011.

He is a Director of People's Leasing Company PLC, People's Insurance Ltd., People's Travels (Pvt) Ltd., Credit Information Bureau, National Payment Council and Financial Ombudsman Sri Lanka (Guarantee) Ltd. He is a Member of the Governing Board in the Institute of Bankers of Sri Lanka. He is currently the Chairman of Lanka Financial Services Bureau.



MR. AHAMED SABRY IBRAHIM

Senior Deputy General Manager -Risk and Compliance

Mr. Ibrahim has over 28 years of banking experience both locally and internationally, primarily in the areas of Corporate Banking, Treasury Management and Risk Management. He holds an Honours Degree (B.Sc.) from the University of Colombo and is a Fellow of the Chartered Institute of Bankers - UK (FCIB).

He is also a Director of People's Merchant PLC.



MR. K.U. PUSHPAKUMARA

Senior Deputy General Manager/ Director Research (Retired w.e.f. 20th January 2012)

Mr. Pushpakumara is in charge of the Research Division of the Bank, His 35 year banking career covers all hierarchy positions from Branch Manager to Acting CEO/General Manager. He joined the Bank in 1977 as a grade 3 probation officer.

He is an Alternate Director and a Chief Examiner of the Institute of Bankers of Sri Lanka (IBSL). He serves as a Council member of the University of Moratuwa.

Mr. Pushpakumara hold membership of the Chartered Management Institute - UK, The Institute of Management - Sri Lanka the Association of Professional Bankers of Sri Lanka and Professional centre of the Organization of Professional Association of Sri Lanka.

He obtained BA (Hons.) in Mathematics from the University of Peradeniya and MBA from the University of Colombo.

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MR. DEEPAL ABEYSEKARA

Head of Marketing, Public Affairs & Corporate Social Responsibility

Head of Marketing and Public Affairs of People's Bank is better known for his capabilities in brand building and strategic business development.

He has been responsible for setting up sales, marketing and strategic business development operations in financial sector organisations.

He is a Chartered marketer and a fellow of the Chartered Institute of Marketing - UK, a member of the Chartered Management Institute (CMI-UK) and a member of the Institute of Certified Management Accountants (CMA)

He also holds an MBA from the University of Southern Queensland - Australia, He is currently the President of the Board of Management of The Management Club (TMC) and a Council member of the Association of Professional Bankers, and Country Advisory Council member - Global Marketing Network - UK.



MR. YOHAN A. SOZA

Head of Finance

Mr. Soza was appointed as Head of Finance of the Bank from May 2007.

He is a Member of The Institute of Chartered Accountants of Sri Lanka and holds an MBA from the University of Southern Queensland, Australia. He counts more than 17 years of experience in the disciplines of Finance, Management Information, Strategic Planning and Equity Research. He received his professional training at Ernst & Young before joining LOLC Group and previous to People's Bank served AMBA Research Lanka (Pvt) Ltd. as Vice-President.



MS. CHANDANI WERAPITIYA

Deputy General Manager -Corporate Banking

Ms. Chandani Werapitiya is in charge of the Corporate Credit in the entire Bank including Off-shore Banking Unit.

She holds a B.Sc. in Business Administration (Hons.) with a Second Class Upper and M.Sc. (Management) from the University of Sri Jayewardenepura and has professional banking qualification AIB - Sri Lanka.

She is a Member of the Board of Directors of Regional Development Bank (RDB).

She joined the Bank in June 1987 as a Management Trainee and counts nearly 24 years of experience in the fields of Customer Services, SME/Project Lending, Branch Operations, Corporate Banking and Credit Management.

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MR. T.A. ARIYAPALA

Deputy General Manager -Co-operative, Development & SME

Mr. Ariyapala joined the Bank in 1978 and is in charge of Corporative Development and SME Banking. He holds a B.Sc. Business Administration Graduate and Degree in Bachelor of Laws with an Attorneyat-Law. He is a Fellow Member of the Institute of Bankers of Sri Lanka (FIBSL) and an Associate Member of the Institute of Accounting Technicians of Sri Lanka (MAAT).

He has received extensive local and overseas training and exposure in cooperative, Project Lending, Microfinance, Human Resource Management and Branch Business/Banking. He has been responsible for rejuvenating SME Banking & development lending in People's Bank.



MR. G.G.C. ARIYARATNE

Deputy General Manager -Operations (Range - 1)

Mr. Ariyaratne, is in charge of the branch network. He is a well experienced banker counting 35 years of service at People's Bank. He holds a Degree (B.Sc.) in Public Finance and Taxation from the University of Colombo and also an Associate Member of the Institute of Bankers of Sri Lanka.

During his period of service he has served in various capacities ranging from Branch Manager to his current position. He has wide experience from working in different levels in different areas of the Island. He is specialised in the areas of Branch Banking & Project Financing and also has obtained overseas training for Project Financing.

He is also a Director of Lanka Clear Co. Ltd. and serves as a member of the governing board in the Institute of Bankers of Sri Lanka.



MS. M.S. ARSACULARATNE

Deputy General Manager -Credit Control

Ms. Arsacularatne joined the Bank's service at Grade II level as a Finance Officer and counts over 26 years service in the Bank.

She has been an Associate Member of the Chartered Institute of Management Accountants - UK for the past 30 years and a Fellow Member of the Institute of Certified Management Accountants - Sri Lanka and a Licentiate of The Institute of Chartered Accountants of Sri Lanka. She holds a Bachelor of Laws Degree from the Open University of Sri Lanka.

She has gained wide experience in the fields of Management/Financial Accounting, Management Information, Administration and Logistics. Prior to joining the Bank she had her career training at Ceylon Ceramics Corporation and served three State Institutions as Accountant.

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Deputy General Manager -Domestic Credit

Mr. Rajapakse is in charge of the Domestic Credit Department. He joined the Bank in 1987 as a Management Trainee and counts 24 years of experience in the People's Bank.

He holds a Second Class Honours Degree (B.Sc.) in Public Administration, Fellow of Institute of Bankers of Sri Lanka, Attorney-at-Law of Sri Lanka and Diploma of the Institute of Credit Management of Sri Lanka. He has passed the Professional Part 1 Examination of Institute of Chartered Accountants.

He has gained wide experience in various management level capacities in the Bank and at present serves as the Head of Domestic Credit and Credit Card functions of the Bank.

He serves as an Alternate Director of the Credit Information Bureau of Sri Lanka.



MR. S.A.R.S. SAMARAWEERA

Deputy General Manager -Human Resources & Recoveries

Mr. Samaraweera is the Head of Human Resources and in addition overlooks the duties of Deputy General Manager (Recoveries). He joined the Bank as a Management Trainee and his carrier experience over 24 years, covers in the areas of Branch Banking, Corporate Banking, Development Banking and Credit Recoveries.

He holds a B.Sc. Second Class Upper Degree in Management from the University of Sri Jayewardenepura and has a professional banking qualification AIB - Sri Lanka.

His various exposure includes Management Development, Small & Medium Entrepreneur Management, Rehabilitation of ailing Projects & Strategic Human Resources Management in local and overseas.



MR. ROHAN PATHIRAGE

Deputy General Manager/ Secretary to the Board of Directors

Mr. Pathirage was appointed as Secretary to the Board of Directors in August 2010. He holds a Law Degree (LL.B.) from the University of Colombo, Postgraduate Diploma in Banking and Master of Management in Banking from Massey University, New Zealand. He is an Attorney-at-Law.

He is also the Company Secretary of People's Leasing Company Ltd., People's Fleet Management Ltd., People's Property Development Ltd., People's Insurance Ltd. and People's Travel's (Pvt) Ltd.

He has over 16 years of experience in the Bank.

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MS. G.P.R. JAYASINGHE

Deputy General Manager -Retail Banking

Ms. Renuka Jayasinghe counts over 24 years of service at the People's Bank. She joined the Bank in 1987 as a Management

She served as Acting Deputy General Manager (Services) up to 14th November 2011. She was promoted as Deputy General Manager (Retail Banking) from 16th November 2011.

She holds a First Class Honours Degree in B.Com from the University of Sri Jayewardenepura and has a professional banking qualification AIB - Sri Lanka. She is a Life Member of Association of Professional Bankers of Sri Lanka and Institute of Bankers of Sri Lanka.

During her banking career, she has participated in various exposure programmes both local and foreign.



MR. CLIVE FONSEKA

Head of Treasury & Investment Banking

Mr. Fonseka was appointed as Head of Treasury and Investment Banking on 16th November 2011. He is a member of the Institute of Bankers of Sri Lanka and holds a Master's Degree in Business Administration from Postgraduate Institute of Management of University of Sri Jayewardenepura. Furthermore, he has received a Distinction for the ACI Dealing Certificate and counts more than 17 years experience in Treasury Management.

He joined People's Bank in 2002, prior to which he served at American Express Bank and Standard Chartered Bank.



MS. N.S. THILAKARATHNE

Acting Chief Internal Auditor

Ms. Nandanie Thilakarathne was appointed as the Acting Chief Internal Auditor since August 2010.

She is an Associate M ember of The Institute of Chartered Accountants of Sri Lanka and holds a Second Class Honours Degree (B.Sc. Mgt.) in Business Administration from the University of Sri Jayewardenepura. She is an Associate Member of the Institute of Bankers of Sri Lanka. She holds the Diploma in Information Systems Security Control and Audit conducted by The Institute of Chartered Accountants of Sri Lanka with the technical collaboration of the Institute of Chartered Accountants of India.

She joined the Bank in March 1990 as an Assistant Finance Officer and counts nearly 22 years of experience in the field of Project Lending and Auditing.

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MR. SOBITHA WEERASEKERA

Acting Head of Information Technology

Mr. Sobitha Weerasekera joined People's Bank in 2007 and was appointed as Acting Head of Information Technology in September 2010.

Mr. Weerasekera has 24 years of experience in the Banking Sector. Apart from his vast exposure on banking ICT area he holds an MBA from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura, MSc in Information Management from Sri Lanka Institute of Information Technology, MACS and Professional Banking (ACBF).

Mr. Weerasekera represents People's Bank in various Technical Evaluation Committees (TEC) which includes National Payment Council of CBSL, Common ATM Switch TEC, Banking Technical Advisory Committee and as Vice-Chairman of SWIFT user Group.



MS. G. EKANAYAKE

Acting Chief Law Officer

Ms. Gnana Ekanayake is an Attorney-at-Law and also holds a LLB Degree from the University of Colombo.

She holds a LLM Degree from University of Wales, two Diplomas in International Trade Law, Banking and Insurance and Solicitors Final United Kingdom.

She commenced her career as a Professional Assistant at M/s Wijesinghe & Jayasekera and De Silva & Gurusinghe, Law firms. She joined Sri Lanka Sugar Corporation as a Legal Officer.

Subsequently, she joined the People's Bank in 1985 and worked in Galle, Matara, Colombo Outer Regions, Corporate Banking Division and presently attached to the Head Office.

Her experience covers the areas of Banking Law, Credit, Recoveries, Corporate Law and Labour Law.



MR. JAYANTHA NEWUNHELLA

Acting Deputy General Manager -International Banking

Mr. Newunhella joined the Bank in 1975 and served the Branch Network, International Division, Training and Human Resources Divisions. He is in-charge of the Trade Services, Overseas Customer Services, Financial Institution Division and the Treasury Back Office of the Bank.

He holds a B.Sc (Management) degree and an MBA from the Postgraduate Institute of Management (PIM) of the University of Sri Jayewardenepura. He is also a Fellow of the Institute of Bankers of Sri Lanka (FIBSL).

Mr. Newunhella is presently the Senior Vice President of the Trade Finance Association of Bankers of Sri Lanka. In addition to his varied exposure in the Bank, he has had stints in several countries relating to business and career development.

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Acting Deputy General Manager Operations (Range - II)

Mr. Silva joined the Bank in 1987 as a Management Trainee and counts over 24 years of service in People's Bank. His career experience of over 24 years, covers the areas of branch business banking at the levels of Branch Manager, Regional Manager, Zonal Assistant General Manager and presently in charge of over 150 branches, which were categorised under 09 regions with higher volumes of business.

He holds a degree (B.A) from the University of Peradeniya and has a professional banking qualification AIB-Sri Lanka and also is an associate member of Institute of Bankers of Sri Lanka.

During the period, he has gained extensive local and overseas training and exposure in Branch Business/ Banking.



MR. B.M. PREMANATH

Acting Deputy General Manager -Banking Support Services

Mr. B.M.Premanath counts over 24 years of service at People's Bank. He joined the Bank in 1987 as a Management Trainee and has served the Bank in Thanamalwila, Hasalaka, Akurana, Pilimathalawa and Peradeniya as Manager and in Matale Regional Head Office as Asst. Regional Manager, in Polonnaruwa Regional Head Office as Regional Manager and as Assistant General Manager (Central Zone). He was promoted as Acting Deputy General Manager (Banking Support Services) from 16th November, 2011.

He holds a 2nd Upper Degree in B.Com from the University of Colombo and has a professional banking qualification AIB-Intermediate, Sri Lanka.

During his banking career, he participated in various exposure programmes both local and foreign including Personal Banking Training in Mumbai, India.



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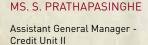
MR. S. WANNIARACHCHI Assistant General Manager -Off-Shore Banking



Assistant General Manager -Treasury Operations

MR. G.B.R.P. GUNAWARDENA





Corporate Banking Division



MR. G. LIONEL

Assistant General Manager -Recoveries -(CBD/SAU and Corporate - II)



MS. S.W.A.D.S. KALYANI

Assistant General Manager -Finance and Management Accounting

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MR. W.K.S.B. NANDANA Deputy Chief Law Officer -Recoveries



MR. A.W. WIPULAGUNA Deputy Chief Law Officer -Operations



MS. G.M.R.P. WIJERATNE Deputy Head of Primary Dealer Unit -Treasury



MR. E.A.D.J. PRIYASHANTHA Deputy Chief Internal Auditor



MR. N.G. DISSANAYAKE Assistant General Manager -**Branch Audit**

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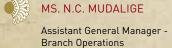
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MS. A.S. LIYANAARACHCHI

Assistant General Manager Credit Unit III
Corporate Banking Division



MS. P.R. MADURAWALA

Assistant General Manager Credit Control



MS. V.K. NARANGODA

Assistant General Manager Credit Unit I
Corporate Banking Division



MR. M.D.P. KULARATNE

Assistant General Manager Recoveries - Branches



MR. A.N. LIYANAPATIRANA
Assistant General Manager Co-operative & Development

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MR. L.L. RANASINGHE Assistant General Manager -Liability Products



MS. D.Y.S. MENDIS Assistant General Manager -Operations (Range - II)



MS. K.N. SENARATNE Assistant General Manager -**Asset Products**



MR. S.J. KARUNARATNE Assistant General Manager -Banking Support Services

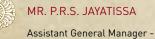
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Human Resources Administration





MS. P.S.J. KURUKULASURIYA

Assistant General Manager -Human Resources Development

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MR. R.M.S.B. RATNAYAKA Zonal Assistant General Manager -Central Zone



MR. P.C. WIJESUNDARA Zonal Assistant General Manager -Wayamba Zone



MR. R. RANATHUNGA Zonal Assistant General Manager -Western Zone I

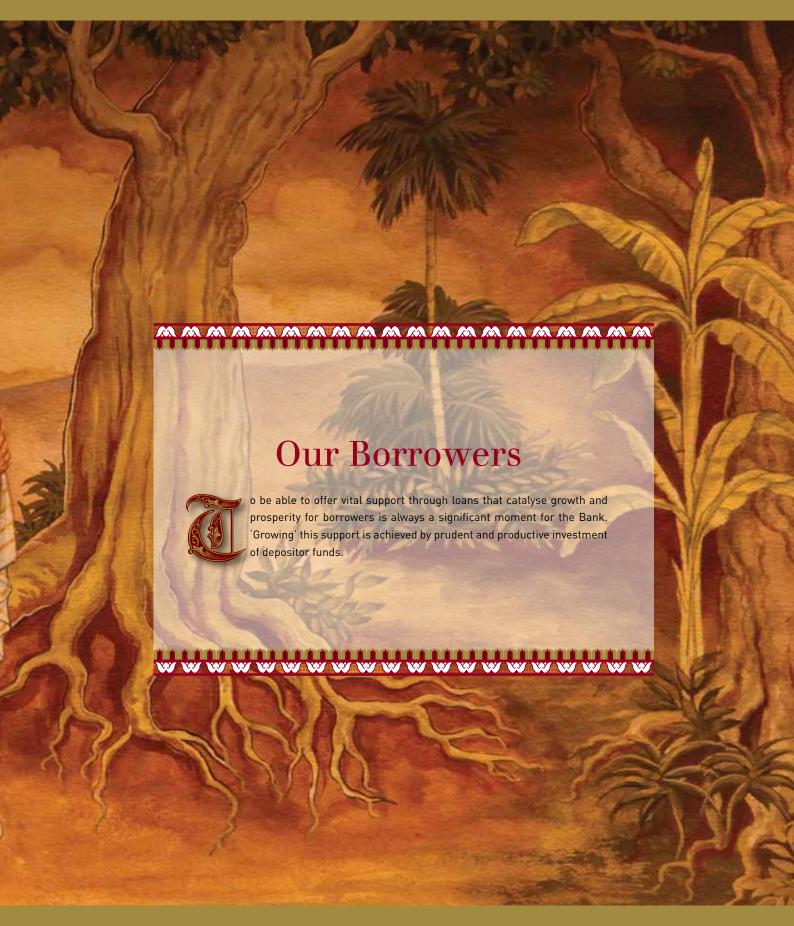


MR. W.M.S. WEERAKOON Zonal Assistant General Manager -North Central Zone



MR. T.D. DE Z. GUNAWARDENA Zonal Assistant General Manager -Sabaragamuwa Zone





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BUSINESS REVIEW





ifty years ago the People's Bank was established to serve the nation's diverse financial needs. Today, our

footprints of success dot the landscape of Sri Lanka in a variety of locations and sectors. We have financed rural industrialists, dynamic agriculturalists and large time entrepreneurs. We have provided new opportunities for school children, young professionals, working women and the elderly. We are today the second largest Bank in Sri Lanka in terms of assets, deposits and loans.

The Bank's 50th year was a scintillating one. We closed the year with a pre-tax profit of Rs. 15.3 Bn and a record post-tax profit of Rs. 10.2 Bn, both an all time high for the Bank.

We have pursued development and pursued profit and ensured that neither trumped the other. While we have designed products for the corporate client, the young professional and the working woman, we have also pursued the development goals of the country and contributed to building a larger social profit for us all.

FINANCING THE POST-WAR BOOM

The Bank is closely involved in financing a number of infrastructure and development projects initiated since the end of the war. We are also closely involved in rehabilitating the damaged infrastructure of the North and East and in supporting those populations to restart their lives. We have helped the booming tourism industry and over the past two years supported many new projects.

We are today the second largest Bank in Sri Lanka in terms of assets, deposits and loans.

SMEs have also been a beneficiary of the Bank's activities with considerable funds being disbursed to that sector over the past three years.

We have grown our loan portfolio significantly over the past three years. At the same time, we have ensured a well-diversified portfolio straddling the major areas of the economy. Our NPLs have come down as our asset quality has grown.

Falling interest rates have enabled the Bank to offer these benefits to a number of sectors including the agricultural, trading and construction sectors. We have also grown our trade finance and guarantee facilities and grown the levels of our fee-based income.

The Bank is now exploring the use of internet-based technology to expand and strengthen its lending processes. Staff is being trained in new skills and employees based in regions are being equipped to handle new and more sophisticated banking transactions.



PERSONAL BANKING

FOCUSING ON THE PERSON

The Bank has assembled a broad portfolio of products that caters to a diverse group of people. Our customers range from the very young to the very old, from urban households to the

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The Bank's 50th year was a scintillating one. We closed the year with a pre-tax profit of Rs. 15.3 Bn and a record post-tax profit of Rs. 10.2 Bn, both an all time high for the Bank.

rural households, from tech savvy professionals to farmers. We have created a rich mix of products to respond to needs and aspirations of a variety of classes.

From credit cards to personal loans, from saving deposits to fixed term deposits, from young savers' accounts to pension plans, we support all our products and services with excellent customer service. Our focus has been on developing long-term relationships with our clients and on being proactive in meeting their different needs.

We have invested in technology over the years and now offer our customers a number of hi tech products. This includes Internet Banking, Palm Top banking, Visa debit cards, Mobile banking and SMS banking. Last year, the Bank partnered with the Foreign Employment Bureau to issue a 'Migrant Debit' card for those workers seeking employment overseas. All these products have enhanced our accessibility and penetration while offering efficiency and security at the same time.

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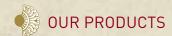
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Isuru Udana

The Isuru Udana savings account is designed for the very young. Accounts may be opened at birth with Rs. 100/- and maintained till the age of five. The unique 'Isuru Udana' gift certificate, in denominations of Rs. 200/- and Rs. 500/-, is an ideal gift for any child. These gift certificates can be used to open a new 'Isuru Udana' account or be credited to an existing 'Isuru Udana' account. The account offers an attractive interest rate above the normal savings rate and exciting gifts.



Sisu Udana

The 'Sisu Udana' account is for account holders between 6–18 years of age. Here too an account may be opened with Rs. 100/- and the account offers exciting gifts and special cash awards. Scholarships at Year 5 and at the Ordinary Level stage coupled with the 'Udana Kusalatha Pranama' scheme, reward students who do well in their studies. The 'Sisu Udana' account automatically converts to a YES account once the account holder reaches 18 years.



Yes

'Yes' is for those over 18 years and who are ready to take on the challenges of life. The account can be opened with a deposit of Rs. 2,000/- and offers free standing orders, credit card facilities, leasing facilities, and a 1% bonus interest when the balance exceeds Rs. 25,000/-. Loans are offered for housing, purchasing a vehicle and higher education.



Swarna Pradeepa

'Swarna Pradeepa' is the gold pawning scheme of the Bank. It meets urgent cash requirements at competitive interest rates. The scheme is available at all of the Bank's 714 branches and service centres and is supported by the highest levels of customer care.



Aswenna

'Harvest' has been designed for farmers who receive a seasonal income. An account can be opened with an initial deposit of Rs. 1,000/- and account holders are entitled to a 1% bonus interest when the balance exceeds Rs. 10,000/-. Concessionary interest rates are granted to account holders and priority is given for agricultural loans.

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Gift Voucher

Available in denominations of Rs. 500/- and Rs. 1,000/-, the People's Bank Gift The People's Bank Voucher can be deposited into any account at any branch and is valid for six months from the date of issue. The gift vouchers are ideal gifts for birthdays, weddings and other important occasions.



Vanitha Vasana

This is a savings account specially designed for the modern woman who plays multiple roles. A 'Vanitha Vasana' account can be opened with an initial deposit of Rs. 500/- and offers loans for small enterprises, the buying of property, higher education and housing. The interest rate is above the normal savings rate.



Parinatha

The 'Parinatha' account is a tailor-made product for senior citizens. Benefits include a pilgrimage to India for 25 select customers. Accounts can be opened with Rs. 500/-.



Janajaya

'Janajaya' is for those with a steady monthly income. A 'Janajaya' account can be opened with a minimum deposit of Rs. 2,000/- and offers special loan and leasing facilities, concessionary rates for overseas travel and attractive interest rates above the normal savings rate.



Jaya Nivasa

The 'Jaya Nivasa' housing loan helps you build your dream home with convenience, providing flexible loan facilities with competitive interest rates to suit your individual needs. Loans can be obtained to purchase land, build a house or to add an extension or renovate a house. The loan schemes grant a six month grace period, with loans offered up to 75% of the value of the property etc.

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Ethera Isura The 'Ethera Isura' NRFC account secures higher interest for your foreign earnings, and is also the fastest way to receive money from abroad through the islandwide network of 714 branches and service centres of People's Bank.



Doodaru Ethera Isura Specially-designed for children whose parents/guardians are employed in foreign countries, the *Doo Daru Ethera Isura* Minor Accounts come with an extra 1% added to the prevailing interest rates for NRFC/RFC Accounts. The savings account can be opened with a minimum deposit of US\$ 25 or equivalent in any designated foreign currency, while a fixed deposit can be opened with a minimum balance of US\$ 1,000 or equivalent in any designated foreign currency.



SMS Banking People's Bank now enables you to perform a variety of banking transactions by way of a SMS. Check your balance, check your transaction history, order a cheque book, and transfer funds by way of SMS Banking from People's Bank.



People's Net

People's Net is the Bank's new online site. Manage your several accounts and engage in a variety of banking transactions through your lap top or tablet computer. The Bank is now at your fingertips and open 24×7 .



Mobile Banking Mobile banking enables you to use your mobile phone to perform several basic banking transactions. Bank on the move and bank even if you are far away from the Bank. The Bank continues to raise the levels of convenience for its 13 million plus customers.

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CARD BUSINESS

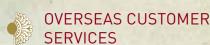
For more than 16 years, we have facilitated the convenience of consumer spending of customers by offering Visa International Credit Cards at an affordable price. Under the present portfolio, Bank issues Visa Classic Cards and Gold Cards to serve full range of customers which carry the premium benchmark featured offered by the credit card products of all card issuers operating in Sri Lanka. These credit cards provide access to over 24 million Visa accredited merchant establishments globally and worldwide Visa ATM network consisting over 1.7 million ATMs for cash withdrawals. In Sri Lanka, there are over 2,800 Visa ATMs and over 15.000 Visa merchant outlets that accept People's Credit Cards.

People's Credit Card attracts middle income groups as a significant trait in its market penetration by having the lowest rates and tariff structure among credit card issuers in the country. People's Credit Cards are issued within a business day on applicant's request without any additional charges.

The Visa International Debit Card and the Pre Generated Debit Card which can be obtained over the counter were launched in 2011 by moving away from the issuance of proprietary ATM cards to add more value to our customers.

These cards are also recognised all over the world to effect payments and cash withdrawals similarly as credit cards.

The Bank has experienced a modest growth in its ever expanding merchant network that is accredited with Visa credit and debit card. Bank facilitates aspiring merchants in Sri Lanka, to obtain the Visa International credit and debit card acquiring facility at a mutually beneficial rate. Wide spread ATM network of the Bank is also linked to the Visa Interchange to provide services to all domestic and international Visa cards.



NEW LEVELS OF CONVENIENCE

REMITTANCES

The Bank continues to provide several channels for Sri Lankans employed overseas to remit money to friends and family in Sri Lanka. Last year, there has been a substantial increase in the entire portfolio of Inward Remittances amounting to Rs. 10.9 Bn when compared to 2010.

The growth in remittances through the Bank's channels was due to innovative marketing strategies, investments in state-of-the-art technology and stronger relationships with Banks and exchange houses overseas. We have also launched two 'Lucky Draws' for inward remittances and foreign currency deposits as an incentive for our customers.

The Bank will work towards expanding its channels of remittances in sending of remittances easily and more securely. In 2012, we will focus on strengthening our presence in Saudi Arabia and Qatar where there are large numbers of expatriate Sri Lankans. At the moment remittances can be collected from all our 714 online branches and service centres of the Bank

FOREIGN CURRENCY DEPOSITS

Two new foreign currency products were introduced during the year. For the first time, the Bank started paying monthly interest on foreign currency fixed deposit accounts providing greater flexibility and more options for account holders. A new insurance scheme for foreign currency accounts was also introduced.

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DOMESTIC CREDIT DEPARTMENT

We have a strategic vision to improve the quality of the Loan Portfolio and increase income while satisfying customers' credit requirements. Domestic Credit unit is contributing to the profitability of the Bank with appropriate financial solutions to Small- and Medium-Scale Businesses as well as Large-Scale Enterprises. It is also supporting the economic as well as social development of the country with financing of new projects.

End of civil war after 30 years has paved the pathway for development of the country, with massive demand for construction of roads, buildings and other infrastructure especially in Northern and Eastern Provinces. Infact, large-scale developments projects are being carried out throughout the island with the inflow of foreign investments. Tourism industry is booming with the peaceful environment that prevails, and tourist arrivals are reaching an all time high. Furthermore, Traditional and Non-Traditional industries are also showing growth potential as a result and we are providing those industries with the financial assistance necessary in terms of monetary value as well as advisory services. As a State Bank,

we take pride in engaging with this enormous economic resurgence and exploiting the opportunities available.

Over the years, we have been able to increase the loan portfolio of the Bank while minimising risk with a well-diversified and managed loan portfolio. We trimmed down the Non-Performing Ratio with enhanced quality of loans being granted by means of continuously reviewing credit policies and processes and adhering to predetermined procedures, whilst maintaining flexibility when serving various financial needs of our customers.

Lending interest rates have been continuously decreasing over the last years, and we have provided the full benefit to our customers with much lower interest rates to Agricultural, Trading, Construction and other services as well as to the Housing sector. However, profitability through lending improved even with lower margins, due to the increase in volumes and number of products. Besides, increase in indirect facilities granted such as Guarantee facilities and Trade Finance facilities has resulted in more Fee-based income. We have encouraged the Branch network to

engage more in Trade Finance activities and have provided the necessary guidelines, information and knowledge, which has benefited the exporters and essential item importers of the country as well.

We have been able to introduce new loan schemes last year in accordance with latent and expressed requirements of existing as well as potential customers in various specific customer segments. These include both the Business purpose schemes and schemes on personal requirements. Various loan schemes have been implemented targeting employees of State-Owned Enterprises to cater for their housing needs.

Moreover, we are considering the possibilities of expediting the lending process through Intranet with the assistance of IT Department. Conducting training programmes to share knowledge and experience of our senior credit officers as well as infusion of novel knowledge by way of encouraging our employees to attend training programmes conducted by resource persons from other reputed entities have facilitated the effort towards increasing our loan portfolio while strengthening Bank's assets.

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CORPORATE BANKING

BREAKING BOUNDARIES

Corporate Banking had a good year and made a strong contribution to the Bank's bottom line. Among the clients we supported with advice and financing were blue-chips, multi-nationals and Government entities.

The Bank funds around 20% of it portfolio to Government entities. This includes, the Ceylon Electricity Board, the Ceylon Petroleum Corporation and the Fertilizer Corporation. We are also the exclusive funding source for Air Force and Sri Lanka Railways. Recently, the Bank provided funding for the supply of coal to the newly opened Norochcholai Coal Power Plant.

The Bank will be looking at financing public sector and private infrastructure projects going forward.

FINANCING IMPORTS AND SUPPORTING EXPORTS

Our Trade Finance Department plays an important role in financing imports and supporting exporters, both the new ones and the more established companies.

Our financing is supported by efficient customer relations. Every year the Bank invests in upgrading and enhancing the skills of its staff and one area which received priority in 2011 was trade finance.

Trade finance at the Bank is supported by the Financial Institutions Department which has established a network of over 400 correspondent banks spread across 110 countries. The Financial Institutions Department negotiates refinance facilities, rates for trade transactions and quarantees inter alia facilitating a smooth flow of trade-related transactions.

OFF-SHORE BANKING

Our Off-Shore Banking operations grew in the year under review. The Off-Shore unit provides specialised foreign exchange services to a range of BOI approved industries. Specialised support was also provided to promoters in the tourism industry looking at construction of high end hotels.



DEVELOPMENT & MICROFINANCE

FANNING THE WINDS OF CHANGE

The Bank has been a pioneer in finance for development projects and finance for small and medium entrepreneurs. We have sought to balance the profit making goal of the Bank with the development role that the Bank is expected to play. While growing corporate finance and personal finance aspects of our operations, we have similarly grown our development banking portfolio and promoted the growth of small and medium sized industries. This was one of the original objectives when the Bank was set up 50 years ago and we will continue to work towards this objective.

The SME sector is a high growth sector and the Bank will focus on growing its SME portfolio over the next few years. The Bank has established a dedicated SME unit that works in conjunction with our branch offices to review the feasibility of proposals submitted by entrepreneurs. The Bank is in the process of training Credit Appraisal Officers, who will be based in regions, and will facilitate the building of relationships with our SME customers.

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One of the development activities the Bank has historically supported has been agriculture.

REBUILDING THE NORTH AND THE EAST

Special emphasis has been given to reviving life in the North and East of the country. After thirty years of conflict the North and East are now ready to participate in the economic revival of the country, and we have put in place a number of concessionary schemes to support the entrepreneurs and populations of these two regions. For many years agriculture had come to a complete standstill in these areas or functioned under extremely trying conditions. Through the use of special incentives which include low cost finance and group guarantees, the Bank is making a special effort to boost agricultural production and reap benefits of this enhanced production.

STIMULATING AGRICULTURE

One of the development activities the Bank has historically supported is agriculture. In 2011 too, the Bank continued to support a number of innovative initiatives in an effort to enhance the areas cultivated, to boost yields and to contribute to enhanced food security for the country.

The Viskam Loan scheme of the Bank provides loans to farmers at a low rate of 8%. Last year Rs. 300 Mn was provided under this special scheme to farmers scattered all over the island. Among the innovative projects the Bank supported last year were 'kuringnan' based medicinal products; the production of rice flour; the production of white coconut oil; the manufacture of agricultural equipment; dry fish manufacture; cinnamon oil; dairy resource centres; and green house cultivations.

Special financing was provided to farmers under the Comprehensive Rural Credit scheme for the Yala and Maha seasons. Loans to farmers to construct silos for the storage of paddy were provided by the Bank by way of a combined quarantee where one

farmer would stand as guarantor for the other and vice versa. Financing was also provided to wholesale buyers to purchase paddy stocks in advance and ensure a continuous supply of rice to the open market.

Accompanying all our credit products is a comprehensive programme of farmer education. These programmes aim to educate the farmer on managing their credit effectively and ensuring that they remain creditworthy and maintain financial discipline.

FINANCING REGIONAL DEVELOPMENT

The Bank continued to finance several regional development programmes during 2011. Financing was provided through loan schemes such as provincial Development, Dasuna, Bhagya, smallholder plantation entrepreneurship, development programme, post-tsunami, coastal rehabilitation and resource management programmes.

PROMOTING RENEWABLE ENERGY SOURCES

The Bank joined the World Bank's renewable energy programme as a participatory credit institution.

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DEVELOPING DAIRY RESOURCE CENTRES

In 2011, the Bank provided special facilities to dairy farmers to enhance production and the quality of their products. Loans were provided to small scale dairy farmers to increase production of liquid milk and to engage in production of dairy products. Financing was also provided for the manufacture of block ice, establishing freezer facilities, artificial insemination of livestock, and poultry farming. Assistance was provided to the small scale farmer to access specialised marketing advice and seek easy and speedy access to markets.

'MICRO FINANCE VILLAGES'

The Bank's 'Micro Finance Village' projects aims to build and support teams of entrepreneurs in several villages. The team acts as a guarantor for the individual and ensures that the loan is repaid. Training is provided to the team in different facets of entrepreneurship including buying raw materials, developing quality products, seeking markets, accessing credit and promoting their product. So far, financing facilities have been provided to 43 villages.

SUPPORTING THE 'COOPERATIVE MOVEMENT'

The Bank continued to support the cooperative moment during 2011. The Bank is the primary source of finance for cooperative societies in the country. Loans are provided at concessionary rates and a premium is paid on deposits cooperative societies may make with the Bank.

Financing was provided to Coop City, Mini Coop City and Mega Coop City supermarkets. Funds were used to establish new supermarkets and enhance facilities in existing supermarkets. Cooperative supermarkets ensure a steady supply of essential goods at competitive prices for consumers.

market conditions ensured that the Bank managed these challenges and delivered foreign exchange and capital gains and increased volumes.

The Treasury was called upon to mobilise rupee and foreign currency funds to support the asset growth of the Bank. The relative reduction in rupee liquidity levels and the uncertainty in European credit markets made this a challenging task. The Treasury optimised funding costs through planned exposure to the wholesale and inter-bank market within limits set by the Asset and Liability Management Committee. Despite uncertainties a significant amount of foreign currency was mobilised by the Treasury during 2011.



THE TREASURY

A CHALLENGING FNVIRONMENT

The Treasury functioned in a competitive and challenging environment last year. Markets were stable for the most part of the year and returns were dependent on increased volumes. Prudent strategies, smart timing and a close reading of

The Bank brought all of its 700 plus branches and service centres into a one core banking IT solution.

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The rupee depreciated by 2.5% during the year and the Central Bank had to step into prevent further depreciation. There was a liquidity squeeze towards the end of 2011, with interest rates moving upwards and Treasury Bill yields rising by as much as 200 basis points.

An integrated state-of-the-art automated system to better manage and control trading activities in foreign exchange and fixed income securities was implemented in 2011. This will enhance the trading capacity of the Bank and provide us with greater control over market and operational risks.

AN ACT OF FAITH

The highlight of the year was the US\$ 150 Mn syndicated loan facility for the Bank that the Treasury coordinated. This was the first time that the Bank tapped international markets to foreign raise funds. The original intention of the Bank was to raise US\$ 50 Mn. However, the Bank was overwhelmed by the response it received and in the end raised \$150 Mn from international institutional lenders.

The strong response from financial institutions in Asia, Europe, and the Middle East reaffirmed our position as a leading driver of economic and social

change in the country. We are buoyed by the trust placed in us especially given the volatility of international markets.



NEW TECHNOLOGY

A SINGLE STATE-OF-THE-ART NETWORK

The Bank brought all of its 700 plus branches and service centres into one core banking IT solution. This is the first time in the Bank's 50-year history that all of its branches have been linked as part of a single network.

All of the Bank's 13 Mn plus customers can now access the Bank at any time of the day, on any day of the year, from any location in the world. 'Banking At Your Fingertips' is now a reality at People's Bank.

STREAMLINING 'BACK OFFICE' OPERATIONS

The centralisation of 'back office' functions of the Bank is currently being planned.

The IT team in partnership with the Bank's regional staff started managing all CTPS clearing and processing operations which were previously

outsourced. With the implementation of scanners we now accept customer cheques till late evening and the relevant account is credited the next business day. Automation of the RTGS systems, and the conversion of Special Assets Unit and Corporate II to our core banking applications were also completed during the year.

LAUNCHING MOBILE BANKING

The Bank launched its Mobile Banking service last year and was the first to use the new USSD (Unstructured Supplementary Service Data) technology introduced by Dialog Axiata. This marked the commencement of a new era in electronic banking at People's Bank. This was coupled with an enhancement of the Internet banking facility for our corporate and retail customers.

The Visa international debit card was launched last year and the Bank partnered with the Foreign Employment Bureau to issue Migrant debit card to those seeking employment abroad. This enabled our NRFC customers to withdraw money and make payments with the debit card in any part of the world. This gave a new meaning to the 'banking anytime anywhere' concept which is very much a part of our marketing strategy.

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Enabling pawning payments to be made at any branch was another facility we added on. We also introduced SMS alerts for debit card transactions, foreign remittances, and for pawning notifications. All these additions have enhanced customer convenience at the Bank.

OUR GROWING ATM NETWORK

The Bank added 52 ATMs to our network during the year bringing the total number of ATMs to 382.

NEW TREASURY SYSTEM

The Bank's Treasury team together with IT was able to successfully migrate the Treasury Management System (Finacle) in December and it is now in parallel run. The live cutover is expected in first quarter 2012. With this cutover both Silverlake core banking application and Finacle Treasury System will be inter-connected.

Apart from above, our internal programmes were able to develop many modules including a module for centralisation of Legal documents, an application for safety locker operations, internal lottery programmes, web hosting of the Bank's Economic Reviews, etc. Projects on call centre were started in the latter part of the year with our

card centre which is in user acceptance stage. In addition to the above IT applications, many report writing programmes and MIS developments were done with internal expertise.

The Bank added 52 ATMs to its network during the year bringing the total number of ATMs to 382.

Our internal information security systems were strengthened during the year under review. Four external and two internal network security and vulnerability assessment tests were conducted to ensure that adequate security controls were in place.

During the year 2011 IT staff members received training in many areas relating to their job functions. Training programmes and conferences were conducted locally as well as overseas.

In conclusion, the IT team has engaged in many projects which has positively contributed to the Bank's overall operational excellence. The dedication, commitment and hard work put in by the entire IT team were commendable in all projects.



RESEARCH

KEEPING THE BANK AHEAD OF THE PACK

The Research Department caters mainly to the Board and employees of the Bank, by providing a continuous supply of timely, accurate and industry specific information.

Research conducted by the Department by way of market studies, customer surveys, and competitor analyses, are focused mainly on the Bank's products, customer services and its competitors. The findings of these studies are disseminated to the management through management briefs, position papers and research reports.

The accurate and systematic flow of relevant and up to date information is imperative for the sustained growth and expansion of the Bank. The Research

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Department helps the Bank improve quality and standard of its products and enhances the efficiency and skills of the staff of its branch network. Decision-making must ideally be 'informed decision making' and the Research Department provides a vital input for this process.

The Research Department organised a 'Learning Forum' in March 2011. This provided an opportunity for all employees to enhance their knowledge and skills on key areas and sectors of the economy. The goal is to build a new culture of learning within the Bank.

The Economic Review' journal has been published by the Bank since 1975.

The Department publishes the well-established development-oriented, semi-academic journal, the Economic Review. The 'Review' has been published continuously since 1975. The journal makes a unique contribution towards development of the country by providing a forum for academics, scholars. and other professionals to present their research findings, analyses, and experiences, to a larger audience. The readership includes students of economics and related disciplines, policy makers, professionals, entrepreneurs, big and small, and a growing international audience.

SECURITY POLICIES

Our Internal Information Security and Control Unit released many security policies and procedures during the year 2011. Policy on Intranet, Physical Security and Email Security were among them. Apart from the above, TEC CERT conducted four external and two internal network security and vulnerability assessment tests to ensure security controls in the network.

MARKETING AND PROMOTIONS

SPONSORSHIP FOR SPECIAL AVURUDU PROGRAMME ON ITN 'SOORIYAMANGALLAYA 2011'

People's Bank is offered the 'Main Sponsorship' for special Avurudu Programme organised by ITN 'Sooriyamangallaya' in Dambulla for the year 2011 Sinhala and Tamil New Year for the 7th successive year.

DEYATA KIRULA TRADE EXHIBITION

The Bank participated in Deyata Kirula Annual Exhibition in Buttala, Moneragala to reinforce the importance of savings to the development of the individuals as well as the country, among the rural masses. Further, Deyata Kirula Exhibition conveys to the public details on development activities in the country over the past 4 years.

50TH ANNIVERSARY CELEBRATION

People's Bank was established half a century ago with the intention of providing financial solutions that will help the public build their lives and grow. The ethic of the Bank was built upon Sri Lankan values, human bonds and a need to support the local entrepreneur fulfil his dreams and ambitions.

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'The Pulse of the People' encapsulates the true essence of the Bank, where financial solutions have been created over the years looking at the evolving needs of customers. This fact has been strategically proved when professional research companies have declared through formal research findings, that People's Bank is the 'closest to the hearts and minds' of the Sri Lankan people.

The Bank's Treasury team together with IT successfully migrated the Treasury Management System

SIPSARA UDANA 2011

People's Bank sponsored a series of workshops and seminars for students who are sitting for GCE O/L, A/L and Grade Five Scholarship Examinations in the Uva Province.

ECONOMIC ASPECTS

Standing by its credo, People's Bank always understands the pulse of the people and has provided financial support and services towards uplifting the agricultural, livestock development, fisheries and other small- and medium-scale enterprises as well as self-employed personnel.

People's Bank has done immense service to develop entrepreneurial skills in the country through dispensing loans at lower interest rates with easy collateral schemes for the five decades in order on diversify agro businesses, add value to agro production, improve the production and productivity, improve quality and improve market opportunities of the farmers. These initiatives have resulted in uplifting national production, improving the gross domestic production through improving the per capita income, developing employment opportunities, avoiding price wars and connecting the public with the financial system of the country.





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PROFIT AND LOSS ACCOUNT

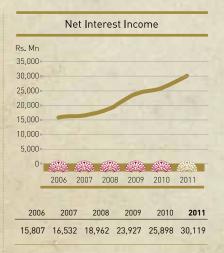


he Bank's total income (interest and other) for the year was Rs. 68.8 Bn, recorded a growth of 10% over the

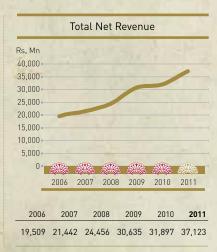
previous year. Net Interest Income grew by Rs. 4.2 Bn or 16% over the previous year. The main contributors to this were growth in loans, investments and healthy margins.

A major portion of interest income was derived from the gold pawning business. This revenue stream which is a zero risk-weighted asset for capital adequacy purposes grew by 40% over the previous year's figure. The Bank's interest margins were sustained at previous levels as a result of stringent pricing management throughout the year.

Non-interest income grew by Rs. 1 Bn or 17%. The main contributors were fees generated from letters of credit, trade finance facilities and investment dividends. Exchange gains showed a marginal dip while capital gains were at the same level as 2010.







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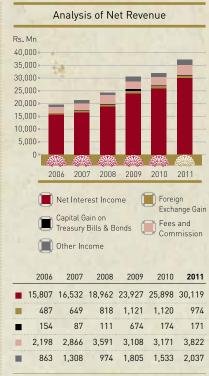
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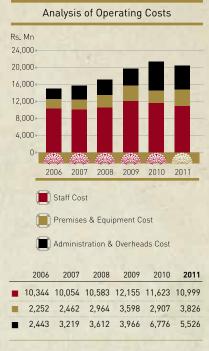
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The Bank went through a careful assessment of variable and fixed overheads during the year and ensured that 2010 expenditure levels were maintained. This was despite the additional costs incurred for events to mark the Bank's 50th Anniversary, and the costs incurred on deposit insurance premiums introduced by the Central Bank.

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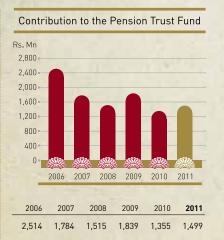
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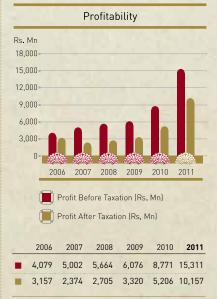




The Central Bank reduced the general provisioning requirement on loans from 1% to 0.5% in 2011. Through prudent provisioning, the Bank maintained the overall loan loss provisions figure at the 2010 level. Provision for unrealised gains/losses was less than the 2010 figure.

Financial VAT on profit decreased by Rs. 546 Mn despite a significant growth in income, which was due to the recent change in the financial VAT rates which dropped from 20% to 12% in the past year. The nominal savings on this and reduced mainstream tax rate has been placed in a special investment fund for long-term property/development projects or in Treasury Bonds.

The Bank recorded its highest ever pre-tax profit of Rs. 15.3 Bn, a remarkable 75% growth over the 2010 figure. This together with the reduced taxation rate from 35% to 28% enabled the Bank to post a profit after tax of Rs. 10.2 Bn, an increase of 95% over 2010 figure.





DEPOSITS

Local currency demand deposits were Rs. 42 Bn at the end of the year depicting a marginal growth over the previous year. PAGES 056-068 FINANCIAL REVIEW PAGES 069-075

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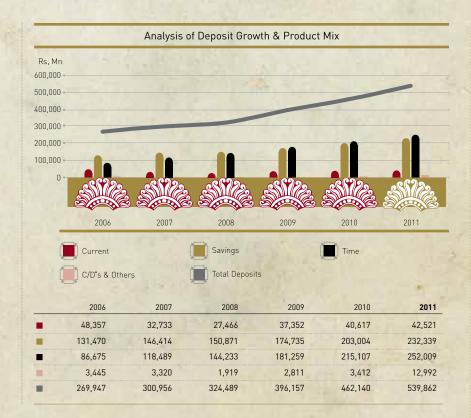
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Local currency savings deposits grew by Rs. 20 Bn or 11% and reached Rs. 211 Bn at the end of the year. Overall low cost deposits was 51%. Local currency fixed deposits grew by 18% or Rs. 36 Bn to close at Rs. 234 Bn. Total foreign currency deposits grew by 33% and closed the year at Rs. 39.5 Bn. Total deposits was Rs. 539.9 Bn growing by Rs. 77.7 Bn or 17% during the year, the highest level of growth in the Bank's 50-year history, and is the second largest deposit base recorded by a commercial bank.



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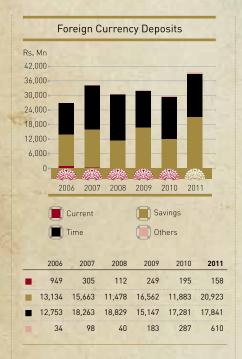
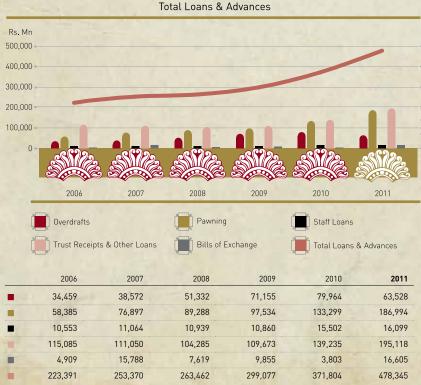


figure of Rs. 19 Bn. The reduction in non-performing loans is an achievement of some distinction given that the loan portfolio grew by Rs. 106 Bn during the year. The gross NPL ratio reduced to 3.4% which is less than the industry average. The NPL ratio was 5% in 2010 and 6.7% in 2009.



LOANS AND ADVANCES

Loans and advances were 70% of the Balance Sheet and closed at Rs. 478 Bn, an all time high. This represents a growth of Rs. 106 Bn or 29% over the previous year. The value of non-performing loans was Rs. 16 Bn, a reduction from the previous year's

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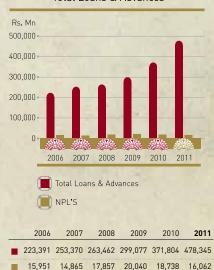
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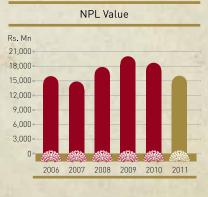
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The NPL coverage ratio for the year was 82%. Corresponding figures were 74% in 2010 and 71% in 2009. Based on this the Bank's net NPL ratio was 0.5% which is remarkable for an institution of the size of People's Bank and ratios posted by the rest of the industry.

Comparison of Non-Performing Loans vs Total Loans & Advances





2007 2008 2009 2010 2011 15,951 14,865 17,857 20,040 18,738 16,062

Pawning Advances Rs. Mn 210,000 180,000 150,000 120,000 90,000-60.000-30,000 2006 2007 2008 2009 2010 2011

2006 2007 2008 2009 2010 2011 58,385 76,897 89,288 97,534 133,299 186,994

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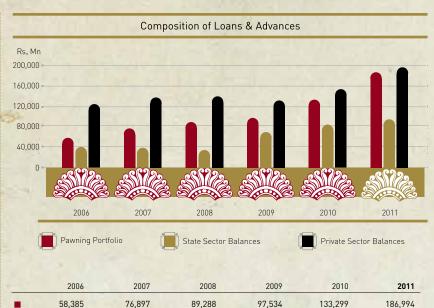
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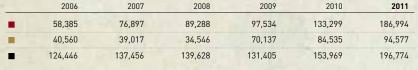
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OTHER LIABILITIES

During the year Bank issued Rs. 5 Bn worth of debentures in order to strengthen its capital base. This contributed to raising the capital adequacy ratio from 12.8% in 2010 to 14.8% in 2011.



CAPITAL AND RESERVES

Capital and reserves, in combination with retained earnings, at the end of 2011 was Rs. 26 Bn. We achieved this figure despite paying 44% of the Bank's profit after tax to the Government. This was the highest contribution to Government revenue in the Bank's fifty year history.





KEY PERFORMANCE INDICATORS

Taking Key Performance Indicators into perspective, 2011 proved to be exceptional, with the showcasing of a 3.4% gross NPL ratio, compared to 5.0% in 2010. The cost income ratio decelerated to 50.7% from 60.2% in 2010. Return on Assets of 1.7% in 2010 increased to 2.5% in 2011. The Bank's non-funded income to net income ratio has scored 19% signifying that the Bank's non-funded income holds a significant share. Capital adequacy ratio

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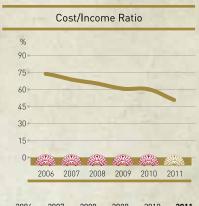
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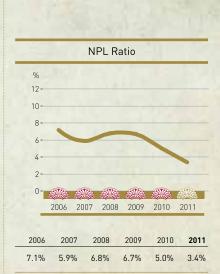
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recorded 14.8% boosted by the third debenture issue and retained earnings.



2006	2007	2008	2009	2010	2011
74.0%	69.0%	65.0%	61.0%	60.2%	50.7%





PERFORMANCE OF SUBSIDIARIES AND **ASSOCIATES**

PEOPLE'S TRAVELS

In the review of performance of 2010/11 financial year, People's Travels report an increase of 27% in the pre-tax profit when compared to the pre-tax profit of 2009/10 financial year despite challenges that the Travel Industry faced.

The spate of world crises that have occurred in 2010 and in the first three months of the year 2011 have hit the travel industry significantly. Natural disasters and political unrest have left many travellers rethinking their plans or cancelling trips altogether as they scramble to avoid a host of issues across the globe. By facing all the above challenges, the Company reports Rs. 5.4 Mn pre-tax profit which is a 27% increase compared to the profit made in the previous year. The performance growth has taken place in Buddhist Pilgrimages, Air Ticket sales and on special commission made on Air Tickets.

The profit made from the Leisure Tours has dropped mainly due to the political upheaval in Thailand and Egypt, which are two popular destinations that we operate in.

Due to its untiring effort, People's Leasing has been able to retain its market leader position for the ninth consecutive year.

Presently, we are operating tours to China, Singapore, Malaysia, Myanmar and Bangkok. During 2010/11, we have operated many tours to these countries for 410 Leisure Travellers.

We are still hold market leadership in Luxury Dambadiva Tour sector. We have successfully operated 19 Dambadiva tours for 570 people during the 2010/11 financial year and generate a profit of Rs. 8.3 Mn which is 5% more than the previous year. The main reason for the popularity of our Dambadiva tours, is our dedication to give people a memorable pilgrimage which means accommodating the need of the customers thoroughly, understanding what each individual

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client needs. We provide the best service for the money and never compromise our service for cheap rates.

In order to reach our goal of becoming the premier Travel Company, we assure to provide unparalleled service to customers in order to gain repeat business whilst building trust.

We anticipate presenting further improved performance in the 2011/12 financial year.

PEOPLE'S MERCHANT PLC

People's Merchant PLC (PMP), is an associate of People's Bank. People's Bank along with its subsidiary, People's Leasing Company holds a 39.2% stake in PMP. It is licensed as a Specialised Leasing Company by the Central Bank of Sri Lanka. The Company is also licensed by the Securities and Exchange Commission of Sri Lanka as a margin trading provider. Presently, the Company has been rated as BB+ (stable) by Fitch ratings. PMP provides a range of financial services including Leasing, Hire Purchase, Trade Finance, Corporate Finance, Real Estate and Gold Loans through its corporate office and a network of ten branches.

In People's Merchant Group income statement, it made a profit of Rs. 112 Mn in 12 months ended 31st December 2011 against the loss of Rs. 50 Mn it reported for the comparative period in the year 2010. In the Company income statement, it reported an after-tax loss of Rs. 63 Mn, compared to Rs. 2 Mn loss in the year 2010. This was mainly due to the full provisioning of receivables from its fully-owned subsidiary company, PMB Financial Services Ltd. (formerly known as PMB Credit Card Company Ltd.) of Rs. 180 Mn. In the month of May 2011, the Company disposed of its fully-owned subsidiary company, People's Merchant Finance Company Ltd, which resulted in a capital gain of Rs. 137 Mn.

During the year, the Group's net total income reached Rs. 326 Mn compared to Rs. 250 Mn in the year ended 31st December 2010, an increase of 30%. The main contributors were finance lease income of Rs. 203 Mn, hire purchase income of Rs. 277 Mn, and trade finance income of Rs. 32 Mn. The Company reduced its total borrowings from Rs. 3.1 Bn as at 31st December 2010 to Rs. 1.7 Bn through internallygenerated funds and proceeds from disposal of the subsidiary. During the

year ended 31st December 2011, 745 lease and hire purchase contracts amounting to Rs. 581 Mn were executed.

The Company successfully raised
Rs. 450 Mn through a Rights Issue in
October 2011. The Group's stated capital is
Rs. 1.088 Mn as at 31st December 2011.

The Company ventured into several new areas during the year. The Real Estate division commenced a new real estate project residential development project in Malabe in November 2011 to develop and sell 20 residential plots. In January 2011, the Company commenced pawning business through its' head office and branch network. The Company also obtained a margin trading license from the Securities and **Exchange Commission and commenced** margin lending. The Company also ventured into serving the agricultural sector and commenced a project to retail agricultural tractors through structured leases to farmers in selected areas.

It is noteworthy to mention that People's Merchant PLC gained a commendation certificate of compliance in the financial institution category for the thirteenth consecutive year for FY 2010/11 annual report at the Annual Report Awards conducted by The Institute of Chartered Accountants of Sri Lanka.

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PEOPLE'S LEASING GROUP

People's Leasing Company PLC, a subsidiary of People's Bank, was incorporated on 22nd August 1995. The principal activities of People's Leasing is to provide finance leases, hire purchases and operating lease facilities, term loans and margin trading facilities and issue debt instruments. During the early part of the year, the Company commenced margin trading activities with the approval of the Securities and Exchange Commission of Sri Lanka. People's Leasing Group has six subsidiaries under its umbrella, namely People's Finance PLC (formerly known as People's Leasing Finance PLC), People's Insurance Ltd., People's Leasing Fleet Management Ltd., People's Leasing Property Development Ltd., People's Leasing Havelock Properties Ltd. and People's Microfinance Ltd. People's Leasing Company owns 88.5% stake in People's Finance PLC. All other subsidiaries are fully owned by the Company. The Group has become a total financial services provider with the association of all its subsidiaries. Due to its untiring effort, People's Leasing has been able to retain its market leader position for the ninth consecutive year enjoying over 20% of market share in the leasing sector.

People's Leasing Company PLC, a subsidiary of People's Bank, was incorporated on 22nd August

Peace dividends of post-war milieu have immensely helped the Company in achieving the outstanding performance by spreading the branch wings to the Northern and the Eastern provinces. Emphasising on the growth focused strategy the Company continued to expand the mini branches and window offices which are coming under the vastly expanded People's Bank branch network. This has proved success over the past years and expects to continue this strategy in future, benefiting both the parent and the Company.

MILESTONE ACHIEVEMENTS OF THE COMPANY

During the period under review, the Head Office of the Company moved to the new state-of-the-art building, which is a 12-storied building, situated at 1161, Maradana Road, Colombo 08. The opening ceremony of the building was held in July 2011 with the participation of the distinguished gathering.

In November 2011, the Company made an Initial Public Offering (IPO) of 390 Mn Ordinary Shares to the public at Rs. 18/each and the issue was oversubscribed by 1.33 times within a few hours of the same day despite the crisis of investor confidence in the Colombo Stock Market. This marked the milestone of being the second largest IPO in the history to raise an amount of over Rs. 7 Bn. This is a unique achievement, being a home grown institution. The prime objective of the issue was to broad base the ordinary voting shares of PLC to comply with a special directive issued by the Monetary Board of the Central Bank of Sri Lanka and to be complied with an undertaken given by the Company. In conjunction with the listing, the Company name was also changed to "People's Leasing Company PLC" with effect from 9th December 2011.

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PEOPLE'S LEASING GROUP ATTRIBUTES

People's Leasing Group has now established itself as a formidable force in the financial sector generating profits in every sphere of its operations.

PEOPLE'S FINANCE PLC

People's Finance PLC (PF) has continued to generate profits fruitfully, well surpassing the set targets. The non-performing ratio of People's Finance PLC kept on reducing due to quality of lending process and effective recovery process. NPA ratio of PF recorded at 1.99% at the end of December 2011 from 3.5% in December 2010. People's Leasing Company holds 5,845,060 warrants of People's Finance PLC as at 31st December 2011 and are excisable on 17th January 2012 at Rs. 30 each.

PEOPLE'S INSURANCE LTD.

People's Insurance Ltd. caters to only the general insurance business and mainly provides general insurance solutions to the customer base of the People's Leasing Group captive market and has turned to be profitable. It has a high potential for making a significant contribution to the Group profits and has become one of the key players by achieving the 6th place of the insurance industry in terms of market share of gross written premium.

PEOPLE'S MICROFINANCE LTD.

People's Microfinance Ltd. was established with the intention of supporting individuals in rural areas and small business entities, while enabling the Group to obtain funds at a lower cost. The ground belief of the incorporation of the subsidiary is that 'a seed today will become a grown plant tomorrow', thus a low income earner will prospectively become a wealthy customer of the Company in the bigger picture. At present, the Company carries out its operations through 15 PLC branches.

PEOPLE'S LEASING PROPERTY DEVELOPMENT LTD.

People's Leasing Property Development Ltd. successfully completed the construction of the Head Office building and was ceremonially declared open on 25th July 2011. The first floor of the building is occupied by People's Bank Golden Jubilee Branch and the second and third floors are occupied by People's

Bank Card Centre. People's Leasing Company and its subsidiaries occupy the rest of the floors of the building. Further, the Company has undertaken to construct buildings for People's Bank branches at Vavuniya, Piliyandala, Tangalle, Anamaduwa, Kandy, Boralanda and Wilgamuwa. In addition, continuation of an adjoining utility building to the Head Office of the Company is nearing completion.

PEOPLE'S LEASING FLEET MANAGEMENT LTD.

People's Leasing Fleet Management Limited is engaged with granting of operating leases, vehicle hiring, vehicle servicing and vehicle valuation and expects to make a significant contribution to the Group with the expansion plans of the Company.

PEOPLE'S LEASING HAVELOCK PROPERTIES LTD.

People's Leasing Havelock Properties
Ltd. was incorporated with a purpose of
carrying out the construction of an office
complex to rent it out. A land has been
purchased for the particular purpose and
awaiting the approval for the building plan.

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FINANCIAL **PERFORMANCE**

The People's Leasing Group declared its highest-ever profit of Rs. 4,645.6 Mn for the calendar year ended 31st December 2011. The pre-tax profit of the Group has increased by 126.4% to Rs. 6,559.1 Mn from Rs. 2,897.3 Mn declared in 2010. During the period, having evaluated the Company's lending portfolio and the improved economic and market conditions, the Company reversed its remaining general provision of Rs. 1,611.48 Mn resulting a net gain of Rs. 1,063.03 Mn to the net profit. Even without this one-off gain, the Company's net profit for the period showed a remarkable growth of over 113% on a year on year basis. Group income from hire purchases increased by 37.5% from Rs 4,348.6 Mn in 2010 to Rs. 5,978.5 Mn in 2011 while Income from finance leases increased by 79.5% from Rs 2,657.6 Mn in 2010 to Rs 4.771.6 Mn in 2011. The income from loans and advances also showed a growth of 50.6% in December 2011 compared to the corresponding period in 2010.

People's Leasing executed grantings amounting to over Rs. 50 Bn for the calendar year 2011, which is a substantial increase from Rs. 34 Bn in the previous period. The Company's interest bearing assets increased to Rs. 71.9 Bn as at 31st December 2011 from Rs. 42.4 Bn in the previous year. It accounts for 91.2% of the total assets. Total assets of the Group increased by 66.2% to Rs. 94.6 Bn in 2011 from Rs. 56.9 Bn in 2010.

The People's Leasing Group declared its highest-ever profit of Rs. 4.6 Bn for the calendar year ended 31st December 2011.

Stated Capital of the Company increased from Rs. 1,850,000,080/- to Rs. 5,938,000,080 in June 2011 by crediting the reserves of PLC, issuing

28,000,000 fully paid Ordinary Voting Shares at a consideration of Rs. 146 each. Subsequently, the shares have been subdivided 1:15 which makes the total number of shares issued at the end of June 2011 to 1,170,000,120. Consequently, the initial public offer of shares which took place in November is expected to place the Company in a strong position to exploit the emerging opportunities and expand the operations further. Moreover, the interest expenses of the Company have shown a reducing tendency along with the infusion of IPO fund

Extending the shareholder wealth, the Company paid an interim dividend at Rs. 0.50 per share amounting to Rs. 780 Mn for the year 2011/12 in December 2011. The parent, People's Bank is entitled to a sum of Rs. 585 Mn out of the total dividend of Rs. 780 Mn.

The non-performing ratio of People's Leasing Company reduced continuously to 0.95% as at 31st December 2011 due to astute credit policies followed and effective recovery processes in place.

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AWARDS AND ACCOLADES

People's Leasing retained the prestigious "Gold Award" for the fourth consecutive year for excellence in the leasing sector at the Annual Report Competition 2011 organised by The Institute of Chartered Accountants of Sri Lanka. Whilst last year the subsidiary, People's Finance PLC claimed the Bronze Award, this year to the contentment of the entire Company they upgraded themselves picking up the 'Silver Award' in the finance sector category.

During the calendar year, the Company was awarded the ISO 27001: 2005 certification by Det Norske Veritas (DNV) for conforming to the prestigious global benchmark of ISO/IEC 27001: 2005 Information Security Management System Standard. The certificate is valid for the scope, managing information security requirement, related to managed ICT services for leasing and financial operations of the Company in accordance with the latest version of the Statement of Applicability.

Furthermore, the Company received the "Gold Rating" for Corporate Accountability, awarded by Sting Consultants, demonstrating the built-in responsible business practices which meet the expectations of broad base stakeholders.

During the year, Fitch Ratings Lanka upgraded People's Leasing Company PLC's National Long-Term rating to 'A+(lka)' from 'A(lka)' and People's Finance PLC's to 'A-(lka)' from 'BBB(lka)', reaffirming the stable outlook of the Group.

In the meantime, PLC was considered by the Credit Information Bureau of Sri Lanka (CRIB) as a model as far as data accuracy is concerned. Accordingly, A+ institutional data quality rating was given by CRIB reflecting the high quality data relating to credit.

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CORPORATE RESPONSIBILITY

GROWING WITH EQUITY



eople's Bank has been pursuing sustainable operations since it commenced business

in 1961. For fifty years we have focused on creating social value for our diverse customers and for the country in general. One of the reasons why we were created was to use financial solutions to unleash opportunities for people who had been previously excluded from the financial services industry and to support development initiatives of the state. The primary reason for our existence is to create value for the people of the nation.

More recently, as environmental awareness has grown, we have reduced the negative impacts our operations have had on the environment and sought to integrate practices that have contributed to replenishing it.

We are committed to the highest levels of transparency and integrity and comply strictly with all relevant laws and procedures. Our risk management strategy is geared towards producing sustainable outcomes for our many stakeholders. We have created an environment of mutual trust and respect where employees perform at optimum levels delivering value for themselves, their families, the Bank and the community.

Our business strategy has evolved over the years and is today focused on creating sustainable economic, social and environmental systems and empowering our several stakeholders.

We have forged relationships not just with our customers, but with regulators, the Government, our suppliers and the community in general.

FORGING AND SUSTAINING RELATIONSHIPS

Building enduring relationships has been at the forefront of our activities. Our products have been a conduit to relationship building and to supporting our many customers as they walk through the many phases of life. We

have attempted to promote sustainable change in people's lives and have encouraged people to contribute to sustainable change in their own lives.

We have forged relationships not just with our customers, but with regulators, the Government and the community in general. Sustainable entrepreneurship is about forging relationships, about nourishing relationships and about creating ripples of change in different layers of society. For fifty years we have focused on promoting positive change and will continue to work with this philosophy over the next fifty.

ENGAGING WITH OUR STAKEHOLDERS

Our diverse stakeholders continue to provide important feedback as we seek to make our operations more efficient and sustainable. Our customers, our employees, the public and several government agencies provide a sounding board to us and help us adapt and modify our business practices and products. Customer feedback is crucial since it helps us refine our products and ensure that they synchronise with customer aspirations and needs. There are many methods of engaging with stakeholders,

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both informal and formal and we continue to use a variety of methods to ensure we are in touch with people who use our products.



GROWING REGIONAL ECONOMIES

With a view to accelerating growth in the regions, the Bank initiated a special credit programme for medium and micro entrepreneurs in different regions. Under this programme, many development loans were provided to medium scale business sector whilst over 1000 advances were provided to micro entrepreneurs during the past year.

This special credit programmed was initiated to support the government's rural development goal of enhancing opportunities for 50,000 micro entrepreneurs and to empower women by creating income streams for them in the rural economy. The larger goals are to trigger employment generation, add value in the rural economy and to rid the rural community of informal money lenders who have exploited the rural poor of Sri Lanka.

This special credit scheme is part of the Bank's novel concept of creating 'Micro Finance Villages' in rural Sri Lanka. Through the Micro Finance Village concept, the Bank will provide sustained support to targeted industries and entrepreneurs in different parts of the country. Concessionary financial support will be combined with other forms of strategic advice and support in order to trigger growth in regions and enhance the quality of rural livelihoods.



Special concessionary loans were provided to many rural entrepreneurs to purchase small trucks during 2011. The beneficiaries were identified in partnership with the Federation of Self-Employed, and the objective of the initiative was to enhance opportunities for self-employment among rural populations.

The beneficiaries will use these trucks to operate food distribution services in their respective areas and help in enhancing food security among rural populations. Essential food products will

be distributed among rural populations to ensure they have access to these products at prices that are reasonable and affordable.

Healthy and economically active village communities will be important to support the country's objective of more inclusive development. The benefits of post-war progress must be shared with all social groups and spread amongst all areas of the country if development is to remain sustainable. The Bank is committed to this goal and to enhancing opportunities for Sri Lanka's rural poor.



REBUILDING THE NORTH: BUILDING PROSPERITY AND PRIDE

The Bank is a major partner in redeveloping the North and the East and in helping to revive the economies and social life in those regions. The Bank is committed to taking state-of-the-art financial services to those regions and to ensuring equal opportunity for people who suffered for many years because of the thirty year war. We will help people reconcile and contribute to building a nation of prosperity and pride.

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The Bank is a major partner in redeveloping the North and the East and in helping to revive the economies and social life in those regions.

Having said this the Bank's presence was always felt in the North and the East even during the three-decade conflict period, showcasing our commitment to all sectors of the community, irrespective of such presence-generating returns.

The other major initiative we completed during the year was the rebuilding of the Killinochchi Madya Maha Vidyalaya. Killinochchi Madya Maha Vidyalaya is a school with a long history but has been unable to function at full capacity because it was located in the centre of the conflict.



FIFTY HOMES IN MADHU

A block of land close to the sacred Madhu Shrine in the Mannar District was selected and the Bank provided outright grants for financing the construction of the fifty houses on that site.

Each house cost Rs. 1 Mn and is of approximately 560 square feet in size. The total cost of the project including pipe-borne water, electricity and sewage, came to Rs. 55 Mn. This is one of many contributions the Bank has made to uplifting life in those areas devastated by the conflict and in helping the

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populations of the North and the East return to lives of normalcy. Part of this money was contributed by our dedicated employees.

The fifty families were selected from among the internally displaced, many of whom had been displaced several times over, and had been living lives of hardship for several years.

The Bank contributed Rs. 1.7 Mn towards the redevelopment and enhancement of a school with a view to restoring some of its lost glory and re-establishing it as a centre of educational excellence in the North. Over 1,300 students have benefitted from this initiative as the school now boasts of better infrastructure and facilities.

people every day. It is one of the primary health care facilities for people living in the region.

The Bank, in partnership with its subsidiary People's Leasing Limited, supported a major refurbishment of the hospital. The refurbishment has strengthened existing health care facilities and added several new facilities.

By investing in health care we know that we are helping to respond to medical emergencies while at the same time investing in sustainable futures for the people of our country. Access to health care has for long been seen as a basic human right in this country and Bank will continue to help the government discharge its obligation in this respect.

In 2011, we dipped into the Tsunami
Fund once again to help those affected
by the unprecedented floods of late
2010 and early 2011. Close to a million
people were affected by some of the
worst flooding in decades and the Bank
contributed a sum of Rs. 2 Mn to the
already existing Rs. 8 Mn in the Tsunami
Fund, to help those affected by the floods.



NEW MARKET (POLA) FOR LUNUGAMVEHERA

The Bank partnered with People's Leasing to construct a state-of-the-art market Complex for residents at Lunugamvehera. The new building, built at a cost of Rs. 20 Mn, is a well-equipped facility with all the benefits with a feel of a modern market or 'pola'.



BUILDING HEALTHY FUTURES: THE REDEVELOPMENT OF THE BUTTALA HOSPITAL

The Buttala Hospital is located in the Uva Province and caters to approximately 25,000 families in that area. The hospital provides health care through its Out Patient Department to almost 400



CONTRIBUTING TO FLOOD RELIEF

In 2004, the Bank partnered with the Independent Television Network (ITN) and Lakhanda Radio to respond to the tsunami of that year. We set up the Tsunami Fund to provide relief to those affected.



REWARDING, SECURE AND DYNAMIC WORKPLACES

The Bank has invested in creating workplaces that are dynamic, safe and rewarding. We have ensured the highest levels of safety at each of our workplaces and created environments in which employees have felt secure

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and comfortable. Our branches straddle some of the most remote parts of Sri Lanka and we have ensured that the environment in our many branches is on par with workplaces in urban environments.

Safety procedures at each of our branches have been strengthened and the physical environment modified to reduce accidents at work. We have integrated procedures to help employees respond to emergencies at work and to provide support to a fellow employee who may suffer from an accident. Regular training is provided on safety procedures at work and procedures for responding to emergencies.

Every year, the Bank provides opportunities for its employees to acquire new knowledge and develop new skills.



PROMOTING DIVERSITY

The Bank has a highly diverse workforce. It has promoted diversity at the workplace and ensured that employees are not discriminated against on the basis of ethnicity, language, religion or gender. Special measures have been taken to provide a safe and secure environment for women and to ensure that discrimination or harassment does not occur in any form.



DEVELOPING OUR POOL OF HUMAN RESOURCES

Last year, the Bank recruited 250 highly-motivated management trainees. These new recruits will be provided with 'hands on' training and the opportunity to learn about the several facets of modern day banking. The Bank has put in place a succession plan that will ensure that key human resource gaps are filled with people who have the necessary competencies and experience to take the Bank forward. The recruitment and training of management trainees is one facet of the Bank's succession strategy.

Our recruitment policies are designed to attract highly talented individuals and our promotional policies ensure that promotions within the Bank are based on merit and demonstrated competencies. At the end of 2011, we had 8,249 permanent employees spread across our several branches as compared to the 8,399 employees at the end of 2010.

The Bank is committed to the highest levels of transparency and integrity. We ensure that we comply with all laws and regulations strictly in enhancing our conditions of work. The Bank is a member of the Employers' Federation of Ceylon. The Bank has an 'open door' policy which encourages employees to communicate across hierarchies and management tiers with a view to strengthening internal practices and ensuring more efficient outcomes.



EMPLOYEE TRAINING

Every year, the Bank provides opportunities for its employees to acquire new knowledge and develop new skills. Training opportunities are provided in a variety of areas including technical and managerial skills. During this year, 693 training

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programmes were conducted for close to 24,000 employees. The Bank provides opportunities for employees to train overseas and 51 employees benefitted from the opportunity to train overseas in 2011. The Bank has placed a special emphasis on language proficiency and special Tamil and English language training programmes are continuously conducted for our staff.



HOLIDAY HOMES

The Bank maintains 13 Holiday Homes in Kataragama, Anuradhapura, Kandy, Nuwara Eliya, Talawakele, Ragala, Udawalawa, Devinuwara, Colombo, Trincomalee and Batticaloa for the benefit of the staff and pensioners.



STAFF LOANS

The Bank granted 600 loans amounting to Rs. 1.2 Bn under staff housing loan scheme in 2011.

House Repair Loans come with a limit of Rs. 100,000/-. Sixty nine loans amounting to Rs. 6.8 Mn were granted in 2011.

Consumption loans have a limit of Rs. 500,000/-. Seven hundred and twenty three loans amounting to Rs. 296 Mn were granted in 2011.

Vehicle Loans are based on a limit of 24 months' gross salary. A sum of Rs. 185 Mn was granted to 247 employees.

Education Loans for postgraduate degrees up to a limit of Rs. 500,000 was provided to 21 employees. The total sum expended on this was Rs. 7.8 Mn during 2011.



GREENER, CLEANER AND SAFER ENVIRONMENTS

The Bank has integrated business practices that have promoted greener, cleaner and safer environments. Within the Bank, we have integrated practices that have encouraged employees to reduce the consumption of energy and materials and to recycle or reuse wherever possible. We have created cleaner and safer workspaces for our employees, raised the levels of environmental awareness and

encouraged them to take these greener and cleaner practices into their families and other social circles.

We have accompanied this by engaging with our customers, suppliers and other external stakeholders on sustainable development. We have encouraged our external stakeholders to adopt sustainable practices within the sphere of their own operations and promoted products that have fostered sustainability practices within different environments. Our goal is to reduce the harmful effects of our operations on the environment and to contribute to nourishing and enhancing the built and physical environment.



EXCELLENCE IN SPORTS

The Bank continues to provide opportunities for its employees to participate in a range of sports. Zonal sports festivals were held across the country and the Annual Inter-zonal Final Sports Festival was held in Kurunegala during November 2011.

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The Bank's teams excelled at the 'Nationalized Services' tournaments and sports meets conducted during the year. Our employees were placed first and second in many of the track and field events.

In Badminton, the Bank was placed second in the Men's Veteran category and second in the 'Champions' Knockout Tournament. The women won the "B" Division Knockout Tournament.

In Volleyball, the Bank's team was the "B" Division Runner up. In Table Tennis, the Bank was placed second in the Men's "A" Division and in the Men's "C" Division League Tournament. The Bank emerged as Champions in the 'Knockout' Tournament. In Table Tennis, the Bank won the Novice's Women's Singles Championship and was placed second in the Women's Open. The Bank also won the Open Men's Doubles Championship and was placed second in the Open Mixed Doubles category.

In Netball, we were Champions in the "B" Division Knockout Tournament and in Elle, the "C" Division Champions at the NSEA Tournament and the best scoring team. In Soccer, we were the "B"

Division Champions at the Seven-a-side Knockout Tournament. In Cricket, the Bank was the "A" Division Runner up in the Knockout Tournament.

The Buddhist Society of the Bank donated 12 houses to underprivileged families during the year

and artificial limbs, the repairing of hospitals, and the distribution of water filters among Dhamma schools.

The Christian, Hindu and Muslim Societies of the Bank were also engaged in similar social activities, including the rebuilding of religious shrines in the North and the East and the organising of ceremonies to mark religious and national events.



SUPPORTING CHANGE

The Buddhist Society of the Bank donated 12 houses to under-privileged families during the year and conducted a school book donation campaign for 15,000 children in different parts of the country.

In addition the society supported several other social initiatives by providing support for flood victims, for cataract operations, those in need of wheel chairs



ARTS AND CULTURE

The Bank's Arts Circle organised the Annual Vesak Bakhti Gee Show in front of our Head Office and during Poson in Anuradapura. It also organised arts, photography, essay, poem, and short story competitions among staff members and their families and conducted an exhibition to showcase the artistic talents of our staff.

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8			Page Reference
3.	Report Profile		
3.1	Reporting period	1st January 2011 to 31st December 2011	
3.2	Date of most recent previous Report	December 2010	
3.3	Reporting cycle	Annual	
3.4	Contact point for questions regarding the Report or its contents	No. 75, Sir Chittampalam A. Gardiner Mawatha, Colombo 02, Sri Lanka	
3.5	Boundary of Report	Sri Lanka	
3.6	Specific limitations on scope/boundary	The Report covers only the Sri Lankan operations of People's Bank	
3.7	Restatements	None	
3.8	Significant changes from previous reporting period	No significant changes	
3.9	Location of standard disclosures in the Report	Will be uploaded on the People's Bank website	
4.	Governance, Commitments and Engagement		
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4.2	Chair of the highest governance body	Chairman's Message	8-11
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4.3	No. of members in the highest governance body	Directors' Report	154-156
4.4	Mechanisms for employees/shareholders to provide recommendations/directions to the Board	Regular team briefing feedbacks	
4.5	Compensation and performance	Corporate Responsibility	69-75
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4.7	Mission and value statements	Our Mission and Our Business Values	04
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4.12	List of stakeholder groups	Government of Sri Lanka and Co-operative Societies	
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5.4	Financial assistance from Government	Bank receives assistance from the Government regularly	
Mari	ket Presence		
5.5	Entry-level wage - local minimum age	Defined in the Collective Agreement and Labour Law	
5.6	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation	Recruitment locally	
5.7	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind or <i>pro bono</i> engagement	Business Review 40 Corporate Responsibility 69	
5.8	Indirect economic impacts	Business Review	40-53

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			Page Reference
6.	Social		
6.1	Disclosure of management approach	Corporate Responsibility	69-75
Cori	-uption		
6.2	Analysis for risks of corruption	Risk Management	124-143
6.3	Training in anti-corruption	Internal training sessions	
6.4	Instances of corruption	None reported	
Pub	lic Policy		
6.5	Public policy development and lobbying	Major involvements during the year	
6.6	Contribution to Government	Major contributions during the year	
Anti	-Competitive Behaviour		
6.7	Legal actions for anti-competitive, anti-trust and monopoly practices	None reported during the year	
Com	pliance		
6.8	Monetary value of significant fines	None reported during the year	

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50th Anniversary Celebrations at Temple Trees - Handing over of the special gold coin to HE the President



Opening of the Buttala Hospital by HE the President



Hindu Pooja to mark the Bank's 50th Anniversary -Sri Muthumariamman Kovil, Matale



Hindu Pooja to mark the Bank's 50th Anniversary -People's Bank Hindu Society



The Muslim Majlis Duah blessings to mark the Bank's 50th Anniversary



The Muslim Majlis Duah blessings to mark the Bank's 50th Anniversary at Devatagaha Holy Mosque

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The Bank's Pirith Ceremony to mark the 50th Anniversary -**Buddhist Society Head Office**



Alms giving to mark the 50th Anniversary - Buddhist Society Head Office



Commemorative Service organised by the Christian Guild to mark the Bank's 50th Anniversary - St. Mary's Church, Chilaw



Offerings made at the service organised by the Christian Guild to mark the Bank's 50th Anniversary - St. Mary's Church, Chilaw



Inculcating the savings habit in young ones via the 'Sisu Udana Pola' programme - Gampaha District



Opening of the new Nugegoda Branch

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Donations made to disabled people from all provincials - Lucky Plaza Branch



At the sports festival 'Kopi Kade' - Gampaha District



World Children's Day programme - Matale Branch



The new Kurunegala Branch



Opening of the new SME Branch - Kurunegala



Opening of the new Lunugamvehera Pola

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50 houses project to Internally Displaced Persons - Madhu



Opening of the 50 houses project to Internally Displaced Persons - Madhu



The new Dharmapala Mawatha Branch - Matara



Opening of the new Anniversary Branch - PLC Head Office - Borella



Opening of the new PLC Head Office - Borella



The new PLC Head Office - Borella





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uccess of a bank depends on the efficiency of its operations. This means constantly fine-tuning

relationships with key stakeholders.
Equally it means adopting the systems necessary to achieve the objectives of the Bank. Finally, it implies regular monitoring of operations and the management of issues arising therefrom.

A Bank should hold itself to high standards when carrying on business, and at all times strive to observe the spirit as well as the letter of the law. Compliance should be a part of the culture of the Bank. A Bank will be able to manage its compliance risk more effectively when a compliance function is in place. Compliance laws, rules and standards have various sources, including primary legislation, rules and regulations issued by the legislators and supervisors, market conventions, codes of practice promoted by industry associations and internal codes of conduct applicable to the staff members of the Bank.

With the aim of ensuring that the Bank is operated efficiently and in conformity with the rules and regulations applicable in the industry, the Bank has established

the role of Compliance function with the following scope:

- Freedom to investigate and examine whether the business activities of the Bank are conducted in accordance with the rules and regulations pertaining to the industry.
- Independence of reporting to Chief Executive Officer/General Manager or Board of Directors.
- To interpret regulations constructively so as to facilitate business without breaching the spirit of such regulations to endangering the Bank's reputation with its regulators.

THE COMPLIANCE STRUCTURE AT PEOPLE'S BANK Board of Directors Chief Executive Officer Senior Deputy General Manager (Risk & Compliance)

Management

COMBATING MONEY LAUNDERING AND TERRORIST FINANCING

Today, Money Laundering and Terrorist Financing have been identified as a major threat to the Banking and Finance Service Community. The Sri Lankan Legislature has enacted Laws pertaining to Money Laundering, Financial Transaction Reporting and Suppression of Terrorist Financing. Under these Laws, Money Laundering and Terrorist Financing are crimes that can lead to fines and terms of imprisonment as well as damage the reputation of the Bank.

The People's Bank is committed to the fight against Money Laundering. As one of the largest Banks in Sri Lanka which has 339 Branches and 367 Service Centres, maintaining more than Thirteen Million Customer Accounts and processing thousands of transactions per day, People's Bank could always be a target for would be money launderers. As such, the Bank has in place an Anti-Money Laundering and Know Your Customer Policy applicable across all branches and departments of the Bank and when new rules and regulations are issued, circulars and guidelines are issued from time to time in order to update the employees of the Bank.

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Furthermore, training programmes across the branch network are conducted in order to improve awareness of Anti-Money Laundering, Know Your Customer and Customer Due Diligence amongst employees of the Bank. Additionally, the Bank has also developed e-learning modules on Anti-Money Laundering, Know Your Customer and Western Union Transactions to ensure that relevant staff are kept up to date with the latest developments.



DUTIES AND RESPONSIBILITIES

In addition to the above the Compliance Officer:

- 1. Ensures that all employees follow accepted ethical standards in discharging their duties.
- 2. Protects the Bank's tangible and intangible assets, the financial security of the business and most importantly, the good reputation of the Bank.
- 3. Conducts compliance assessments across the branch network to ensure that the branches are acting in compliance with the rules and regulations in the industry.
- 4. Apprises and discusses the applicable laws and regulations pertaining to the

- respective departments of the Bank and carries out a periodic process of confirmation of compliance from each department. Any breaches are brought to the notice of the Board of Directors and rectifying measures are immediately taken.
- 5. Certified Reports confirming compliance with CBSL directives are submitted monthly to the Bank Supervision Department of the Central Bank of Sri Lanka.
- 6. The Bank has put in place comprehensive measures to comply with both directives and guidelines issued by the Central Bank of Sri Lanka as well as Statutory Requirements. A Compliance report submitted by-monthly to the Board, covers the entire compliance framework and the Bank's current status.

The confirmations for the Compliance Report are obtained from Heads of Departments certifying that the Bank has complied with all requirements as stated in the main Statutory Acts including the Inland Revenue, Exchange Control, CRIB, EPF, ETF, Banking Act, Labour Laws, Debt Recovery, Civil Procedure, Mortgage, Registration of Documents Ordinance and requirements stipulated under the Financial Ombudsman Scheme.

7. The Bank has also put in place a Code of Best Practices in Corporate Governance (Version 1.2), Anti-Money Laundering and Know Your Customer Policy (Version 2.1), Code of Conduct and a Compliance Policy. The Bank is in the process of introducing a Customer Charter in accordance with the guidelines issued by the Central Bank of Sri Lanka.

The compliance function is not merely a policy making function but rather a function designed to proactively assist all employees and the Bank in complying with the Laws and Regulations pertaining to the industry.

People's Bank has fully-complied with the compliance requirements of the country and has developed systems and procedures to give the fullest support needed to combating money laundering and terrorist financing. All applicable Laws and Regulations are strictly followed in this regard. As a State Bank, all known steps have been taken to extend support to regulatory authorities to ensure the stability of the financial system in Sri Lanka.

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CORPORATE GOVERNANCE



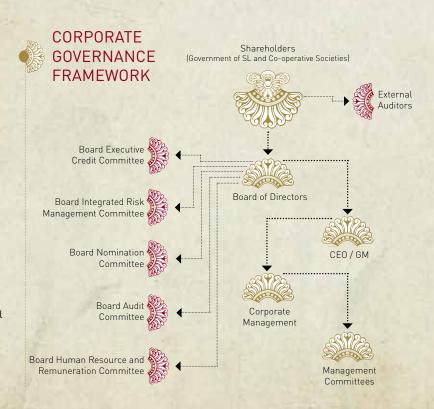
ith recent developments and expansion in the business arena in Sri Lanka, it is vital

to move on with a good Corporate
Governance Code by all companies for
their own benefit.

'Corporate Governance is the system by which companies are directed and controlled' (The Cadbury Report, 1992, 2.5). Corporate Governance reflects in which ways companies should be governed. Companies governed by Corporate Governance achieve their objectives. The objective of a company is to maximise the shareholders' wealth. A company is a legal entity and it takes on a collective and organised entity through many different individuals work towards to achieve a common goal.

People's Bank over the past 50 years played the role of a good Corporate Citizen has taken steps voluntarily to adopt the Corporate Governance practices recommended by various regulatory bodies such as The Institute of Chartered Accountants of Sri Lanka, The Securities and Exchange Commission of Sri Lanka and the Central Bank of Sri Lanka.

The primary responsibility for good Corporate Governance rests with Board of Directors and Senior Management of the Bank with the contribution of all stakeholders from employees to Bank customers in order to uphold Corporate Governance. Hence the Board of Directors and CEO/GM while continued to innovate and adopt latest Corporate Governance practices have appointed independent committees to oversee, evaluate and recommend various operational aspects in the Bank.



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Bank views Corporate Governance as a means to improve operational efficiency, and build a better reputation.





PREAMBLE TOWARDS **GOOD CORPORATE** CITIZEN

People's Bank has adopted the Code of Corporate Governance in order to improve and systematise good governance. The Bank has ensured its governance be more transparent, and demonstrate a commitment to this by developing and furthering:

- Responsible, accountable and valuebased performance management;
- Effective oversight, with executive bodies that act in the best interests of the Bank and its stakeholders and seek to enhance shareholder value in a suitable manner.

Bank views Corporate Governance as a means to improve operational efficiency, and build a better reputation. It also views a sound system of governance as an important contribution to the society in which it operates especially because the Bank is a Government-owned enterprise and an important determinant of the role of the Bank in a modern economy and society.

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BANK'S ADHERENCE WITH THE CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE ISSUED BY THE SECURITIES AND EXCHANGE COMMISSION OF SRI LANKA AND THE INSTITUTE OF CHARTERED ACCOUNTANTS OF SRI LANKA.

Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by SEC & ICASL	Level of Compliance
A. GENERAL			
Chairman and CEO	If Chairman and CEO is one and the same person, disclose the Name of the Chairman/CEO and Senior Independent Director appointed and justification of the decision to combine the positions.	A.2.1 & A.5.6	The posts of Chairman and CEO/GM are separate positions and held by two individuals.
Board Balance	 Should identify the Independent Non-Executive Directors. If a Non-Executive Director is identified as 'Independent', notwithstanding the existence of any of the following factors, the reason for such determination should be disclosed. A Director is not considered independent if he/she: Has been employed by the Company during the period of two years immediately preceding appointment as Director; Currently has/had during the period of two years immediately preceding appointment as Director, a Material Business Relationship with the Company, whether directly or indirectly; Has a close family member who is a Director, Chief Executive Directors (and/or an equivalent position) in the Company; Has a Significant Shareholding in the Company continuously for a period exceeding nine years from the date of the first appointment; 	A.5.5	Under the People's Bank Act No. 29 of 1961, the Minister of Finance is empowered to appoint Board of Directors. All Directors appointed under the Act are in a Non-Executive capacity and are able to form an independent view since they are not part of the Managemen of the Bank.

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Subject Corporate Governance Principle Reference to the Level of Compliance Code of Best Practice issued by SEC & ICASL O Is employed in another Company or Business; ☐ In which a majority of the other Directors of the Company are employed or are Directors; or ☐ In which a majority of the other Directors of the Company have a Significant Shareholding or Material Business Relationship; or □ That has a Significant Shareholding in the Company or with which the Company has a **Business Connection**; Is a Director of another company; O In which a majority of the other Directors of the Company are employed or are Directors; or O That has a Business Connection in the Company or Significant Shareholding; • Has Material Business Relationship or a Significant Shareholding in another company or business; O In which a majority of the other Directors of the Company are employed or are Directors; and/or O That has a Business Connection with the Company or Significant Shareholding in the same. Appointment of When new Directors are appointed, the following A.7.3 Complied with. The Directors **New Directors** details should be disclosed. are appointed as per the provisions under the People's A brief résumé of each such Director; Bank Act. The nature of his expertise in relevant functional areas: • The names of companies in which the Director

holds directorships or memberships in Board

Whether such Director can be considered

Committees; and

independent.

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Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by SEC & ICASL	Level of Compliance
Nomination Committee	The Chairman and members of the Nomination Committee should be identified.	A.7.1	Complied with.
Appraisal of Board Performance	Should disclose how performance evaluation has been conducted.	A.9.3	The Board conducts appraisals to assess its performance and effectiveness as a whole annually.
Board Related Disclosures	 The following details pertaining to each Director should be disclosed: Name, qualification and brief profile; The nature of his/her expertise in relevant functional areas; Immediate family and/or material business relationships with other Directors of the Bank; Names of other listed companies in Sri Lanka in which the Director concerned serves as a Director; Names of companies in which the Director concerned serves as a Director and /or the fact that he/she holds other directorships in the Group Companies; Number/percentage of Board meetings of the Bank attended during the year; Names of the Committees in which the Director serves as the Chairman or a member; and Number/percentage of committee meetings attended during the year. 	A.10.1	Complied with. The 2011 Annual Report contains comprehensive information in this regard.
Disclosure of Remuneration	 A Statement of Remuneration Policy and details of remuneration of the Board as a whole. Total salary of Executive Directors and total salary of Non-executive Directors. 	B.3	The Ministry of Finance and Planning determines the allowance payable to Directors.

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Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by SEC & ICASL	Level of Compliance
Major Transactions	All Major Transactions entered into by the Bank should be disclosed.	C.2	Complied with.
Audit Committee	 Names of the Members of the Audit Committee should be disclosed. Basis for determining the independence of Auditors. 	D.3.4	Names of members of the Audit Committee are given in the Directors' Report on pages 154 to 156. The Auditor of the Bank is the Auditor General as enshrined in the Constitution of Sri Lanka. The independence of the Auditor General is ensured by the Constitution. The Auditor General carries out the Bank's external audit.
Code of Business Conduct and Ethics	 Should disclose whether the Bank has a Code of Business Conduct and Ethics for Directors and members of the Senior Management Team. Should also disclose an affirmative declaration that they have abided by such Code. The Chairman must certify that he/she is not aware of any violation of any of the provisions of this Code. 	D.4.1 & D.4.2	Complied with. Bank has Code of Ethics for Directors and a Code of Conduct for its Employees. Refer Chairman's review on pages 08 to 11.
Going Concern	Should report that the Bank is a going concern, with supporting assumptions and qualifications as necessary	D.1.5	The Bank is a going concern.
B. REMUNERATION	COMMITTEE REPORT		
Members of Remuneration Committee	The names of members of Remuneration Committee should be disclosed in the Remuneration Committee Report.	B.1.3	Complied with. Names of members of the Remuneration Committee are disclosed in the Directors' Report on pages 154 to 156 of this Annual Report.

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Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by SEC & ICASL	Level of Compliance
C. DIRECTORS' RE	PORT		
Directors' Report	Should contain the following declarations made by Directors:	D.1.2	Complied with.
	 The Bank has not engaged in any activities, which contravenes laws and regulations; 		
	 The Directors have declared all material interest in contracts involving the Bank and refrained from voting on matters in which they were materially interested; 		
	 The Bank has made all endeavours to ensure the equitable treatment of shareholders; 		
	 The business is a going concern with supporting assumptions or qualifications as necessary; and 		
	They have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained reasonable assurance of their effectiveness and		
D. FINANOIAL CTA	successful adherence herewith.		
D. FINANCIAL STATE Financial Statements	 The Board of Directors should include a Statement of Responsibility for the preparation and presentation of Financial Statements. 	D.1.3	Complied with.
	Auditors should also have a statement about their reporting responsibility.		
A CONTRACTOR	THE RESERVE OF THE PARTY OF THE		

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Subject	Corporate Governance Principle	Reference to the Code of Best Practice issued by SEC & ICASL	Level of Compliance
E. MANAGEMENT RE	PORT		
Management Report	Should include a 'Management Discussion and Analysis Report' discussing at least the following issues: • Industry structure and developments;	D.1.4	Complied with.
	Opportunities and threats;		
	Risks and concerns;		
	Internal control systems and their adequacy;		
	Social and environmental protection activities carried out by the Bank;		
	Financial performance;		
	Material developments in human resources/ industrial relations; and		
	Prospects for the future.		
F. CORPORATE GOVE	ERNANCE REPORT		
Corporate Governance Report	Should disclose the manner and extent to which the Bank has complied with as per the principles and provisions of the Code.	D.5.1	Complied with.
G. AUDIT COMMITTE	E REPORT		The state of the s
Audit Committee Report	Should set out the work carried out by the Committee.	D.3.3	Complied with.

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BANK'S ADHERENCE WITH THE CORPORATE GOVERNANCE RULES AS REQUIRED BY SECTION 3(8) OF THE BANKING ACT DIRECTION NO. 11 OF 2007 ISSUED BY THE CENTRAL BANK OF SRI LANKA.

orporate	Governance Section and Rule	Level of Compliance
(1)	The Responsibilities of the Board	
(1) (i)	The Board shall strengthen the safety and soundness of the Bank by ensuring the implementation of the following:	
	(a) Approve and oversee the Bank's strategic objectives and corporate values and ensure that these are communicated throughout the Bank;	Complied with.
	(b) Approve the overall business strategy of the Bank, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least the next three years;	Complied with.
	(c) Identify the principal risks and ensure implementation of appropriate systems to manage the risks prudently;	Complied with.
	(d) Approve implementation of a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	Plan to comply by end 2012.
	(e) Review the adequacy and the integrity of the Bank's internal control systems and management information systems;	Complied with.
	(f) Identify and designate Key Management Personnel, as defined in the International Accounting Standards, who are in a position to: i. significantly influence policy; ii. direct activities; and iii. exercise control over business activities, operations and risk management;	Complied with.
	(g) Define the areas of authority and key responsibilities for the Board Directors themselves and for the Key Management Personnel;	Complied with.
	(h) Ensure that there is appropriate oversight of the affairs of the Bank by Key Management Personnel, that is consistent with Board policy;	Complied with.

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Corporate Governance Section and Rule		Level of Compliance		
	 (i) Periodically assess the effectiveness of the Board Directors' own governance practices, including: the selection, nomination and election of Directors and Key Management Personnel; the management of conflicts of interests; and the determination of weaknesses and implementation of changes where necessary; 	it		
	(j) Ensure that the Bank has an appropriate succession plan for Key Management Personnel;	Suitable personnel has been identified for most of key positions and the Bank is currently in the process of formulating a succession plan.		
	(k) Meet regularly, on a needs basis, with the Key Management Personnel to review policies, establish communication lines and monitor progress towards corporate objectives;	Complied with.		
	(I) Understand the regulatory environment and ensure that the Bank maintains an effective relationship with regulators;	Complied with.		
	(m) Exercise due diligence in the hiring and oversight of External Auditors.	This procedure is done according to the provisions of the People's Bank Act 29 of 1961.		
3 (1) (ii)	The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with Direction 3 (5) of these Directions.	Complied with. The Minister of Finance is empowered to appoint the Chairman under the People's Bank Act. The Board appoint the Chief Executive Officer/General Manager.		
3 (1) (iii)	The Board shall meet regularly and Board meetings shall be held at least twelve times a year at approximately monthly intervals. Such regular Board meetings shall normally involve active participation in person of a majority of Directors entitled to be present. Obtaining the Board's consent through the circulation of written resolutions/papers shall be avoided as far as possible.	Complied with.		

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Corporate	Governance Section and Rule	Level of Compliance		
3 (1) (iv)	The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Bank.	Complied with.		
3 (1) (v)	The Board procedures shall ensure that notice of at least 7 days is given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, reasonable notice may be given.	Complied with.		
3 (1) (vi)	The Board procedures shall ensure that a Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Participation at the Directors' meetings through an Alternate Director shall, however, be acceptable as attendance.	Complied with. However there is no provision in the People's Bank Act for participation through an Alternate Director.		
3 (1) (vii)	The Board shall appoint a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, whose primary responsibilities shall be to handle the secretariat services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied with.		
3 (1) (viii)	All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable rules and regulations are followed.	Complied with.		
3 (1) (ix)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.	Complied with.		

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Corporate	Governance Section and Rule	Level of Compliance
3 (1) (x)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes shall also serve as a reference for regulatory and supervisory authorities to assess the depth of deliberations at the Board meetings. Therefore, the minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the testimonies and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the Bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied with.
3 (1) (xi)	There shall be a procedure agreed by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the Bank's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director or Directors to discharge his/her/their duties to the Bank.	Complied with.
3 (1) (xii)	Directors shall avoid conflicts of interests, or the appearance of conflicts of interest, in their activities with, and commitments to, other organisations or related parties. If a Director has a conflict of interest in a matter to be considered by the Board, which the Board has determined to be material, the matter should be dealt with at a Board meeting, where independent Non-Executive Directors [refer to Direction 3 [2] (iv) of these Directions] who have no material interest in the transaction, are present. Further, a Director shall abstain from voting on any Board resolution in relation to which he/she or any of his/her close relation or a concern, in which a Director has substantial interest, is interested and he/she shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied with.

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Corporate	Governance Section and Rule	Level of Compliance
3 (1) (xiii)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the Bank is firmly under its authority.	Complied with.
3 (1) (xiv)	The Board shall, if it considers that the Bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of Bank Supervision of the situation of the Bank prior to taking any decision or action.	Such a situation has not yet occurred.
3 (1) (xv)	The Board shall ensure that the Bank is capitalised at levels as required by the Monetary Board in terms of the capital adequacy ratio and other prudential grounds.	Complied with.
3 (1) (xvi)	The Board shall publish in the Bank's Annual Report, an annual Corporate Governance Report setting out the compliance with Direction 3 of these Directions.	Complied with.
3 (1) (xvii)	The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	Complied with.
3 (2)	The Board's Composition	
3 (2) (i)	The number of Directors on the Board shall not be less than 7 and not more than 13.	Complied with.
3 (2) (ii)	(A) The total period of service of a Director other than a Director who holds the position of Chief Executive Officer shall not exceed nine years, and such period in office shall be inclusive of the total period of service served by such Director up to January 1, 2008.	Complied with.
	(B) In this context, the following transitional provisions shall apply: A Director who has completed nine years as at 1st January 2008, or who completes such term at any time prior to 31st December 2008, may continue for a further maximum period of 3 years commencing 1st January 2009.	No Directors have exceeded 9 years in the capacity of Directors.

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3 (2) (iii) An employee of a Bank may be appointed, elected or nominated as a Director of the Bank (hereinafter referred to as an 'Executive Director') provided that the number of Executive Directors shall not exceed one-third of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Bank.

There are no provisions in the People's Bank Act to appoint Executive directors. All are Non-Executive Directors.

3 (2) (iv) The Board shall have at least three independent Non-Executive Directors or one-third of the total number of Directors, whichever is higher. This sub-direction shall be applicable from 1st January 2010 onwards.

A Non-Executive Director shall not be considered independent if he/she:

- (a) has direct and indirect shareholdings of more than 1% of the Bank;
- (b) currently has or had during the period of two years immediately preceding his/her appointment as Director, any business transactions with the Bank as described in Direction 3 (7) hereof, exceeding 10% of the regulatory capital of the Bank.
- (c) has been employed by the Bank during the two year period immediately preceding the appointment as Director;
- (d) has a close relation who is a Director or Chief Executive Officer or a member of Key Management Personnel or a material shareholder of the Bank or another Bank. For this purpose, a "close relation" shall mean the spouse or a financially dependent child;
- (e) represents a specific stakeholder of the Bank;
- (f) is an employee or a Director or a material shareholder in a company or business organisation:
 - i. which currently has a transaction with the Bank as defined in Direction 3 (7) of these Directions, exceeding 10% of the regulatory capital of the
 - ii. in which any of the other Directors of the Bank are employed or are Directors or are material shareholders: or
 - iii. in which any of the other Directors of the Bank have a transaction as defined in Direction 3 (7) of these Directions, exceeding 10% of regulatory capital in the Bank;

Complied with.

All Directors are appointed under People's Bank Act by the Minister of Finance.

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3 (2) (v)	In the event an Alternate Director is appointed to represent an independent Director, the person so appointed shall also meet the criteria that applies to the independent Director.	No alternative Directors were appointed during the year.		
3 (2) (vi)	Non-Executive Directors shall be persons with credible track records and/or have necessary skills and experience to bring an independent judgment to bear on issues of strategy, performance and resources.	Complied with.		
3 (2) (vii)	A meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meeting is present, unless more than one half of the number of Directors present at such meeting are Non-Executive Directors. This sub-direction shall be applicable from 1st January 2010 onwards.	Complied with. All Directors are Non-Executive Directors.		
3 (2) (viii)	The independent Non-Executive Directors shall be expressly identified as such in all corporate communications that disclose the names of Directors of the Bank. The Bank shall disclose the composition of the Board, by category of Directors, including the names of the Chairman, Executive Directors, Non-Executive Directors and independent Non-Executive Directors in the annual Corporate Governance Report.	Complied with.		
3 (2) (ix)	There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Procedure laid down in the People's Bank Act for Finance Minister to appoint all the Directors.		
3 (2) (x)	All Directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Directors are appointed by the Finance Minister in compliance with the Act.		
3 (2) (xi)	If a Director resigns or is removed from office, the Board shall: (a) announce the Director's resignation or removal and the reasons for such resignation or removal including but not limited to information relating to the relevant Director's disagreement with the Bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied with. Complied with.		

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3 (2) (xii)	A Director or an employee of a Bank shall not be appointed, elected or nominated as a Director of another Bank except where such Bank is a subsidiary company or an associate company of the first mentioned Bank.	Complied with.	
3 (3)	Criteria to assess the fitness and propriety of Directors In addition to provisions of Section 42 of the Banking Act No. 30 of 1988, the criteria set out below shall apply to determine the fitness and propriety of a person who serves or wishes to serve as a Director of a Bank. Non-compliance with any one of the criteria as set out herein shall disqualify a person to be appointed, elected or nominated as a Director or to continue as a Director.		
3 (3) (i)	The age of a person who serves as Director shall not exceed 70 years. In this context, the following general exemption shall apply: A Director who has reached the age of 70 years prior to 31st December 2008 may continue in office for a further maximum period of 3 years commencing 1st January 2009.	Complied with. There are no Directors who have exceeded 70 years of age.	
3 (3) (ii)	A person shall not hold office as a Director of more than 20 companies/ entities/institutions inclusive of subsidiaries or associate companies of the Bank. Of such 20 companies/entities/institutions, not more than 10 companies shall be those classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.	Complied with.	
3 (3) (ii) (A	In this context, the following general exemption shall apply: If any person holds posts in excess of the limitation as above, such person shall within a maximum period of three years from 1st January 2009 comply with the above mentioned limitation and notify the Monetary Board accordingly.		

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3 (4) 3 (4) (i)	Management functions delegated by the Board The Directors shall carefully study and clearly understand the delegation arrangements in place.	Complied with.		
3 (4) (ii)	The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied with.		
3 (4) (iii)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Bank.	Complied with.		
3 (5)	The Chairman and Chief Executive Officer			
3 (5) (i)	The roles of Chairman and Chief Executive Officer shall be separate and shall not be performed by the same individual.	Complied with.		
3 (5) (ii)	The Chairman shall be a Non-Executive Director and preferably an independent Director as well. In the case where the Chairman is not an independent Director, the Board shall designate an independent Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Bank's Annual Report.	Complied with. Chairman is a Non-Executive Director who is appointed by the Minister of Finance.		
3 (5) (iii)	The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the identity of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied with.		

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3 (5) (iv)	The Chairman shall: (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key and appropriate issues are discussed by the Board in a timely manner.	Complied with.		
3 (5) (v)	The Chairman shall be primarily responsible for drawing up and approving the agenda for each Board meeting, taking into account where appropriate, any matters proposed by the other Directors for inclusion in the agenda. The Chairman may delegate the drawing up of the agenda to the Company Secretary.	There is a formal agenda with key items identified for all Board meetings. The Board has also approved a process for the Directors to include their proposals in the agenda.		
3 (5) (vi)	The Chairman shall ensure that all Directors are properly briefed on issues arising at Board meetings and also ensure that Directors receive adequate information in a timely manner.	Complied with.		
3 (5) (vii)	The Chairman shall encourage all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Bank.	Complied with.		
3 (5) (viii)	The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relations between Executive and Non-Executive Directors.	All are Non-Executive Directors.		
3 (5) (ix)	The Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied with.		
3 (5) (x)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied with.		
3 (5) (xi)	The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day management of the Bank's operations and business.	Complied with.		

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3 (6)	Board Appointed Committee	
3 (6) (i)	Each Bank shall have at least four Board Committees as set out in Directions 3 (6) (ii), 3 (6) (iii), 3 (6) (iv) and 3 (6) (v) of these Directions. Each committee shall report directly to the Board. All Committees shall appoint a secretary to arrange the meetings and maintain minutes, records, etc., under the supervision of the Chairman of the Committee. The Board shall present a report of the performance on each Committee, on their duties and roles at the Annual General Meeting.	Complied with.
3 (6) (ii)	The following rules shall apply in relation to the Audit Committee:	
	(a) The Chairman of the committee shall be an independent Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	Complied with.
	(b) All members of the committee shall be Non-Executive Directors.	Complied with.
	(c) The committee shall make recommendations on matters in connection with:	
	 i. the appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; 	External Auditor has been appointed as per the provisions of the People's Bank Act 29 of 1961.
	ii. the implementation of the Central Bank guidelines issued to Auditors from time to time;	There is a separate CBSL officer who represent the Bank and update the Bank on CBSL guidelines.
	iii. the application of the relevant accounting standards; and	Complied with.
	iv. the service period, audit fee and any resignation or dismissal of the Auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.	External Auditor has been appointed as per the provisions of the People's Bank Act 29 of 1961.

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(d) The committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.

- (e) The committee shall develop and implement a policy on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the committee shall ensure that the provision by an External Auditor of non-audit services does not impair the External Auditor's independence or objectivity. When assessing the External Auditor's independence or objectivity in relation to the provision of non-audit services, the committee shall consider:
 - i. whether the skills and experience of the audit firm make it a suitable provider of the non-audit services;
 - ii. whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and
 - iii. whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the audit firm, pose any threat to the objectivity and/or independence of the External Auditor.
- (f) The committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit, including:
 - i. an assessment of the Bank's compliance with the relevant Directions in relation to Corporate Governance and the management's internal controls over financial reporting;
 - ii. the preparation of Financial Statements for external purposes in accordance with relevant accounting principles and reporting obligations; and
 - iii. the co-ordination between firms where more than one audit firm is involved.

Level of Compliance

External Auditor has been appointed as per the provisions of the People's Bank Act 29 of 1961.

External Auditor has been appointed as per the provisions of the People's Bank Act No. 29 of 1961.

External Auditor has been appointed as per the provisions of the People's Bank Act No. 29 of 1961.

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(g) The committee shall review the financial information of the Bank, in order to monitor the integrity of the Financial Statements of the Bank, its annual report, accounts and quarterly reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the Bank's Annual Report and accounts and quarterly reports before submission to the Board, the committee shall focus particularly on:

- i. major judgmental areas;
- ii. any changes in accounting policies and practices;
- iii. significant adjustments arising from the audit;
- iv. the going concern assumption; and
- the compliance with relevant accounting standards and other legal requirements.
- (h) The committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the Auditor may wish to discuss including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.
- (i) The committee shall review the External Auditor's management letter and the management's response thereto.

Level of Compliance

Complied with.

Not such issues were reported.

Complied with.

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(j)	The committee shall take the following steps with regard to the internal audit function of the Bank:	
	 Review the adequacy of the scope, functions and resources of the Internal Audit Department, and satisfy itself that the department has the necessary authority to carry out its work; 	Complied with.
	ii. Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;	Complied with.
	iii. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;	Complied with.
	iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Complied with.
	v. Ensure that the committee is appraised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers, and to ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied with.
(k)	The committee shall consider the major findings of internal investigations and management's responses thereto;	Complied with.
(1)	The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the committee. However, at least twice a year, the committee shall meet with the External Auditors without the Executive Directors being present.	Complied with.
(m)	The Committee shall have:	Complied with.
	i. explicit authority to investigate into any matter within its terms of reference;ii. the resources which it needs to do so;	
	iii. full access to information; andiv. authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	

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	(n)	The committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied with.
50-	(0)	The Board shall disclose in an informative way, i. details of the activities of the audit committee; ii. the number of audit committee meetings held in the year; and iii. details of attendance of each individual Director at such meetings.	Complied with.
	(p)	The secretary of the committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the committee meetings.	Complied with.
	(q)	The committee shall review arrangements by which employees of the Bank may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the Bank's relations with the External Auditor.	Complied with.
3 (6) (iii)		e following rules shall apply in relation to the Human Resources and muneration Committee:	
	(a)	The committee shall determine the remuneration policy (salaries, allowances and other financial payments) relating to Directors, Chief Executive Officer (CEO) and Key Management Personnel of the Bank.	Fees payable to Directors for attendance at the Board Meeting are determined by the Minister of Finance. Salary of the Key Management personnel are stipulated in the Collective Agreement signed between the Bank and Trade Unions every three years.
	(b)	The committee shall set goals and targets for the Directors, CEO and the Key Management Personnel.	Complied with.

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lo	The committee shall evaluate the performance of the CEO and Key Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with.	
lo	The CEO shall be present at all meetings of the committee, except when	Complied with.	

		Management Personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	
	(d)	The CEO shall be present at all meetings of the committee, except when matters relating to the CEO are being discussed.	Complied with.
3 (6) (iv)	The	e following rules shall apply in relation to the Nomination Committee:	
	(a)	The committee shall implement a procedure to select/appoint new Directors, CEO and Key Management Personnel.	Board Nomination Committee appoints Key Management Personnel and Directors are appointed by the Finance Minister as per the provisions of the People's Bank Act.
	(b)	The committee shall consider and recommend (or not recommend) the re-election of current Directors, taking into account the performance and contribution made by the Director concerned towards the overall discharge of the Board's responsibilities.	Directors are appointed by the Finance Minister.
	(c)	The committee shall set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO and the Key Management Positions.	Complied with.
	(d)	The committee shall ensure that Directors, CEO and Key Management Personnel are fit and proper persons to hold office as specified in the criteria given in Direction 3 (3) and as set out in the statutes.	Complied with.
	(e)	The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring Directors and Key Management Personnel.	Complied with.
	(f)	The committee shall be Chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	Complied with. The Committee is Chaired by a Director who is appointed by the Board.

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3 (6) (v)	The following rules shall apply in relation to the Integrated Risk Management Committee:	
4	(a) The committee shall consist of at least three Non-Executive Directors, Chief Executive Officer and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee shall work with Key Management Personnel very closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.	Complied with.
	(b) The committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the Bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a Bank basis and Group basis.	Complied with.
	(c) The committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.	Complied with.
	(d) The committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Bank's policies and regulatory and supervisory requirements.	Complied with.
	(e) The committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied with.
	(f) The committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of Bank Supervision.	Complied with.

Corporate	Governance Section and Rule	Level of Compliance		
	(g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.	Complied with.		
	(h) The Committee shall establish a compliance function to assess the Bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied with.		
3 (7)	Related Party Transactions			
3 (7) (i)	The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Bank with any person, and particularly with the following categories of persons who shall be considered as 'related parties' for the purposes of this Direction: (a) Any of the Bank's subsidiary companies; (b) Any of the Bank's associate companies; (c) Any of the Directors of the Bank; (d) Any of the Bank's Key Management Personnel; (e) A close relation of any of the Bank's Directors or Key Management Personnel;	Complied with.		
	(f) A shareholder owning a material interest in the Bank;(g) A concern in which any of the Bank's Directors or a close relation of any of the Bank's Directors or any of its material shareholders has a substantial interest.			

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3 (7) (ii) The type of transactions with related parties that shall be covered by this Direction shall include the following:

- (a) The grant of any type of accommodation, as defined in the Monetary Board's Directions on maximum amount of accommodation;
- (b) The creation of any liabilities of the Bank in the form of deposits, borrowings and investments;
- (c) The provision of any services of a financial or non-financial nature provided to the Bank or received from the Bank;
- (d) The creation or maintenance of reporting lines and information flows between the Bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related parties.

3 (7) (iii) The Board shall ensure that the Bank does not engage in transactions with related parties as defined in Direction 3 (7) (i) above, in a manner that would grant such parties 'more favourable treatment' than that accorded to other constituents of the Bank carrying on the same business. In this context, 'more favourable treatment' shall mean and include treatment, including the:

- (a) Granting of 'total net accommodation' to related parties, exceeding a prudent percentage of the Bank's regulatory capital, as determined by the Board. For purposes of this sub-Direction:
 - i. 'Accommodation' shall mean accommodation as defined in the Banking Act Directions No. 7 of 2007 on Maximum Amount of Accommodation.
 - ii. The 'total net accommodation shall be' computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the Bank's share capital and debt instruments with a maturity of 5 years or more.
- (b) Charging of a lower rate of interest than the Bank's best lending rate or paying more than the Bank's deposit rate for a comparable transaction with an unrelated comparable counterparty;

Level of Compliance

Complied with.

Complied with.

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	(c) Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties;	
	(d) Providing services to or receiving services from a related party without an evaluation procedure;	
	(e) Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	
3 (7) (iv)	A Bank shall not grant any accommodation to any of its Directors or to a close relation of such Director unless such accommodation is sanctioned at a meeting of its Board of Directors, with not less than two-thirds of the number of Directors other than the Director concerned, voting in favour of such accommodation. This accommodation shall be secured by such security as may from time to time be determined by the Monetary Board as well.	Complied with.
3 (7) (v)	(a) Where any accommodation has been granted by a Bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a Director of the Bank, steps shall be taken by the Bank to obtain the necessary security as may be approved for that purpose by the Monetary Board, within one year from the date of appointment of the person as a Director.	Complied with.
	(b) Where such security is not provided by the period as provided in Direction 3 (7) (v) (a) above, the Bank shall take steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such Director, whichever is earlier.	No such incident was observed.

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following minimum disclosures are made in at the annual audited Financial Statements with applicable accounting standards and clusive of specific disclosures.	Complied with. Please refer 'Directors' Responsibility for Financial Reporting, page 157 of this Annual Report.
e Bank's internal control mechanism that	
	Complied with. Please refer 'Directors' Statement of Internal Control, on pages 158 and 159 of this Annual Repo
to in Direction 3 (8) (ii) (b) above, in respect of	Complied with. Please refer 'Independ Assurance Report' on pages 160 and 1 this Annual Report.
	Complied with.
ccommodation granted to each category of	Complied with. Please refer Note 35 to Financial Statements on 'Related Party Disclosures' in this Annual Report. The accommodations granted to each cate of related parties are given below as a percentage of the Bank's regulatory cate
	Category of Related Party % of Transaction Regulatory Capital
	Compensation of KMP Credit Cards facilities to KMP Subsidiary Companies Sub Subsidiary Companies Associate Companies
i .	rding the reliability of financial reporting, and notial Statements for external purposes has the relevant accounting principles and regulatory diffication on the effectiveness of the internal deto in Direction 3 (8) (ii) (b) above, in respect of published after 31st December, 2008. In gnames, fitness and propriety, transactions of fees/remuneration paid by the Bank. Is defined in 3 (8) (iii) granted to each category of expected as a percentage of the Bank's

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	(f)	The aggregate values of remuneration paid by the Bank to its Key Management Personnel and the aggregate values of the transactions of the Bank with its Key Management Personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Bank.	Complied with. Please refer Note 35 to the Financial Statements on 'Related Party Disclosures' in this Annual Report.
	(g)	The External Auditor's Certification of the compliance with these Directions in the annual corporate governance reports published after 1st January 2010.	Complied with. The External Auditor's Certification of the compliance with the requirements of these Directions was obtained and it does not contain any significant deviations.
	(h)	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances.	Complied with.
	(i)	A statement of the regulatory and supervisory concerns on lapses in the Bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the Bank to address such concerns.	There were no lapses in risk management and non-compliance with Directions issued by the Central bank of Sri Lanka identified for disclosure to the public.

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3 (9) 3 (9) (i)	Transitional and Other General Provisions Compliance with this Direction shall commence from 1st January 2008 onwards and all licensed commercial banks shall fully-comply with the provisions of	Complied with.		
	this Direction by or before 1st January 2009 except where extended compliance dates have been specifically provided for in this Direction.			
3 (9) (ii)	In respect of the Banks that have been incorporated by specific statutes in Sri Lanka, the Boards as specified in such statutes shall continue to function in terms of the provisions of the respective statutes, provided they take steps to comply with all provisions of this Direction that are not inconsistent with the provisions of the respective statutes.	Complied with.		
3 (9) (iii)	This Direction shall apply to the branches of the foreign Banks operating in Sri Lanka to the extent that it is not inconsistent with the regulations and laws applicable in such bank's country of incorporation. The branch of a foreign bank shall also publish its parent Bank's annual corporate governance report together with its Annual Report and accounts of the branch operations in Sri Lanka.	Not Applicable.		
3 (9) (iv)	In the event of a conflict between any of the provisions of this Direction and the Articles of Association (or Internal Rules) pertaining to any bank, the provisions of this Direction shall prevail. However, if the Articles of Association of an individual bank set a more stringent standard than that specified in this Direction, such provisions in the Articles of Association may be followed.	Complied with.		
3 (9) (v)	If for any reason such as ill health or any incapacity as provided in the Banking Act, the Monetary Board considers that exemptions referred to in Direction 3 (2) (ii) B, 3 (3) (i) A and 3 (3) (ii) A should not be availed of, such ground may be notified to the person by the Monetary Board, and after a hearing, the Monetary Board may limit the period of exemption.	Not Applicable.		

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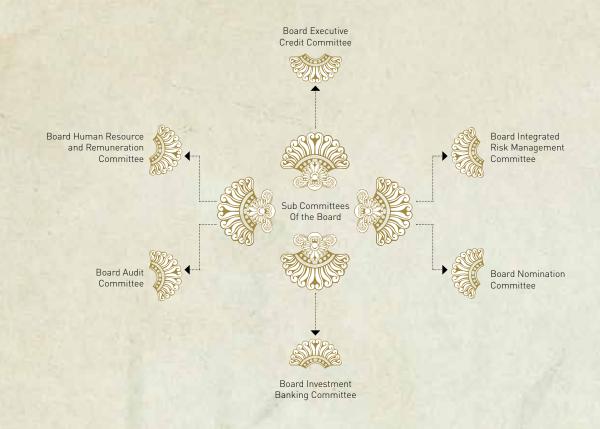
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NUMBER OF MEETINGS HELD DURING THE YEAR 2011

Name of Committee	No. of Meetings
Board Audit Committee (BAC)	08
Board Executive Credit Committee (BECC)	24
Board Human Resource and Remuneration Committee (BHRRC)	19
Board Integrated Risk Management Committee (BIRMC)	04
Board Nomination Committee (BNC)	05
Board Investment Banking Committee (BIBC)	07

ATTENDANCE AT BOARD AND SUB-COMMITTEE MEETINGS DURING THE YEAR 2011

Name of the Director	BECC	BHRRC	BIRMC	BAC	BNC	BIBC
Mr. W. Karunajeewa	24	19	N/M	N/M	2/2	N/M
Dr. D.J.D. Jayakody	23	19	4	N/M	4/4	7
Mr. A.P. Weerasinghe (Resigned on 11.12.2011)	N/M	19	3/3	8	3/3	N/M
Mr. Jehan P. Amaratunga	N/M	N/M	4	8	5	7
Mr. Ajith Panditharatne	N/M	N/M	N/M	N/M	3/3	N/M
Mrs. Lakshmi K. Sangakkara	24	N/M	N/M	N/M	3/3	N/M
Mrs. Dharma N. Gammampila	N/M	N/M	3/4	N/M	3/3	N/M
Miss Visakha Amarasekera	N/M	N/M	4	8	5	7
Mr. Priyantha Mayadunne	N/M	N/M	N/M	N/M	4/5	N/M
Mr. Pawara Dassanayake	N/M	N/M	N/M	N/M	2/2	N/M

N/M - Not a Member of the Board Sub-Committee.





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RISK MANAGEMENT



eople's Bank clearly accepts and understands that its long-term stability and success must be premised

on a robust risk management framework and state-of-the-art risk management processes. To achieve this, the Bank has instituted a robust and integrated risk management system to ensure that the risks assumed by it are within the defined risk appetites and are adequately monitored and controlled.

At People's Bank, risk is managed through the following Apex Committees:

- 1. Board Integrated Risk Management Committee (BIRMC) - a Board level Sub-Committee
- 2. Board Executive Credit Committee (BECC) - a Board level Sub-Committee
- 3. Asset and Liability Management Committee (ALCO) - a senior management level Committee.

These committees work within the overall guidelines and policies approved by the Board.



RISK MANAGEMENT TENETS AT PEOPLE'S **BANK**

These tenets define responsibility, ambit and structure of risk management:

- 1. Board decides the risk appetite and delegates the task of overall risk oversight to the Board Integrated Risk Management Committee (BIRMC).
- 2. The BIRMC has overall responsibility for risk management within the People's Bank Group, sets the risk tolerance levels and delegates the activity to the Risk Management Division (RMD).
- 3. The RMD oversees the major risk categories that the Bank is exposed to including Credit, Market, Liquidity and Operational Risks.
- 4. RMD is structurally and functionally independent of the business and other risk taking units of the Bank.
- 5. The risk taking units, the RMD and the Internal Audit Department form the three lines of defence, respectively, in the overall risk management of the Bank.

6. The day-to-day management of risk inherent in the business are the responsibility of the risk taking units, while the RMD along with the Board Executive Credit Committee and the Asset and Liability Committee develop the structure, policies, tools and methodologies to identify, measure, monitor and control the various risks. Internal audit complements this structure by providing independent assurance of the overall efficiency and effectiveness of risk management.

Board decides the risk appetite and delegates the task of overall risk oversight to the **Board Integrated** Risk Management Committee (BIRMC).

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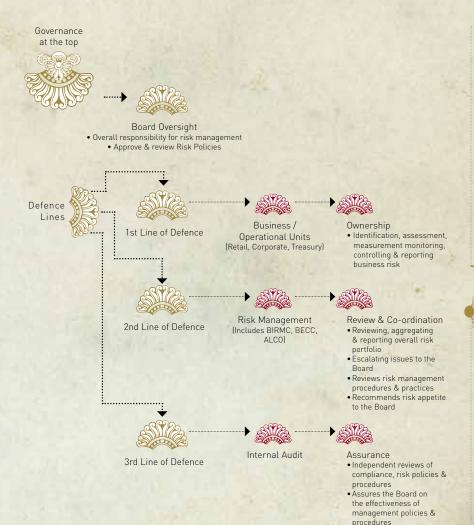
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The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. To assist in this task it has constituted the Board Integrated Risk Management Committee (BIRMC), the Board Executive Credit Committee (BECC) and the Assets and Liabilities Committee (ALCO). These committees are charged with developing and monitoring the relevant risk management policies and they meet periodically to review and assess the Bank's risk profile and address the risk related issues.

POLICY FRAMEWORK

The Bank has policies and procedures approved by the Board of Directors in place to measure, manage and control the various risks that the Bank is exposed to. Integrated Risk Management Policy has been formulated with the objective of analysing the overall risk profile of the Bank and to integrate all the risks of the Bank. The other important risk policies comprise of the Treasury Policy covering market and liquidity risks, Investment Policy, Credit

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Policy, Country Risk Management Policy, Operational Risk Management and IT Security Policies.

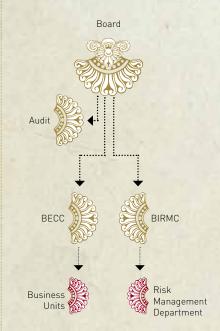
These policies are reviewed periodically by the RMD/Board. These policies have close linkages to the directions issued by the Basel Committee and the Central Bank of Sri Lanka, especially, those with regard to Integrated Risk Management.

CREDIT RISK AND ITS MANAGEMENT

Credit risk arises as a result of customers' or counterparties' failure or unwillingness to fulfil their financial and contractual obligations as and when they arise. These obligations arise from the Bank's direct lending operations, trade finance and its funding, investment and trading activities.

Credit risk is the single largest risk for the Bank, and is estimated at over 80% of the total risk exposure. Its careful management is therefore crucial to the achievement of the Bank's overall business objectives.

ORGANISATION STRUCTURE FOR CREDIT RISK MANAGEMENT



The Board has delegated to the BECC the responsibility of the oversight and management of credit risk, which includes:

 Formulating and updating credit policies in consultation with the BIRMC and Business Units.

- Establishing credit approval structures so as to ensure that the larger and higher risk exposures are reviewed and approved at the appropriate levels of seniority.
- Periodic review of individual credit exposures and overall portfolio to ensure that there are no undue risk concentrations.
- Adequacy of provisions and management of higher risk exposures.
- Developing and maintaining risk rating systems as a means of quantification of credit risk, differentiating between the various levels of risk and determining the degree of control and supervision required. Three different rating systems to cater to the Larger Corporate Borrowers, Middle Level Borrowers and for Financial Institutions have been developed at People's Bank.

The Credit Control Department (CCD), which is part of the RMD, is tasked with the responsibility of controlling credit risk by evaluating, reviewing and monitoring

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the credit risk associated with individual exposures, groups of exposures and industry segments. The CCD also prepares regular credit risk reports which are submitted to the various risk committees including the Board as a part of ongoing monitoring and review of borrowers and loan portfolios.

In addition, Internal Audit Department conducts regular audits of the Branches and Business Units to provide assurance of the adequacy of controls and an independent assessment of the risks to Senior Management and the Board Audit Committee.

With economic growth in 2011, again exceeding 8%, the demand for credit to cater to the new development initiatives of the Government and the general growth in economic activity resulted in the outstanding loans increasing by 28.6% over 2010. Despite this high growth in exposure the Bank was able to reduce its non-performing ratio to 3.4% by a combination of strict pre-disbursement assessment and close monitoring and review of outstanding exposures.

Recognition of impaired loans (NPLs) is done strictly in line with regulations issued by the Central Bank of Sri Lanka. All loans and advances for which either interest or principal payments have not been met for 3 months are classified as non-performing. Continued non-performance is then subject to progressively increasing levels of provisioning depending on tenor and value of any security held.

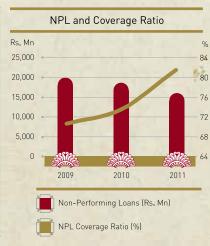
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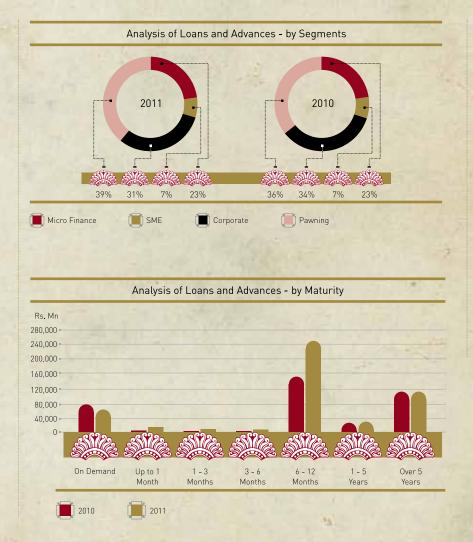
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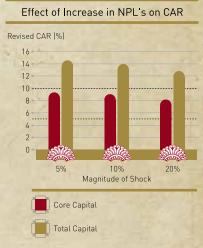
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STRESS TEST FOR NPL'S



Even a 20% increase in NPL's Core Capital Ratio and Total Capital Ratio remain above the 5% and 10% requirements respectively.

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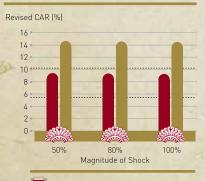
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Effect of Negative Shifts in NPL Categories on CAR

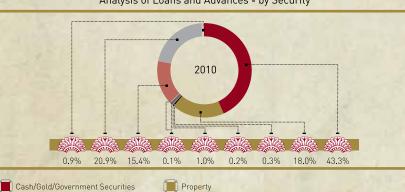


Core Capital

Total Capital

Even a 100% negative shift in NPL categories has no adverse impact on Capital Adequacy Ratios.

Analysis of Loans and Advances - by Security 2011 0.6% 21.8% 0.1% 0.5% 0.2% 17.3% Cash/Gold/Government Securities Property Plant & Machinery 🧐 Motor Vehicles Inventory Shares Personal Guarantees Government Guarantees Unsecured Analysis of Loans and Advances - by Security





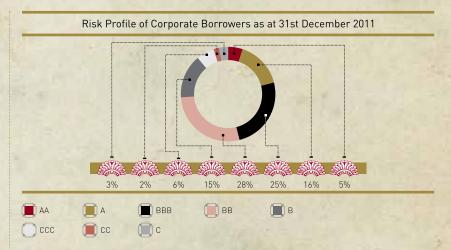
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The weighted average credit risk rating of the Bank's Corporate Portfolio lay between BB and B.

MIGRATION TOWARDS THE MORE ADVANCED VERSIONS OF BASEL II

With a CBSL deadline of 2013, the Bank continues to refine its risk rating models and gather the data required to compute Probability of Default and Loss Given Default factors. All staff involved in the analysis of credit risk across the branch network continue to be trained in these aspects to facilitate the transition.

MARKET RISK AND ITS MANAGEMENT

Market risk is the risk of losses in earnings and capital resulting from changes in market prices and interest rates. The Bank's market risk exposures are derived primarily from proprietary trading and customer-driven activities which include imports, exports and remittances.

The primary sources of market risk for People's Bank are:

- interest rate risk: arising from changes in interest rates
- foreign exchange rate risk: arising from changes in exchange rates
- commodity price risk: arising from changes in commodity prices
- equity price risk: arising from changes in the price of equities

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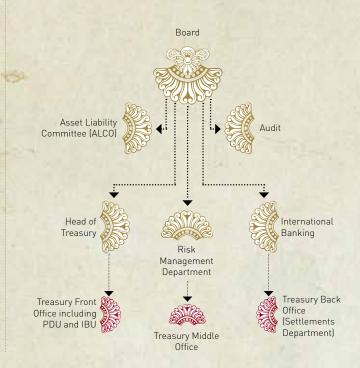
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ORGANISATION STRUCTURE FOR MARKET RISK MANAGEMENT



In People's Bank, the Asset Liability Committee (ALCO) oversees the functions relating to market risk. The Bank has put in place a variety of market risk measurement systems and tools. These are closely monitored and reported on by the Treasury Middle Office (TMO), and discussed fortnightly by the ALCO. The ALCO is responsible for the development of market risk management policies while the TMO is responsible for the day-to-day monitoring of exposures against these policies. The Treasury Front Office, however is primarily responsible for the overall management of market risks on an ongoing basis.

Foreign Exchange risk is managed on a day-to-day basis by the Bank's Treasury Department. Volume limits are set on open positions by currency and also for the overall open position, for both daylight and overnight positions. Value at Risk measures have also been introduced and now form part of the overall risk management tool kit. Daily Value at Risk (DVaR) will become the primary mechanism for controlling foreign exchange risk. DVaR is an estimate, with a 99% confidence level, of the potential loss which might arise if the current positions were to be held unchanged for one business day.

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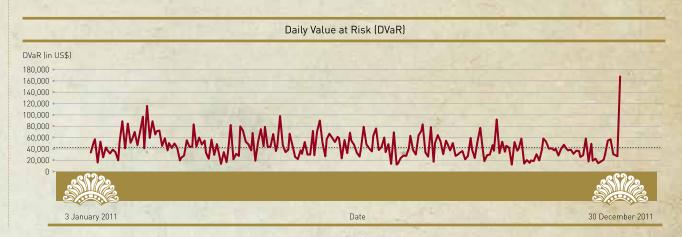
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A fully-integrated Treasury Management System has been installed and monitoring of positions and exposures against set limits is being done by the system.

DVaR OVER LAST 12 MONTHS



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STRESS TEST FOR EXCHANGE RATE MOVEMENTS

Effect of Adverse Movements in Exchange Rates on CAR



Core Capital

Total Capital

Exposures have been well-managed by our Treasury, so that throughout the year, even a 15% adverse movement in exchange rate had no major impact on our Capital Adequacy Ratio.

Interest Rate Risk is the risk of loss to both earnings and economic capital of the Bank arising from adverse movements in interest rates. The Bank emphasises the importance of managing interest rate risk in the banking book as most of the Balance Sheet items of the Bank generate interest income and interest expense which are indexed to interest rates.

The Bank quantifies interest rate risk in the banking book by analysing the re-pricing mismatch between rate sensitive assets and rate sensitive liabilities. One of the challenges in analysing this risk arises from the quality of assumptions regarding embedded optionality of certain products such as prepayment of housing loans and other long-term fixed rate loans and effective duration of liabilities which are contractually repayable on demand such as current accounts and savings accounts.

This risk is managed by setting and monitoring limits for interest gaps and matching the re-pricing profile of the various interest sensitive assets and liabilities. Duration Gap analysis is used to determine the effect of possible

interest rate changes on the Bank's Capital. The effect on both Banking and Trading Books is considered for this exercise.

STRESS TEST FOR INTEREST RATE MOVEMENTS

Effect of 1% Interest Rate Increase on CAR



Core Capital

Capital Adequacy Ratios continue above the minimum requirements even if Interest Rate increases by 1%. REVIEW

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Liquidity Risk is the possibility that the Bank will not be able to fund increases in assets and meet obligations as they are due, without incurring unacceptable losses.

The Bank's Treasury Department is charged with the responsibility of managing the Bank's liquidity within both internal and regulatory guidelines, under the supervision of the ALCO and monitored by the TMO.

The Bank uses a range of tools to monitor and control liquidity risk exposure such as liquidity gap analysis, liquidity indicators (stock and cash flow approach) and stress testing. The liquidity positions of the Bank are monitored regularly against the established policies, procedures and limits by the TMO.

The Bank leverages on its reputation of stability and efficiency, complemented by its wide geographic distribution and considerable client base to access and maintain a liability structure which is well diversified in terms of tenor, product, provider and currency to meet its funding requirements. The primary source of funding is customer

deposits, while the Bank also has easy and unfettered access to interbank borrowings.

The Bank also reviews, initiates and implements strategic fund-raising programmes as well as institute's standby lines with external parties on a need basis.

In addition to the above, liquidity risk is managed by:

- · Gap management of cash flow maturities.
- Maintaining a portfolio of high quality liquid assets that can be easily converted to cash to meet any contingencies.
- · Stress testing of liquidity positions to assess the vulnerability of the Bank to any unlikely but potential threats and extent of reliance on any particular source of funds.
- Contingency funding planning.

LIQUIDITY INDICATORS

Ratio	December 2010	December 2011
Loans/Customer		
Deposits	81%	86%
Commitments		
Unutilised		
Interbank		
Borrowing Lines	47%	48%
Medium-Term		
Funding	80%	101%
Statutory Liquid		V
Asset Ratio		
(SLAR)	23%	21%

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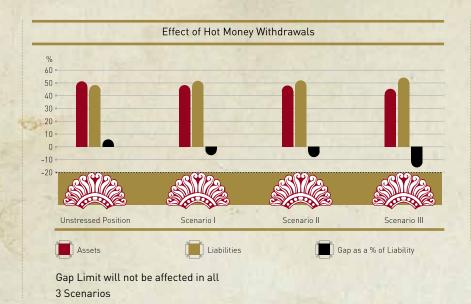
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Hot Money - Funds with highest risk of withdrawal. Savings, Demand Deposit and Time Deposit account balances over Rs. 50 Mn were identified and considered as Hot-Money.

Retail Funds – Funds with less risk of withdrawal.

Scenario I – 5% Hot Money and 5% Retail Funds withdrawals.

Scenario II - 10% Hot Money and 5% Retail Funds withdrawals.

Scenario III - 10% Hot Money and 10% Retail Funds withdrawals. PAGES 056-068

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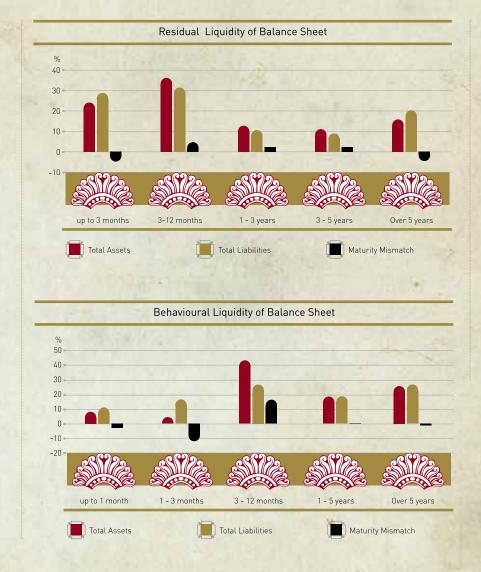
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Equity Risk arises from falls in the prices of any equities held.

During 2011, the Bank commenced its Investment Banking activities, mainly comprising of trading of equities quoted on the Colombo Stock Exchange. A Board Investment Banking Committee was instituted to advise on and monitor these functions, while an Investment Banking Policy was also formulated and approved by the Board laying down the broad guidelines within which investments and trading were to take place.

The TMO has been tasked with monitoring and reporting of these activities.

Given the volatility evident in the market during 2011 limits for trading activities were narrowly defined as a means of minimising the risk to the Bank.

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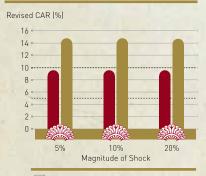
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Capital Adequacy is now at comfortable levels providing the platform to aggressively pursue the new business opportunities fast becoming available with the dawn of peace. We are however, mindful of the need for continued strong risk management and appropriate pricing to preserve capital to meet our aforesaid primary objectives.

STRESS TEST FOR EQUITY PRICE MOVEMENTS

Effect of Adverse Movements in Equity Prices on CAR



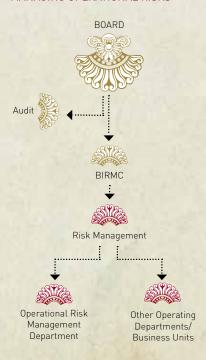


Exposure to the equity market has been minimal, so that even a 20% adverse movement in Equity Prices has no discernible impact on our Capital Adequacy Ratio.

OPERATIONAL RISK AND ITS MANAGEMENT

Operational Risk is inherent in all businesses and is the risk of direct or indirect impacts resulting from inadequate or failed internal processes or systems or from external events. Frauds (both internal and external), errors, IT system breakdowns, natural disasters, terrorist action are some of the common sources of Operational Risk. Obviously, Operational Risk cannot be totally eliminated and the challenge is to manage and contain any operational losses within acceptable levels as determined by the Board.

ORGANISATION STRUCTURE FOR MANAGING OPERATIONAL RISKS



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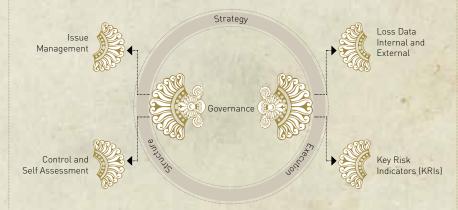
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HOW WE MANAGE OPERATIONAL RISKS

Our Operational Risk Management framework is designed to ensure that our Operational Risks exposures are proactively managed and controlled within acceptable levels consistent with the Bank's risk appetite. The framework incorporates industry best practices and meets regulatory guidelines. The key components of the framework include:



Governance

It is the process by which the Board of Directors defines key objectives for the Bank and oversees progress towards achieving those objectives. It defines overall operational risk culture in Bank, and sets the tone as to how the Bank implements and executes its operational risk management strategy. The objective is to firmly embed risk management in the vision, strategies, tools and tactics of the Bank. Governance sets the precedence for Strategy, Structure and Execution.

Strategy

The Bank's strategy for operational risk drives the other components within the management framework and provides clear guidance on risk appetite or tolerance, policies and processes for dayto-day risk management.

Structure

This includes initiatives like laying down an organisational framework that leverages current risk processes and developing risk measurement models to assess and allocate capital as per the Basic Indicator Approach. Centralised aggregation of operational

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risk information collected via various self-assessments across the Bank further provides useful insights and inputs into constantly evolving the operational risk management structure. The implementation of these concepts allows risk to be handled consistently throughout the Bank.

Execution

After establishing the operational risk management structure, adequate procedures have been designed and implemented to ensure execution of and compliance with these policies at business line level.

Finally appropriate risk mitigation and internal control procedures are established by the business units such that residual risk is mitigated to the acceptable level. Regular reviews are carried out to analyse the control environment and test the effectiveness of implemented controls, thereby ensuring business operations are conducted efficiently, but within acceptable risk limits.

The following controls and risk mitigation strategies are being executed throughout the branch network to manage and maintain Operational Risk at an acceptable level.

Operational Risk Policy

Bank has a well defined policy on operational risk management. The policy is based on internal control functions, treatment for operational losses, new product review process, etc.

Key Risk Indicators

'Key Risk Indicators' (KRIs) are established to ensure that timely warning is received prior to the occurrence of an event. Effectiveness of KRIs lies in setting threshold at the acceptable level of risk. Execution and implementation of the Operational Risk framework is key to setting up an effective Operational Risk environment ensuring that business is conducted within appropriate risk tolerance limits.

Risk and Control Self-Assessment

Internal Control is one of the primary lines of defence in safeguarding our employees, assets, and information and preventing and detecting errors, omissions and frauds. The Bank undertakes, annually, a comprehensive assessment of its key operational risk exposures to ensure that management and internal controls are adequate, effective, appropriate and comply with our policies.

Business Continuity Management

The Bank has designed robust business continuity management programmes which will enable the Bank to continue to manage and operate its businesses, and provide customers access to products and services.

Insurance

Certain risks that have high probability of occurrence and low impact and those of low probability of occurrence and high impact are insured to minimise losses.

Internal Audit

The internal audit function also periodically reviews the entire operational risk management process across the network to provide an assurance to the Board and the Senior Management.

Training

Staff across the entire branch network are trained on an ongoing basis to ensure their knowledge and skills are kept up to date with the latest developments and techniques.

Code of Conduct

A Code of Conduct of Ethics has been drawn up and is adopted by employees at all levels without exception.

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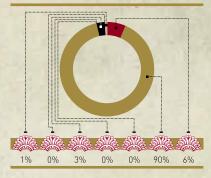
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Operational Loss Events Tracking/ Monitoring

Business Units and Branches are required to periodically report on any operational loss events to the Risk Management Division where a database of loss events is maintained. This is analysed on an ongoing basis to identify trends if any, and thereby review and revise procedures and controls to minimise future operational losses.

Operational Losses for Year 2011

Categorisation of Operational Losses for the Year Ended 2011



- Internal Fraud
- External Fraud
- Employment Practices & Workplace Safety
- Client, Product & Business Practices
- Damage to Physical Assets
- Business Disruption & System Failure
- Execution Delivery & Process Management

90% of our losses are due to external frauds, most of which have been beyond the control of the Bank.

As a result of our rigid internal control and monitoring system, losses generated through internal process were contained to only 10% of total operational losses.

Operational losses for the year 2011 as a percentage of operational expenses was 1.5%. This is above the internally set tolerance level of 1%. However, 1% of this was due to a robbery at one of our branches and it is believed that a large part of this will be recovered by law enforcement authorities and from insurance.

Capital Management

As the Bank and its subsidiaries operate across a wide spectrum of clients, regions and products, it recognises the importance of continuously monitoring, evaluating and aggregating risk exposures across the entire Group and ensuring its activities are supported by sufficient capital.

Central Bank of Sri Lanka (CBSL) has issued new guidelines to encourage banks to develop integrated risk management techniques for monitoring and managing their risks and to assure

the regulator that adequate capital is held to meet the various risks to which they are exposed.

In line with this, it is the policy of the Bank to maintain a strong capital base so as to ensure and reinforce the confidence of all stakeholders including customers, creditors and regulatory authorities.

People's Bank's primary objectives when managing capital are -

- · to safeguard the Bank's ability to continue as a going concern and to have sufficient capital to finance its expansion plans;
- to optimise returns to our owners;
- · to comply with the regulatory capital requirements set by the CBSL.

Capital Adequacy is calculated in line with the guidelines set by the CBSL -

- Standardised Approach is used for Credit Risk:
- Basic Indicator Approach for Operational Risk;
- Standardised Approach for Market Risk.

During 2011, the Bank boosted its capital base by way of an issue of debentures totalling 5 Bn.

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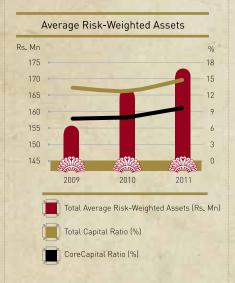
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Capital Requirement

Credit risk represented 74% of the total Risk-Weighted Assets (RWA), while 23% was on account of Operational Risk.

Market Risk accounted for only 3% of the RWA.

Average RWA over last three years and CAR



Capital Adequacy is now at comfortable levels providing the platform to aggressively pursue the new business opportunities fast becoming available with the dawn of peace. We are however, mindful of the need for continued strong risk management and appropriate pricing to preserve capital to meet our aforesaid primary objectives.

ANTICIPATING NEW CAPITAL REQUIREMENTS

Basel III proposes many new capital, leverage and liquidity standards to strengthen the regulation, supervision and risk management of the banking sector. The capital standards and new capital buffers will require banks to hold more capital and higher quality of capital than under current Basel II rules. The new leverage ratio introduces a non-risk based measure to supplement the risk-based minimum capital requirements. The new liquidity ratios ensure that adequate funding is maintained in case of crises.

Compliance Risk

'Compliance Risk' can be defined as the risk of legal or regulatory sanctions, material financial loss or loss to reputation a bank may suffer as a result of its failure to comply with laws, regulations, rules, standards, related self-regulatory organisation standards and Codes of Conduct applicable to its banking activities.

It is a concern of everyone within the Bank and should be viewed as an integral part of the Bank's business activities. A Bank should hold itself to high standards when carrying on business and at all times strive to observe the spirit as well as the letter of the law. Failure to consider the impact of its actions on its shareholders, customers, employees and the market may result in significant adverse publicity and reputational damage even if no law has been broken.

The Bank retains a dedicated Compliance Officer, with the aim of ensuring that the Bank is operated efficiently and in conformity with the rules and regulations applicable to the industry. This enables the Bank to adapt to domestic and international adjustments in the compliance regime rapidly and effectively.

Also, as one of the largest banks in Sri Lanka, People's Bank could always be a target for would be money launderers. As such the Bank has in place an Anti Money Laundering and Know Your Customer Policy applicable across all branches and departments of the Bank and when new rules and regulations are issued, employers are updated accordingly through circulars and quidelines.

The effort of effectively managing compliance and regulatory risk carried by the operating and business units in the Bank is supported and co-ordinated by the Compliance Department which -

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- Provides awareness training on applicable rules and regulations;
- · Monitors and reports on any potential and actual breaches;
- · Implements and reviews specific policies and procedures;
- Carries on compliance assessments throughout the branch network;
- Develops e-learning modules on Anti Money Laundering, Know Your Customer and Western Union Transactions to ensure that relevant staff are kept up to date with the latest developments.

People's Bank has fully complied with the compliance requirements of the country and its developing systems and procedures to give the fullest support needed to combating money laundering and terrorist financing. All applicable Laws and Regulations are strictly followed in this regard. As a State Bank, all known steps have been taken to extend support to regulatory authorities to ensure the stability of the financial system in Sri Lanka.

During 2011, no fines, regulatory or otherwise were imposed on the Bank and no major violations have been reported.

Legal Risk

People's Bank has implemented policies procedures and guidelines in respect of management and control of legal risk as it engages in a large number of legallybinding transactions and contracts with local and foreign customers, suppliers and service providers.

Legal risk covers contractual risk, legislative risk and litigation risk. Legal risk includes -

- 01. Failure to act appropriately or diligently in response to claim made against the Bank;
- 02. Inability to successfully define a claim brought against the Bank;
- 03. Inability to take action to enforce the rights of the Bank through courts of Law; or
- 04. Failure or inability to mitigate the likelihood that an adverse claim will be successfully made against the Bank.

Legal Department is responsible for managing and mitigating legal risk. This comprises the provision of legal advice and support in resisting claims and legal proceedings against the Bank, analysis of legal issues, drafting contracts and

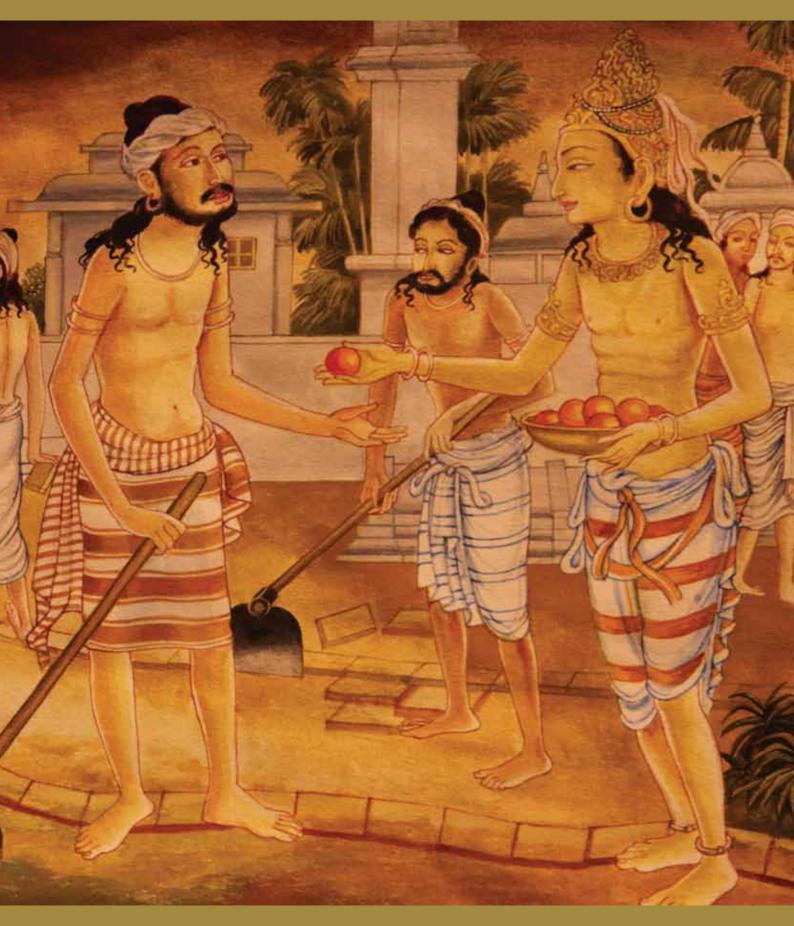
other legal documents, management of litigation, debt recoveries and other litigation against third parties.

Since legal recognition for electronic documents was established in our judicial system, the Bank started E-Banking and Internet Banking Facilities to its customers. As a consequence, cyber crimes have become common in the Banking industry. The Bank has taken precautionary and security measures to mitigate these risks in the form of contractual agreements with third parties, increasing customer awareness and enhanced encryption standards.

Continuous training to personnel in the Legal Department to enhance and update awareness of changing legislation is another measure employed by the Bank to manage legal risk.

A project to install a centralised database to monitor the status of legal issues across the network was also begun in 2011. This project once completed in 2012, will ensure a more speedy and effective monitoring and following up of litigation matters and documentation issues.





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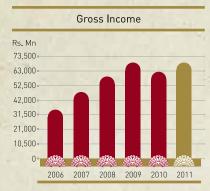
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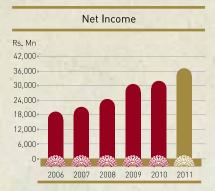
KEY PERFORMANCE INDICATORS

Key Performance Indicators (KPI)	What does it Show? What we have accomplished and plan to achieve?			
Gross Income	Total turnover or interest and fee-based income of the Bank.			
Net Income	Net interest income (Interest income, less interest cost) and non-funded income.			
Profit before Taxation	Net income, less overheads and provisions.			



2011 Industry - Rs. 417.0 Bn 2011 PB Market Share - 16.5%

The Bank recorded 10.1% growth over previous year compared to 4.2% growth in the banking industry. This was driven by increased loans and yields.



2011 Industry - Rs. 224.5 Bn 2011 PB Market Share - 16.5%

The Bank recorded a growth of 16.4% over previous year aided by management of interest margins. Going forward the Bank plans to focus on growing fee-based revenue, bad debt recoveries, capital and exchange gains etc.



2011 Industry - Rs. 93.8 Bn 2011 PB Market Share - 16.3%

Profit before Taxation (PBT) recorded a remarkable 75% growth over 2010 to reach Rs. 15.3 Bn. This was driven mainly by healthy interest margins and management of overheads. PBT market share as at end 2011 increased to 16% from 10% in 2010. Bank has recorded the highest PBT in the Bank's history and has become the market leader in terms of profitability.

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 Key Performance Indicators (KPI)
 What does it Show? What we have accomplished and plan to achieve?

 Net Income
 Net interest income and non-funded income.

 Operating Costs
 Direct and indirect costs incurred to achieve operating profit.

 Cost Income Ratio
 Operating cost/Net income



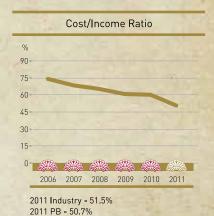
2011 Industry - Rs. 224.5 Bn 2011 PB Market Share - 16.5%

Continuous growth recorded with timely pricing adjustments, growth in loans and fee-based income.



2011 Industry - Rs. 115.7 Bn 2011 PB Market Share - 16.3%

The Bank has managed to reduce operational cost to Rs. 18.8 Bn, when compared to previous years cost of 19.2 Bn reflecting a 18.6% decline over 2010, driven by stringent cost management initiatives and budgetary control.



The Bank's cost/income ratio is now at 50% levels compared to over 70% during early 2000. Growth in net income and cost control measures were key to this noteworthy achievement. We plan to reduce this key indicator further going forward.

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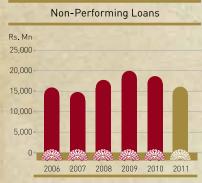
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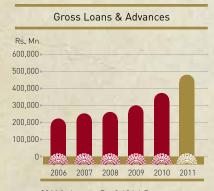
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Key Performance Indicators (KPI)	What does it Show? What we have accomplished and plan to achieve?			
Non-Performing Loans (NPL)	Loans with settlement issues categorised as per Central Bank (CBSL) guidelines.			
Gross Loans and Advances	Total loans and advances before deduction of provisions for doubtful debts.			
Non-Performing Loans Ratio	Non-performing loans/Total Gross loans and advances.			



2011 Industry - Rs. 98.3 Bn 2011 PB Market Share - 16.3%

The Bank still carries around Rs. 7.7 Bn worth of old hardcore NPL's granted prior to FY 2001 which is fully provided. Hence the actual NPL slippage (post 2001) is under 3%.This is a remarkable achievement considering the size and market share of the Bank over industry. Notwithstanding, over 80% of the NPL book is provided for. This coverage is the highest amongst the peer group.



2011 Industry - Rs. 2,604.6 Bn 2011 PB Market Share - 18.4%

Gross loans and advances grew by 29% compared to 2010. Main sectors which contributed for loans were: agriculture and fishing, gold backed loans, manufacturing, construction, services etc. The Bank's loans and advances growth rate is inline with industry growth for the period.



Bank's gross NPL ratio has reduced from 5.0% in 2010 to 3.4% in 2011 which was fueled by stringent credit control and

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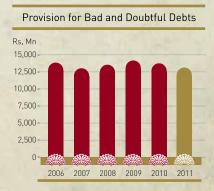
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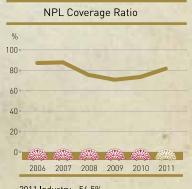
PAGES 153-218 PERFORMANCE

Key Performance Indicators (KPI)	What does it Show? What we have accomplished and plan to achieve?		
Provision for Bad and Doubtful Debts	Total provisions made on NPLs.		
Non-Performing Loans	Loans with recovery or settlement issues categorised as per CBSL guidelines.		
NPL Coverage Ratio	Percentage of provisions made on NPLs.		



2011 Industry - Rs. 55.7 Bn 2011 PB Market Share - 23.5%

Made as per CBSL guidelines.



2011 Industry - 56.5% 2011 PB - 81.5%

The Banks NPL coverage ratio is over 81% compared to under 60% in the industry. Old hardcore NPL's are almost fully provided. NPL coverage ratio should improve further going forward.



2011 Industry - 2.1% 2011 PB - 0.5%

The Banks net NPL ratio is around 0.5% compared to 2.1% in the industry. This was driven by focused recovery initiatives and prudent credit management.

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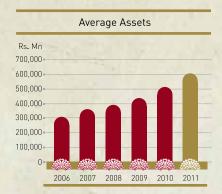
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Key Performance Indicators (KPI)	What does it Show? What we have accomplished and plan to achieve?		
Profit before Taxation	Earnings from operations, less overheads and provisions.		
Average Assets	Total loans and advances, investments and Treasury instruments, etc.		
Return on Average Assets (before tax)	Percentage of profit before tax over average assets.		



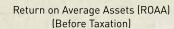
2011 Industry - Rs. 93.8 Bn 2011 PB Market Share - 16.3%

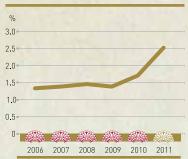
Steady growth experienced despite challenges both internally as well as externally.



2011 Industry - Rs. 4,244.3 Bn 2011 PB Market Share - 15.6%

PB has the second largest asset base in the industry. The Bank has focused on asset growth over the years which has yielded healthy returns. FY 2011 recorded an asset increase of 21.1% over FY 2010 which ended at Rs. 663 Bn. This is compared to the growth of 19.5% in the banking industry.





2011 Industry - 2.4% 2011 PB - 2.5%

A certain portion of Bank assets were acquired prior to the year 2000 and yields relatively low returns. However, new assets yield market rates and is priced above marginal cost of funds. We plan to improve on this ratio going forward. This ratio which was well below industry norms in prior years is now inline with industry averages.

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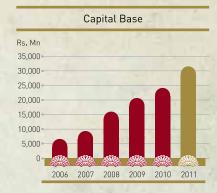
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Key Performance Indicators (KPI)	What does it Show? What we have accomplished and plan to achieve?			
Capital Base	A combination of Tier I and Tier II Capital as approved by CBSL.			
Risk-Weighted Assets	Risk percentage assigned on all assets based on CBSL guidelines.			
Capital Adequacy Ratio	Adequacy Ratio A ratio computed using the above variables. The requirement is above 10% for the loc banking industry.			



The Bank has continuously increased its capital base with maximum ploughed back earnings and debentures (Tier II) to the value of Rs. 10 Bn. The total capital base has reached Rs. 32 Bn compared to negative Rs. 7 Bn in FY 2001.



Bank's risk weighted assets have increased from 187.8 Bn to 213.2 Bn over FY 2010. The increase in risk assets were less than the prior year percentage.



2011 Industry - 14.5% 2011 PB - 14.8%

The Bank recorded a CAR of 14.8% for FY 2011. This is a remarkable achievement given that this ratio was negative or below 10% prior to FY 2008. Sustaining this ratio is a key focus going forward.

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Key Performance Indicators (KPI)	What does it Show? What we have accomplished and plan to achieve?	
Profit after Taxation	Profit before tax, less tax liability.	
Number of Employees	Number of permanent employees as at year end.	
Profit per Employee	Profit after taxation computed per permanent employee.	



2011 Industry - Rs. 64.4 Bn 2011 PB Market Share - 15.8%

Similar to the industry the Bank still bears a high tax liability on its earnings. The financial VAT compounded by higher than industry salaries and wages is a material non deductible expenses for main taxation liability compared to industry. However, with the reduced rates for financial VAT and mainstream taxation have contributed for PBT growth over 2010.



As a State Bank, we also provide value added free services to our customers, hence has a higher workforce compared to private sector peers. Hence the Bank is required to maintain & certain number of employees to meet such social obligations.



PPE recorded a growth of 91% over the previous year. This amount is inline with the number recorded by most private commercial banks. We also note that People's Bank offers services which cannot be accounted in terms of impact on bottom line. Payment of Government servants salaries, armed forces salaries, teachers salaries, settlement of electricity bills, water bills, pension payments to Government servants and loans to government servants for housing are to name a few. High personnel cost of the Bank and the requirement of a large number of staff to man the largest branch outreach in the country adds strain to this KPI.

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DIRECTORS' REPORT



Directors

The Board of Directors of People's Bank consists of ten Directors appointed by the Minister of Finance out of which two names were nominated by the Ministerin-Charge of Co-operatives under the provisions of People's Bank Act No. 29 of 1961 as amended. The Board meets at least once a month and met 28 times in 2011. The quorum for a Board meeting is five members. The Directors of the Bank during the year 2011 were as follows:

Name

Mr. W. Karunajeewa

Mr. A.P. Weerasinghe (Resigned w.e.f. 11.12.2011)

Dr. D.J.D. Jayakody

Mr. Jehan P. Amaratunga

Mr. Ajith Panditharatne

Ms. Lakshmi K. Sangakkara

Ms. Dharma N. Gammampila

Ms. M.T.I. Visakha Amarasekera

Mr. M.M. Priyantha K. Mayadunne

Mr. D.M. Pawara Dassanayake (Appointed in February 2011)

Mr. A.P. Weerasinghe - resigned from the Directorate w.e.f. 11th December 2011 since he completed nine years as a Director of People's Bank.

Directors' Attendance at the Board Meetings

Number of meetings held during the year 2011 - 28.

Name	No. of Meetings Held	No. of Meetings Attended
Mr. W. Karunajeewa	28	28
Mr. A.P. Weerasinghe (Up to 11.12.2011)	27	25
Dr. D.J.D. Jayakody	28	28
Mr. Jehan P. Amaratunga	28	26
Mr. Ajith Panditharatne	28	26
Ms. Lakshmi K. Sangakkara	28	28
Ms. Dharma N. Gammampila	28	20
Ms. Visakha Amarasekera	28	28
Mr. Priyantha Mayadunne	28	27
Mr. Pawara Dassanayake (From 28.03.2011)	20	20



Subsidiaries and Associates

The following are the subsidiaries/associate companies of the Bank:

(a) People's Leasing Company PLC

Shareholding - 75%

The principal activities of the Company are Financial and Operating Leasing, Hire Purchase, Asset Financing and Islamic Finance.

Directors' representation is as follows:

Mr. W. Karunajeewa Chairman Dr. D.J.D. Jayakody Director Mr. N. Vasantha Kumar -

(b) People's Travels (Pvt) Ltd.

Shareholding - 99%

The principal activities of the Company -Air Ticketing and Organising of Tours.

Directors' representation is as follows:

Ms. Lakshmi	- Chairperson
K. Sangakkara	
Dr. D.J.D. Jayakody	- Director
Mr. N. Vasantha Kumar	- Director

(c) People's Merchant Bank Ltd.

Shareholding - 26.1%

The principal activities of the Bank are Lease Financing, Trade Financing, Corporate Finance and Related Advisory Services, Investment Banking and Real Estate Development.

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Directors' representation is as follows:

Mr. P.A. Ajith Panditharatne	-	Chairmar
Mr. Jehan P. Amaratunga	-	Director
Mr. Sabry Ibrahim	-	Director



Corporate Governance

The Bank has voluntarily adopted Best Practice provisions and have in place systems and procedures to ensure sound Corporate Governance.

A detailed Report is given on pages 88 to 121.



Compliance Reporting

A separate Compliance Function Unit has been set up within the Bank.

Monthly Compliance Reports certified by the CEO and the Compliance Officer are submitted to the Central Bank - Bimonthly Compliance Reports are also submitted to the Board. A Code of Conduct for staff has been formulated and issued to all members of the staff.

A detailed report is given on pages 86 and 87.

Subcommittees of the Board as at 31st December 2011 are as follows:



Board Audit Committee (BAC)

Mr. Jehan P. Amaratunga (Chaired the Committee)

Ms. Visakha Amarasekera - Director

Ms. Dharma N. Gammampila - Director

Mr. A.P. Weerasinghe - Director

(Resigned w.e.f. 11.12.2011)

Main function of the Committee is identifying the operational risks faced by the Bank as preventing/minimising the effects of such risks and communicating and encouraging best practices and positive quality assurance throughout the branch network.



Board Executive Credit Committee (BECC)

Mr. W. Karunajeewa	- Chairman
Dr. D.J.D. Jayakody -	- Director
Ms. Lakshmi K. Sangakkara -	- Director
Mr. Pawara Dassanayake	Director (Appointed in December 2011)
Mr. N. Vasantha Kumar -	CEO/GM (Appointed in February 2011)
Mr. Sabry Ibrahim -	- SDGM (Risk & Compliance)
Ms. Srima Arsacularatne -	- DGM (Credit Control)

Main functions are formulating and periodically reviewing the credit policy of the Bank. Authorising credit facilities over and above the delegated limits of specified categories.



Mr. W. Karunajeewa	-	Chairman
Dr. D.J.D. Jayakody	-	Director
Mr. Ajith Panditharatne	-	Director (Appointed in December 2011)
Mr. Priyantha Mayadunne	-	Director (Appointed in December 2011)
Mr. A.P. Weerasinghe	-	Director (Resigned w.e.f. 11.12.2011)
Mr. N. Vasantha Kumara	-	CEO/GM (Appointed in February, 2011)

Main functions of the Committee are to formulate policies and procedures in relation to Human Resource
Management, review and set in place the manning levels of the Bank according to business requirements, approve recruitment, employee benefits, specified extensions and corporate executive management employment contracts.

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Board Integrated Risk Management Committee (BIRMC)

Mr. Jehan P. Amaratunga	- Chairman BIRMC
Dr. D.J.D. Jayakody	- Director
Ms. Dharma N. Gammampila	- Director
Ms. Visakha Amarasekera	- Director
Mr. A.P. Weerasinghe	- Director (Resigned w.e.f. 11.12.2011)
Mr. N. Vasantha Kumar	- CEO/GM (Appointed in February 2011)

The Board Subcommittee was set up to have an overview and input into the Bank-wide efforts relating to Integrated Risk Management.

The Board Subcommittee on Integrated Risk Management specifically views the summary of proceedings and issues arising out of Assets & Liabilities Committee (ALCO) Reports and meetings, credit risk related issues and reports and the efforts of establishing an operational risk management framework.

More details relating to the Bank's Integrated Risk Management are set out in a specific section dealing with the subject in this Report on pages 124 to 143.

Board Nomination Committee (BNC)

Mr. W. Karunajeewa	- Chairman
Dr. D.J.D. Jayakody	- Director
Mr. Jehan P. Amaratunga	- Director
Ms. Dharma N. Gammampila	- Director
Mr. P.A. Ajith Panditharatne	- Director
Ms. Lakshmi K. Sangakkara	- Director
Ms. Visakha Amarasekera	- Director
Mr. Priyantha Mayadunne	- Director
Mr. Pawara Dassanayake	- Director
Mr. A.P. Weerasinghe	- Director (Resigned w.e.f. 11.12.2011)

Main functions of the Committee are to implement a procedure to select/appoint CEO/GM and Senior Management Personnel, to set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO/GM and senior management positions, to consider and recommend from time to time the requirements of additional/new expertise required for the progress of the Bank.



Board Investment Banking Committee (BIBC)

- Chairman
of the
BIBC
- Director
- Director

The purpose of setting up of Board Investment Banking Committee is to provide a strategic direction and guidance to the Investment Banking Unit (IBU) and to review the performance of IBU of the Bank.

Main functions of the BIBC are regular review over Investment Banking model of the Bank, approval of share trading limits, approval of new investment products, review of the operations of Investment Banking Unit (IBU) and approval for the utilisation of stock brokers, trading platforms and IT Systems.

Rohan Pathirage

Deputy General Manager
Secretary to the Board of Directors

19th March 2012

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DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors of the Bank has responsibility for ensuring that the Bank keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year.

Accordingly, the Board of Directors oversees the Managements' responsibilities for financial reporting through their regular meeting reviews and the Audit Committee. The Board Audit Committee Report is given on page 162.

The Board of Directors has instituted effective and comprehensive systems of internal control. This comprises internal checks, internal audit and the whole system of financial and other controls required to carry on business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records. Directors consider that they adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgment and estimates in preparing the Financial Statements for the year 2011 exhibited on pages 165 to 217.

The Bank's Financial Statements for the year ended 31st December 2011 prepared and presented in this Report are in conformity with the requirements of Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and amendments thereto. The Financial Statements reflect a true and fair view of the state of affairs of the Bank and the Group as at that date.

Rohan Pathirage

Deputy General Manager
Secretary to the Board of Directors

19th March 2012

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THE DIRECTORS' STATEMENT ON INTERNAL CONTROL

This report has been issued in line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (II) (b), and prepared based on the guidelines issued by The Institute of Chartered Accountants of Sri Lanka (ICASL). The Board of Directors (The Board) is responsible for Internal Control in People's Bank and for reviewing its effectiveness.

Procedures have been designed for safeguarding assets against unauthorised use or disposition; for maintaining proper accounting records; and for the reliability and usefulness of financial information used within the business or for publication. Such procedures are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatements, errors, losses or fraud.

The key procedures that the Board has established are designed to provide effective Internal Control within People's Bank.

People's Bank's key Internal Control procedures include the following:

 Board of Directors has appointed subcommittees to ensure the effective internal control mechanism within the Bank.
 Appointment of corporate management headed by CEO/ GM has enabled to delegate the

- authority from Board to other layers. The management assist the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal control to mitigate and control these risks.
- Systems and procedures are in place to identify, control and report on the major risks including credit, market and operational risks. Exposure to these risks is monitored by Board Integrated Risk Management Committee (BIRMC). The Committee assesses all risks to the Bank on a periodic basis through appropriate risk indicators and management information, review the adequacy and effectiveness of all management level committees to address specific risks and to manage those risks within quantitative and qualitative risk limits. This includes stress test and risk dashboard reviews. The BIRMC also takes corrective action to mitigate the effects of specific risks, where risks are at levels beyond the prudent limits decided by the Committee.
- The Board Audit Committee
 monitors the overall effectiveness
 of the system of Internal Control
 and has reported regularly to
 the Board of Directors. The key
 processes used by the Committee
 include: regular business and

- operational risk assessments; regular reports from the heads of key risk functions including Internal Audit and Compliance; review and follow up on Internal Audit Reports; External Audit Reports; prudential reviews; and regulatory reports. The Board Audit Committee keeps under review the status of key risk areas which impact the Bank and considers whether the mitigating actions put in place are appropriate.
- The Bank's financial reporting process for preparing the annual accounts is controlled using documented accounting policies developed based on Sri Lanka Accounting Standards and reporting formats and guidance on reporting requirements issued by Central Bank of Sri Lanka. The Bank is in the process of implementing new Sri Lanka Financial Reporting Framework and its impact on the Bank's financials.

In assessing the internal control system on financial reporting, the Bank reviews all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the internal audit division

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for suitability of design and effectiveness on an ongoing basis. The assessment covered only the process applied by the Bank and did not include the processes carried out by its subsidiaries and associates.

Based on the above processes and procedures, the Board confirms that the system of internal control is sound and has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purpose has been done in accordance with applicable accounting standards and regulatory requirements.

The External Auditors have reviewed the above Directors' Statement on Internal Control included in the Annual Report of the Bank for the year ended 31st December 2011 and reported to the Board that nothing has come to their attention that causes them to believe

that the Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system of the Bank.

For and on behalf of the Board,

Jehan P. Amaratunga

Chairman of the Audit Committee

Viśakha Amarasekera

Director

W. Karunajeewa

Chairman

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INDEPENDENT ASSURANCE REPORT







EF/G/PB/FA/2011(01)

දිනය නිසනි Date

21 March 2012

Assurance Report of the Auditor General to the Board of Directors on the Directors' Statement on Internal Controls of People's Bank

Introduction

This report is to provide assurance on the Directors' Statement on Internal Control ("Statement") of People's Bank included in the annual report for the year ended 31 December 2011. In carrying out this assurance engagement I was assisted by a firm of Chartered Accountants in public practice.

Management's Responsibility

Management is responsible for the preparation and presentation of the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

My Responsibilities and Compliance with SLSAE 3050

My responsibility is to issue a report to the Board of Directors on the Statement based on the work performed. I conducted my engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 - Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of Work Performed

This engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for Directors and appropriately reflects the process the Directors have adopted in reviewing the system of internal control for the Bank (Please refer annexure 1).

The procedures performed are limited primarily to inquiries of bank personnel and the existence of documentation on a sample basis that supports the process adopted by the Board of Directors.

SLSAE 3050 does not require me to consider whether the Statement covers all risks and controls, or to form an

opinion on the effectiveness of the Bank's risk and control procedures. SLSAE 3050 also does not require me to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Conclusion

Based on the procedures performed, nothing has come to my attention that causes me to believe that the Statement included in the annual report is inconsistent with my understanding of the process the Board of Directors has adopted in the review of the design and effectiveness of internal control of the Bank.



H.A.S. Samaraweera Auditor General

තිදහස් වතුරශුය, කොළඹ 07, ශී ලංකාව

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Annexure 1 to the Independent Assurance Report

- Reviewed the documentation prepared by or for the directors to support their Statement intended to be made.
- Independently performed Test of Controls both at Head Office level and Branch level on a sample basis.
- 3. Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- Considered whether the Directors'
 Statement on Internal Control
 covers the year under review and
 that adequate processes are in
 place to identify any significant
 matters arising.
- Obtained written representations from directors on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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BOARD AUDIT COMMITTEE REPORT

The Board Audit Committee (BAC) of the Bank was constituted in accordance with the provision of Banking Act Direction No. 11 of 2007, Corporate Governance for Licensed Commercial Banks in Sri Lanka. It comprises three (03) Non-Executive Directors of the Bank.

Mr. Jehan P. Amaratunga, Associate Chartered Accountant/Chairman of the BAC, Ms. V. Amarasekere, the representative of the Treasury, Ministry of Finance and Planning and Mr. A.P. Weerasinghe, served the BAC from 2010. With the resignation of Mr. A.P. Weerasinghe on 11th December 2011, due to completion of 09 years as a Director, Messrs D.N. Gammampila, Non-Executive Director of the Bank was appointed to the BAC with effect from 16th December 2011. The quorum for a BAC meeting is two (02) members.

The Deputy General Manager (Board Secretary) functions as the Secretary to the BAC. Senior Deputy General Manager (Risk & Control) and Acting Chief Internal Auditor attend the BAC meetings on invitation. The Superintendent of the Government Audit also attends these meetings when required to do so.

The BAC in particular -

- Reviews the financial reporting process to ensure it is in compliance with financial reporting requirements under the Statute:
- Examines the system of internal control and management of business risks.

- Reviews the audit processes, both external and internal.
- Reviews the procedures in place for monitoring compliance with laws and regulations and in particular the guidelines of the Central Bank of Sri Lanka.

The Committee during the year under review attended to the following -

- (a) Approved the Annual Audit Plan prepared based on risk profiles of the areas of the Bank for the year 2011.
- (b) Reviewed and discussed the Management Letter and the Report of the Auditor General issued in terms of Section 13 (7) (a) of the Finance Act No. 38 of 1971 for the year 2010 and the management responses thereon.
- (c) Reviewed quarterly financial performance of the Bank for the year 2011 and recommended to submit the same to the Board.
- (d) Reviewed and discussed issues raised at CBSL Statutory Examinations in 2009/2010 and monitored the progress of rectification.
- (e) Periodic review of internal audit reports and the performance of the Internal Audit Department.
- (f) Reviewed Information System Procedures and recommended appropriate changes and monitored progress of their implementation.

Eight (08) meetings were held during the financial year ended 31st December 2011. The BAC considered the internal audit reports, the deficiencies observed therein, responses given by the respective DGMM/Heads of the Departments and monitored corrective actions taken to rectify deficiencies observed. The minutes of the BAC meetings are reported to the Board for information.

The BAC also followed up on corrective measures taken by the management during the year 2011 on matters raised by CBSL Statutory Examination Report and by the Auditor General in the report for the year ended 31st December 2010.

The BAC ensured the provision of all information and documents required by the Auditor General for the purpose of audit and compliance with Sri Lanka Accounting Standards in the preparation and presentation of Financial Statements. The BAC is of the view that adequate controls and procedures are in place and Charter of the BAC were complied with in all material aspects.

Jehan P. Amaratunga Chairman Board Audit Committee

19th March 2012

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REPORT OF THE AUDITOR GENERAL



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21 March 2012

Report of the Auditor General on the Financial Statement of the People's Bank and its subsidiaries for the year ended 31 December 2011

The audit of the consolidated financial statements of the People's Bank ("Bank") and its subsidiaries for the year ended 31 December 2011 comprising the consolidated Balance Sheet as at 31 December 2011 and the consolidated Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year then ended, and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. The financial statements of the subsidiaries were audited by firms of Chartered Accountants in public practice appointed by the members of the respective subsidiaries.

Management's Responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as Management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards.

Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements.

The procedures selected depend on the auditor's judgment, including the assessment of the risk of the material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Bank's preparation and fair presentation of the consolidated financial statements in

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order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control. An audit also includes evaluating the appropriateness of Accounting Policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Financial Statements Opinion

In my opinion the consolidated financial statement give a True and Fair view of the financial position of the Bank and its subsidiaries as at 31 December 2011 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

These financial statements had been presented the information required by the Banking Act, No. 30 of 1988 and subsequent amendments.

Exemption

The bank has been exempted from the provisions of Part II of the Finance Act, No. 38 of 1971 by an Order of then Minister of Finance published in the Government Gazette No. 715 of 14 May 1992 by virtue of powers vested in him by Sections 5 (1) of the said Finance Act.

Report to Parliament

My report to Parliament in pursuance of provisions in Article 154 (6) of the constitution will be tabled in due course.

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H.A.S. Samaraweera
Auditor General

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INCOME STATEMENT

			BANK			GROUP	
For the year ended 31st December	Note	2011 Rs. '000	2010 Rs. '000	Change %	2011 Rs. '000	2010 Rs. '000	Change %
Income		68,826,039	62,532,427	10.1	80,937,810	70,927,509	14.1
Interest Income	1	61,822,469	56,534,172	9.4	74,115,009	64,559,320	14.8
Interest Expenses	2	(31,703,406)	(30,635,722)	3.5	(37,454,263)	(33,929,178)	10.4
Net Interest Income		30,119,063	25,898,450	16.3	36,660,746	30,630,142	19.7
Foreign Exchange Gain		973,624	1,120,022	(13.1)	973,624	1,120,022	(13.1)
Fees and Commission Income		3,822,017	3,170,590	20.5	3,846,053	3,190,372	20.6
Capital Gain on Treasury Bills and Bonds		170,745	174,373	(2.1)	170,745	174,373	(2.1)
Other Income	3	2,037,184	1,533,270	32.9	1,832,379	1,883,422	(2.7)
Operating Income		37,122,633	31,896,705	16.4	43,483,547	36,998,331	17.5
Operating Expenses	4						
Personnel Costs		9,500,235	10,267,421	(7.5)	10,352,984	10,807,184	(4.2)
Provision for Staff Retirement Benefits	5	1,499,120	1,355,129	10.6	1,499,120	1,355,129	10.6
Premises, Equipment and Establishment Expenses		3,826,465	2,906,666	31.6	4,024,951	3,034,236	32.7
Fee and Commission Expenses		30,194	54,466	(44.6)	30,194	15,794	91.2
Other Overhead Expenses		5,495,606	6,721,241	(18.2)	7,083,061	8,173,631	(13.3)
		(20,351,620)	(21,304,923)	(4.5)	(22,990,310)	(23,385,974)	(1.7)
Profit before Loan Loss Provision and Provision for Fall in Value of		1 / 554 040	10 501 500	F0.0	00 /00 007	40 /40 055	F0 F
Dealing Securities and Others		16,771,013	10,591,782	58.3	20,493,237	13,612,357	50.5
Provision for Loan Losses	6	(970,919)	(1,013,406)	(4.2)	965,624	(1,419,530)	168.0
Provision for (Fall)/Increase in Value of Dealing Securities and Others	7	(489,428)	(807,299)	[39.4]	[489,428]	(807,299)	(39.4)
Operating Profit		15,310,666	8,771,077	74.6	20,969,433	11,385,528	84.2
Share of Associate Companies' Profit before Taxation		_	_	_	33,663	(15,228)	321.1
Profit before Taxation		15,310,666	8,771,077	74.6	21,003,095	11,370,300	84.7
Provision for Taxation	8	(5,153,628)	(3,564,654)	44.6	(7,068,024)	(4,787,737)	47.6
Profit after Taxation		10,157,038	5,206,423	95.1	13,935,071	6,582,564	111.7
Less: Minority Interest		_	_	_	(406,043)	(3,118)	12,920.5
Profit for the Year		10,157,038	5,206,423	95.1	13,529,028	6,579,445	105.6
Earnings Per Share (Rs.)							
Basic (Rs.)	9.1	10,157	5,206	95.1	13,529	6,579	105.6
Diluted (Rs.)	9.2	71	36	95.1	94	46	105.6

The Accounting Policies on pages 170 to 182 and Notes on pages 183 to 217 form an integral part of these Financial Statements.

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BALANCE SHEET

Note Ra 2011 Ra 2010 Ra 2010				BANK			GROUP	
Cash and Short-Term Funds 10 35,024,365 46,356,928 [24,4] 39,776,207 48,848,408 [18,2] Balance with the Central Bank 11 35,717,033 26,739,341 33.6 35,717,033 26,739,341 33.6 Government Treasury Bills and Treasury Bonds 12 26,888,436 68,851,802 [11,0] 48,818,902 [11,0] 48,818,902 13.3 2,789,818 610.1 4,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 620.1 14,812,124 2,098,181 7	As at 31st December	Note						
Balance with the Central Bank 11 35,717,033 26,739,341 33.6 35,717,033 26,739,341 33.6 Government Treasury Bills and Treasury Bonds 12 67,888,436 68,851,802 11.4 68,187,898 68,551,802 11.0 Bills of Exchange 13.1 14,899,123 2,098,185 61.01 14,899,123 2,098,185 61.0 Leases 13.2 449,841,669 354,545,126 26.9 448,356,241 352,893,817 27.1 Leases 13.3 71,448 693,110 189.77 77,052,248 43,608,384 76.7 Other Assets 14 15,520,971 12,081,441 26.2 18,411,268 16,059,671 14.6 Dealing Securities 15 88,9172 478,052 81.8 962,339 536,118 79.5 Investment Securities 16 25,406,104 18,326,231 38.6 25,556,114 18,420,241 38.7 Investment Securities 17 1,693,050 1,675,450 1.1 377,196 248,830	Assets							
Government Treasury Bills and Treasury Bonds 12 67,858,436 68,851,802 11.4 68,187,898 68,351,802 11.0 Bills of Exchange 13.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 Loans and Advances 13.2 449,841,669 335,455,124 2.6.9 448,356,241 352,893,817 27.1 Leases 13.3 71,448 893,110 189.71 77,052,248 43,608,384 76.7 Other Assets 14 15,250,971 12,081,441 26.2 18,411,268 16,059,671 14.6 Deferred Tax 186,884 62,455 199.2 248,787 73,331 239.0 Dealing Securities 15 869,172 478,052 81.8 962,339 556,114 18.1 38.7 Investments in Subsidiaries and Associate Companies 17 1,693,050 1,675,450 1.1 377,196 248,830 51.6 Government of Sri Lanka Restructuring Bonds 18 7,232,000 7,323,000 7,323,000 7,72	Cash and Short-Term Funds	10	35,024,365	46,356,928	(24.4)	39,976,209	48,848,408	(18.2)
Bills of Exchange 13.1 14,899,123 2,098,185 610.1 14,899,123 2,098,185 610.1 Loans and Advances 13.2 449,841,669 354,545,126 2.6 448,356,241 352,893,817 27.1 Cher Assets 14 15,250,971 12,081,441 26.2 18,411,268 16,059,671 14,6 Deferred Tax 186,884 62,455 197.2 248,787 73,381 239.0 Dealing Securities 15 869,172 478,052 81.8 962,339 536,118 79.5 Investment Securities 16 25,406,104 18,326,231 38.6 25,556,114 18,462,241 38.7 Investment is risubsidiaries and Associate Companies 17 1,693,050 1,675,450 1.1 377,196 248,830 51.6 Covernment of Sri Lanka Restructuring Bonds 18 7,323,000 - 7,323,000 - 7,323,000 - 7,323,000 - 7,232,000 - 7,232,000 7,232,000 - 7,232,000 7,232,000	Balance with the Central Bank	11	35,717,033	26,739,341	33.6	35,717,033	26,739,341	33.6
Loans and Advances 13.2 449,841,669 354,545,126 26.9 448,356,241 352,893,817 27.1 Leases 13.3 71,448 679,110 (89.7) 77,052,248 43,608,344 76.7 Other Assets 14 15,250,971 12,081,441 26.2 18,411,268 16,059,671 14.6 Deferred Tax 186,884 62,455 199.2 248,787 73,381 239.0 Dealing Securities 15 869,172 478,052 81.8 962,339 536,118 79.5 Investment Securities 16 25,406,104 18,326,231 38.6 25,556,114 18,426,241 38.7 Investments Securities 16 25,406,104 18,326,231 38.6 25,556,114 18,426,241 38.7 Investments in Subsidiaries and Associate Companies 17 1,693,050 1,675,450 1.1 377,196 248,830 51.6 Government of Sri Lanka Restructuring Bonds 18 7,323,000	Government Treasury Bills and Treasury Bonds	12	67,858,436	68,851,802	(1.4)	68,187,898	68,851,802	(1.0)
Leases	Bills of Exchange	13.1	14,899,123	2,098,185	610.1	14,899,123	2,098,185	610.1
Other Assets 14 15,250,971 12,081,441 26.2 18,411,268 16,059,671 1.4.6 Deferred Tax 186,884 62,455 189.2 248,787 73,381 239.0 Dealing Securities 15 889,172 478,052 81.8 962,339 536,118 79.5 Investment Securities 16 25,406,104 18,326,231 38.6 25,556,114 18,426,241 38.7 Investments in Subsidiaries and Associate Companies 17 1,693,050 7,675,450 1.1 377,176 248,830 51.6 Government of Sri Lanka Restructuring Bonds 18 7,323,000 7,323,000 7,323,000 7,232,000 7,242	Loans and Advances	13.2	449,841,669	354,545,126	26.9	448,356,241	352,893,817	27.1
Deferred Tax 186,884 62,455 199.2 248,787 73,381 239.0 Dealing Securities 15 869,172 478,052 81.8 962,339 536,118 79.5 Investment Securities 16 25,406,104 18,326,231 38.6 25,556,114 18,426,241 38.7 Investments in Subsidiaries and Associate Companies 17 1,693,050 1,675,450 1.1 377,179 248,830 51.6 Government of Sri Lanka Restructuring Bonds 18 7,323,000 7,323,000 - 7,323,000 7,323,000 - Property, Plant & Equipment 19 8,509,867 7,861,555 8.2 10,735,283 9,223,575 16.4 Prepaid Leases 20 325,225 326,517 10.41 325,225 326,517 10.41 Intangible Assets 21 100,807 196,636 148.7 450,412 559,204 [19.5] Total Assets 21 100,807 196,636 148.7 748,578,376 595,816,475 25.6	Leases	13.3	71,448	693,110	(89.7)	77,052,248	43,608,384	76.7
Dealing Securities 15 869,172 478,052 81.8 962,339 536,118 79.5 Investment Securities 16 25,406,104 18,326,231 38.6 25,556,114 18,426,241 38.7 Investments in Subsidiaries and Associate Companies 17 1,693,000 7,323,000 - 7,323,000 7,232,000 7,323,000 10,323,000 10.04 10.4 10.5 10.4 10.5	Other Assets	14	15,250,971	12,081,441	26.2	18,411,268	16,059,671	14.6
Investment Securities 16 25,406,104 18,326,231 38.6 25,556,114 18,426,241 38.7 Investments in Subsidiaries and Associate Companies 17 1,693,050 1,675,450 1.1 377,196 248,830 51.6 Government of Sri Lanka Restructuring Bonds 18 7,323,000 7,023,000 7,	Deferred Tax		186,884	62,455	199.2	248,787	73,381	239.0
Investments in Subsidiaries and Associate Companies 17	Dealing Securities	15	869,172	478,052	81.8	962,339	536,118	79.5
Government of Sri Lanka Restructuring Bonds 18 7,323,000 7,323,000 - 7,323,000 7,323,000 - Property, Plant & Equipment 19 8,509,867 7,861,555 8.2 10,735,283 9,223,575 16.4 Prepaid Leases 20 325,225 326,517 [0.4] 325,225 326,517 [0.4] Intangible Assets 21 100,807 196,636 [48.7] 450,412 559,204 119.5] Total Assets 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6 Liabilities Amounts due to Banks 72,799 2,454,883 [97.0] 72,799 2,454,883 [97.0] Deposits from Customers 22 539,861,539 462,140,255 16.8 548,033,399 463,727,842 18.2 Borrowings from Banks and Others 23 62,747,794 36,677,163 71.1 112,484,623 67,459,886 66.7 Taxation Payable 2,806,539 1,527,448 83.7 3,427,708 2,1	Investment Securities	16	25,406,104	18,326,231	38.6	25,556,114	18,426,241	38.7
Property, Plant & Equipment 19 8,509,867 7,861,555 8.2 10,735,283 9,223,575 16.4 Prepaid Leases 20 325,225 326,517 (0.4) 325,225 326,517 (0.4) Intangible Assets 21 100,807 196,636 (48.7) 450,412 559,204 (19.5) Total Assets 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6 Liabilities 8 72,799 2,454,883 (197.0) 72,799 2,454,883 (197.0) Deposits from Customers 22 539,861,539 462,140,255 16.8 548,033,399 463,727,842 18.2 Borrowings from Banks and Others 23 62,747,794 36,677,163 71.1 112,484,623 67,459,886 66.7 Taxation Payable 2,806,539 1,527,448 83.7 3,427,708 2,133,133 60.7 Deferred Liabilities 24 314,682 223,712 40.7 760,044 285,687 166.0 Other L	Investments in Subsidiaries and Associate Companies	17	1,693,050	1,675,450	1.1	377,196	248,830	51.6
Prepaid Leases 20 325,225 326,517 (0.4) 325,225 326,517 (0.4) Intangible Assets 21 100,807 196,636 (48.7) 450,412 559,204 (19.5) Total Assets 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6 Elabilities	Government of Sri Lanka Restructuring Bonds	18	7,323,000	7,323,000	_	7,323,000	7,323,000	-
Intangible Assets 21 100,807 196,636 (48.7) 450,412 559,204 (19.5) Total Assets 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6	Property, Plant & Equipment	19	8,509,867	7,861,555	8.2	10,735,283	9,223,575	16.4
Total Assets 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6 Liabilities Amounts due to Banks 72,799 2,454,883 [97.0] 72,799 2,454,883 [97.0] Deposits from Customers 22 539,861,539 462,140,255 16.8 548,033,399 463,727,842 18.2 Borrowings from Banks and Others 23 62,747,794 36,677,163 71.1 112,484,623 67,459,886 66.7 Taxation Payable 2,806,539 1,527,448 83.7 3,427,708 2,133,133 60.7 Deferred Liabilities 24 314,682 223,712 40.7 760,044 285,687 166.0 Other Liabilities 25 19,623,809 17,621,225 11.4 27,886,857 25,851,583 7.9 Retirement Benefits 26 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 4,998 4,998 4,998	Prepaid Leases	20	325,225	326,517	(0.4)	325,225	326,517	(0.4)
Capabilities Capa	Intangible Assets	21	100,807	196,636	(48.7)	450,412	559,204	(19.5)
Amounts due to Banks 72,799 2,454,883 (97.0) 72,799 2,454,883 (97.0) Deposits from Customers 22 539,861,539 462,140,255 16.8 548,033,399 463,727,842 18.2 Borrowings from Banks and Others 23 62,747,794 36,677,163 71.1 112,484,623 67,459,886 66.7 Taxation Payable 2,806,539 1,527,448 83.7 3,427,708 2,133,133 60.7 Deferred Liabilities 24 314,682 223,712 40.7 760,044 285,687 166.0 Other Liabilities 25 19,623,809 17,621,25 11.4 27,886,857 25,851,583 7.9 Retirement Benefits 26 1,154,644 1,132,835 1.9 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 6,70,530 569,216,379 250 20.0 705,892,906 569,216,379 24.0 20.0 20.0 705,892,906 569,216,379 24.0 20.0 20.0 20.0 20.0 20.	Total Assets		663,077,154	547,615,829	21.1	748,578,376	595,816,475	25.6
Deposits from Customers 22 539,861,539 462,140,255 16.8 548,033,399 463,727,842 18.2 Borrowings from Banks and Others 23 62,747,794 36,677,163 71.1 112,484,623 67,459,886 66.7 Taxation Payable 2,806,539 1,527,448 83.7 3,427,708 2,133,133 60.7 Deferred Liabilities 24 314,682 223,712 40.7 760,044 285,687 166.0 Other Liabilities 25 19,623,809 17,621,225 11.4 27,886,857 25,851,583 7.9 Retirement Benefits 26 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 1,000,000 100.0 12,072,830 6,170,530 95.7 7 500,000 100.0 12,072,830 6,170,530 95.7 7 500,000 100.0 12,072,830 6,170,530 95.7 7 500,000 70,5892,906 569,216,379 24.0 <td>Liabilities</td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td>	Liabilities							
Borrowings from Banks and Others 23 62,747,794 36,677,163 71.1 112,484,623 67,459,886 66.7 Taxation Payable 2,806,539 1,527,448 83.7 3,427,708 2,133,133 60.7 Deferred Liabilities 24 314,682 223,712 40.7 760,044 285,687 166.0 Other Liabilities 25 19,623,809 17,621,225 11.4 27,886,857 25,851,583 7.9 Retirement Benefits 26 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 Debentures 27 10,000,000 5,000,000 100.0 12,072,830 6,170,530 95.7 Total Liabilities 28 49,998 526,777,521 20.8 705,892,906 569,216,379 24.0 Share Capital 28 49,998 49,998 - 49,998 49,998 - Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves <td>Amounts due to Banks</td> <td></td> <td>72,799</td> <td>2,454,883</td> <td>(97.0)</td> <td>72,799</td> <td>2,454,883</td> <td>(97.0)</td>	Amounts due to Banks		72,799	2,454,883	(97.0)	72,799	2,454,883	(97.0)
Taxation Payable 2,806,539 1,527,448 83.7 3,427,708 2,133,133 60.7 Deferred Liabilities 24 314,682 223,712 40.7 760,044 285,687 166.0 Other Liabilities 25 19,623,809 17,621,225 11.4 27,886,857 25,851,583 7.9 Retirement Benefits 26 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 Debentures 27 10,000,000 5,000,000 100.0 12,072,830 6,170,530 95.7 Total Liabilities 48 49,998 526,777,521 20.8 705,892,906 569,216,379 24.0 Funds Employed Share Capital 28 49,998 49,998 - 49,998 49,998 - Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 <	Deposits from Customers	22	539,861,539	462,140,255	16.8	548,033,399	463,727,842	18.2
Deferred Liabilities 24 314,682 223,712 40.7 760,044 285,687 166.0 Other Liabilities 25 19,623,809 17,621,225 11.4 27,886,857 25,851,583 7.9 Retirement Benefits 26 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 Debentures 27 10,000,000 5,000,000 100.0 12,072,830 6,170,530 95.7 Total Liabilities 636,581,808 526,777,521 20.8 705,892,906 569,216,379 24.0 Funds Employed 5 526,777,521 20.8 705,892,906 569,216,379 24.0 Share Capital 28 49,998 49,998 - 49,998 49,998 - Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 Minority Interest 31 -	Borrowings from Banks and Others	23	62,747,794	36,677,163	71.1	112,484,623	67,459,886	66.7
Other Liabilities 25 19,623,809 17,621,225 11.4 27,886,857 25,851,583 7.9 Retirement Benefits 26 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 Debentures 27 10,000,000 5,000,000 100.0 12,072,830 6,170,530 95.7 Total Liabilities 636,581,808 526,777,521 20.8 705,892,906 569,216,379 24.0 Funds Employed Share Capital 28 49,998 49,998 - 49,998 49,998 - Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 Minority Interest 31 - - - 4,557,433 83,225 5,376.0 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5	Taxation Payable		2,806,539	1,527,448	83.7	3,427,708	2,133,133	60.7
Retirement Benefits 26 1,154,646 1,132,835 1.9 1,154,646 1,132,835 1.9 Debentures 27 10,000,000 5,000,000 100.0 12,072,830 6,170,530 95.7 Total Liabilities 636,581,808 526,777,521 20.8 705,892,906 569,216,379 24.0 Funds Employed 8 49,998 49,998 - 49,998 49,998 - Share Capital 28 49,998 49,998 - 49,998 49,998 - Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 Minority Interest 31 - - - 4,557,433 83,225 5,376.0 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547	Deferred Liabilities	24	314,682	223,712	40.7	760,044	285,687	166.0
Debentures 27 10,000,000 5,000,000 100.0 12,072,830 6,170,530 95.7 Total Liabilities 636,581,808 526,777,521 20.8 705,892,906 569,216,379 24.0 Funds Employed Share Capital 28 49,998 49,998 - 49,998 49,998 - Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 Minority Interest 31 - - - 4,557,433 83,225 5,376.0 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6	Other Liabilities	25	19,623,809	17,621,225	11.4	27,886,857	25,851,583	7.9
Total Liabilities 636,581,808 526,777,521 20.8 705,892,906 569,216,379 24.0 Funds Employed Share Capital 28 49,998 49,998 - 49,998 49,998 - Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 Minority Interest 31 - - - 4,557,433 83,225 5,376.0 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6	Retirement Benefits	26	1,154,646	1,132,835	1.9	1,154,646	1,132,835	1.9
Funds Employed Share Capital 28 49,998 49,998 - 49,998 49,998 - Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 26,495,346 20,838,308 27.1 38,128,037 26,516,871 43.8 Minority Interest 31 - - - 42,685,470 26,600,096 60.5 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6	Debentures	27	10,000,000	5,000,000	100.0	12,072,830	6,170,530	95.7
Share Capital 28 49,998 49,998 - 49,998 49,998 - Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 Minority Interest 31 - - - 4,557,433 83,225 5,376.0 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6	Total Liabilities		636,581,808	526,777,521	20.8	705,892,906	569,216,379	24.0
Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 26,495,346 20,838,308 27.1 38,128,037 26,516,871 43.8 Minority Interest 31 - - - 4,557,433 83,225 5,376.0 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6	Funds Employed							
Capital Pending Allotment 29 7,152,000 7,152,000 - 7,152,000 7,152,000 - Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 26,495,346 20,838,308 27.1 38,128,037 26,516,871 43.8 Minority Interest 31 - - - 4,557,433 83,225 5,376.0 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6	Share Capital	28	49,998	49,998	-	49,998	49,998	_
Reserves 30 19,293,348 13,636,310 41.5 30,926,039 19,314,873 60.1 26,495,346 20,838,308 27.1 38,128,037 26,516,871 43.8 Minority Interest 31 - - - 4,557,433 83,225 5,376.0 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6		29	7,152,000	7,152,000	-	7,152,000	7,152,000	-
Z6,495,346 20,838,308 27.1 38,128,037 26,516,871 43.8 Minority Interest 31 - - - 4,557,433 83,225 5,376.0 Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6		30			41.5			60.1
Total Funds Employed 26,495,346 20,838,308 27.1 42,685,470 26,600,096 60.5 Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6								
Total Liabilities & Funds Employed 663,077,154 547,615,829 21.1 748,578,376 595,816,475 25.6	Minority Interest	31		_	-	4,557,433	83,225	5,376.0
	Total Funds Employed		26,495,346	20,838,308	27.1	42,685,470	26,600,096	60.5
Commitments and Contingencies 32 191,025,357 131,750,729 45.0 191,025,357 131,750,729 45.0	Total Liabilities & Funds Employed		663,077,154	547,615,829	21.1	748,578,376	595,816,475	25.6
	Commitments and Contingencies	32	191,025,357	131,750,729	45.0	191,025,357	131,750,729	45.0

The Accounting Policies on pages 170 to 182 and Notes on pages 183 to 217 form an integral part of these Financial Statements.

The Board of Directors is responsible for the preparation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.

Yohan A. Soza Head of Finance N. Vasantha Kumar

Chief Executive Officer/General Manager

W. Karunajeewa Chairman

19th March 2012, Colombo

PAGE 166 INCOME STATEMENT BALANCE SHEET PAGES 167-168

CASH FLOW STATEMENT

PAGE 169 STATEMENT OF PAGES 170-182 SIGNIFICANT

PAGES 183-217 NOTES TO THE CHANGES IN EQUITY ACCOUNTING POLICIES FINANCIAL STATEMENTS PAGES 219-248 ANNEXES

CASH FLOW STATEMENT

	BAN	K	GROUP		
For the year ended 31st December	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	
Cash Flows from Operating Activities					
Interest and Commission and Other Receipts	63,755,825	60,458,238	78,216,142	69,243,904	
Interest Payments	(29,902,186)	(29,591,807)	(35,483,032)	(32,613,031)	
Recoveries of Loans Previously Written-Off	113,004	116,699	113,004	116,699	
Cash Payments to Employees and Suppliers	(17,530,561)	(15,550,236)	(20,179,390)	(16,856,278)	
Operating Profit before Changes in Operating Assets and Liabilities	16,436,082	15,432,894	22,666,724	19,891,294	
(Increase)/Decrease in Operating Assets					
Deposits held for Regulatory or Monetary Control Purposes	(8,977,692)	(4,022,307)	(8,977,692)	(4,022,307)	
Funds Advanced to Customers	(108,447,935)	(74,589,573)	(140,741,602)	(92,827,377)	
Treasury Bills and Bonds	853,903	89,641	524,441	89,641	
	(116,571,724)	(78,522,239)	(149,194,853)	(96,760,043)	
Increase/(Decrease) in Operating Liabilities					
Deposits from Customers	77,552,237	65,805,762	84,151,535	67,330,363	
Negotiable Certificate of Deposits	169,047	176,933	154,022	169,683	
	77,721,284	65,982,695	84,305,557	67,500,046	
Net Cash from Operating Activities before Income Tax	(22,414,358)	2,893,350	(42,222,622)	(9,368,703)	
Income Taxes Paid	(3,256,479)	(3,702,663)	(5,575,037)	(4,688,192)	
Retirement Benefit Paid during the Year	(1,478,839)	(917,480)	(1,479,872)	(917,480)	
Net Cash from Operating Activities	(27,149,676)	(1,726,793)	(49,277,531)	(14,974,375)	
Cash Flows from Investing Activities					
Investment in Subsidiaries and Associates	(17,600)	100,000	(94,703)	(141,542)	
Dividend Received	867,097	318,131	62,867	318,131	
Proceeds from Sales of Property, Plant & Equipment	41,491	108,736	149,876	316,979	
Purchase of Property, Plant & Equipment	(1,613,406)	(1,108,847)	(2,669,680)	(2,044,109)	
Investments Matured/(Additions)	(7,650,213)	(1,746,439)	(7,735,315)	(1,867,170)	
Net Cash from/(used in) Investing Activities	(8,372,631)	(2,328,419)	(10,286,955)	(3,417,711)	
Cash Flows from Financing Activities					
Debentures	5,000,000		5,691,110	925,000	
GOSL Bond Interest Paid		(18,307)	_	(18,307)	
Special Levy Paid to Treasury	(4,500,000)	(2,150,000)	(4,500,000)	(2,150,000)	
Minority Interest Paid			6,858,524	73,890	
Net Increase/(Decrease) in Borrowings	26,071,828	283,131	45,024,737	15,056,912	
Net Cash from/(used in) Financing Activities	26,571,828	(1,885,176)	53,074,371	13,887,495	
Net Increase/(Decrease) in Cash and Cash Equivalents	(8,950,479)	(5,940,388)	(6,490,115)	(4,504,591)	
Cash and Cash Equivalents at the beginning of the Year	43,902,045	49,842,433	46,393,525	50,898,116	
Cash and Cash Equivalents at the end of the Year	34,951,566	43,902,045	39,903,410	46,393,525	

DIRECTORS' REPORT

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DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING PAGES 158-159

THE DIRECTORS' STATEMENT
ON INTERNAL CONTROL

PAGES 160-161

INDEPENDENT ASSURANCE REPORT PAGE 162 BOARD AUDIT COMMITTEE REPORT PAGES 163-164
REPORT OF THE
AUDITOR GENERAL

	BAN	K	GROUP		
For the year ended 31st December	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	
Cash and Short-Term Funds (Note 10)	35,024,365	46,356,928	39,976,209	48,848,408	
Amounts due to Banks	(72,799)	(2,454,883)	(72,799)	(2,454,883)	
Cash and Cash Equivalents Reflected on Balance Sheet at the end of the Year	34,951,566	43,902,045	39,903,410	46,393,525	
Reconciliation of Net Profit to Net Cash Flows from Operating Activities					
Net Profit before Taxation	15,310,666	8,771,077	21,003,095	11,370,300	
Adjustments for Non-Cash Transactions					
Notional Tax Credit	(742,487)	(609,112)	(742,487)	(609,112)	
Associate Profit Adjustment	-	-	(33,663)	15,228	
Capital Gains on Treasury Bills and Bonds	(170,745)	(174,372)	(170,745)	(174,373)	
Net Accrued Interest	(1,208,509)	2,633,048	(1,001,628)	515,616	
Retirement Benefit Provision	1,460,000	1,316,009	1,460,000	1,316,009	
Translation Difference in FCBU	(973,624)	(1,120,022)	(973,624)	(1,120,022)	
Provision for Interest in W & OP Fund	39,120	39,120	39,120	39,120	
Depreciation and Amortisation	1,028,076	577,430	1,144,605	726,624	
Profit on Disposal of Fixed Assets	(7,352)	(23,400)	(23,456)	(32,761)	
Provision for Bad Debts	1,589,541	1,013,406	1,551,947	1,419,530	
Provision for Gratuity	92,500	62,000	103,102	68,848	
Loan Loss Provision Reversals	(618,622)	(1,058,934)	(2,517,571)	(1,102,931)	
Investment Income	(867,097)	(318,131)	(62,867)	(318,131)	
Provision for Diminution in Value of Shares/Others	119,396	20,017	119,396	20,017	
Provision for Falling Value of Investments Securities and Others	370,032	787,282	370,033	787,282	
(Increase)/Decrease in Accounts Receivables	813,824	3,762,430	2,337,324	2,807,855	
Increase/(Decrease) in Accounts Payables	201,363	(244,954)	64,093	4,162,195	
Operating Profit before Changes in Operating Assets/Liabilities	16,436,082	15,432,894	22,666,674	19,891,294	
(Increase)/Decrease in Operating Assets	(116,571,724)	(78,522,239)	(149,194,853)	(96,760,043)	
Increase/(Decrease) in Operating Liabilities	77,721,284	65,982,695	84,305,557	67,500,046	
Cash Generated from Operations	(22,414,358)	2,893,350	[42,222,622]	(9,368,703)	
Income Tax Paid	(3,256,479)	(3,702,663)	(5,575,037)	(4,688,192)	
Pension Fund Paid during the Year	(1,478,839)	(917,480)	(1,479,872)	(917,480)	
Net Cash from/(used in) Operating Activities	[27,149,676]	[1,726,793]	(49,277,531)	(14,974,375)	

The Accounting Policies on pages 170 to 182 and Notes on pages 183 to 217 form an integral part of these Financial Statements.

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PAGE 166

INCOME STATEMENT BALANCE SHEET

PAGES 167-168

CASH FLOW STATEMENT

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STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December											
	Share Capital	Capital Pending	Statutory Reserve	Revaluation Reserve	Capital Reserve	Special Risk Reserve	General Reserve	Building Reserve	Investment Fund	Profit/ (Loss)	Total
	Rs. '000	Allotment Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
BANK											
Balance as at 1st January 2010	49,998	7,152,000	49,998	5,630,460	5.663	822,449	313,500	1,000	_	3,775,124	17,800,192
Transfer to Special Risk Reserve	-	-	-	-	-	431,359	-	-	_	(431,359)	-
Transfer to General Reserve	_	_	_	_	_		625,000	_	_	(625,000)	
Net Profit for the Year 2010		_	_		_		-	_		5,206,423	5,206,423
Dividend Paid to GOSL (Note 30.8)	_	_	_	_	_			_	_	(18,307)	(18,307)
Special Levy to Treasury (Note 30.9)	_	-	_	-		-	_	_		(2,150,000)	(2,150,000)
Balance as at 31st December 2010	49,998	7,152,000	49,998	5,630,460	5,663	1,253,808	938,500	1,000		5,756,881	20,838,308
Transfer to Reserve Fund	-	-	1,842,593	-		-	-	-	_	(1,842,593)	
Transfer to Special Risk Reserve	_	_	_	_	_	197,598	_	_	_	(197,598)	-
Transfer to General Reserve	_	_	_	_	_	=	1,250,000	-	_	(1,250,000)	-
Net Profit for the Year 2011	_	_	_	_	_	_	-	_	_	10,157,038	10,157,038
Transfer To Investment fund			***************************************	***************************************							
during the year		_	_			_		_	1,897,702	(1,897,702)	_
Dividend Paid to GOSL (Note 30.8)	_	-	-	-	_	-	-	-	-	_	-
Special Levy to Treasury (Note 30.9)										(4,500,000)	(4,500,000)
Balance as at 31st December 2011	49,998	7,152,000	1,892,591	5,630,460	5,663	1,451,406	2,188,500	1,000	1,897,702	6,226,026	26,495,346
GROUP											
Balance as at 1st January 2010	49,998	7,152,000	49,998	5,630,460	5,663	822,449	313,500	1,000	-	8,080,665	22,105,733
Transfer to Special Risk Reserve	-	-	-	-	-	431,359	-	-	-	(431,359)	-
Transfer to General Reserve	-	-	-	-	-	-	625,000	-	-	(625,000)	-
Net Profit for the Year 2010	-	-	-	-	-	-	-	-	-	6,579,445	6,579,445
Dividend Paid to GOSL (Note 30.8)	-	-	-	-	-	-	-	-	-	(18,307)	(18,307)
Special Levy to Treasury (Note 30.9)		-	-	-							
Balance as at 31st December 2010	49,998				-	-	-	-	-	(2,150,000)	(2,150,000)
Transfer to Reserve Fund	47,770	7,152,000	49,998	5,630,460	5,663	1,253,808	938,500	1,000		(2,150,000) 11,435,445	
Transfer to Special Risk Reserve	47,770	7,152,000 -	49,998 1,842,593	5,630,460							(2,150,000)
mansier to special misk meserve					5,663	1,253,808	938,500	1,000	_	11,435,445	(2,150,000)
······································	_		1,842,593	_	5,663	1,253,808	938,500	1,000	<u>-</u> -	11,435,445 1,842,593	(2,150,000) 26,516,871 –
Transfer to General Reserve Net profit for the Year 2011	-	-	1,842,593	-	5,663 - -	1,253,808 - 197,598	938,500	1,000		11,435,445 1,842,593 (197,598)	(2,150,000) 26,516,871 - -
Transfer to General Reserve Net profit for the Year 2011	-		1,842,593		5,663 - - -	1,253,808 - 197,598 -	938,500 - - - 1,250,000	1,000 - - -	- - -	11,435,445 1,842,593 (197,598) (1,250,000)	(2,150,000) 26,516,871 - - -
Transfer to General Reserve Net profit for the Year 2011 Disposal and change of holding in Subsidiaries and Associates	- - -		1,842,593		5,663	1,253,808 - 197,598 - -	938,500 - - 1,250,000 -	1,000 - - - -	- - - -	11,435,445 1,842,593 (197,598) (1,250,000) 13,529,028	(2,150,000) 26,516,871 - - - 13,529,028
Transfer to General Reserve Net profit for the Year 2011 Disposal and change of holding in Subsidiaries and Associates Goodwill Adjustment	- - - -		1,842,593		5,663 - - - -	1,253,808 - 197,598 - -	938,500 - - 1,250,000 -	1,000 - - - -	- - - - -	11,435,445 1,842,593 (197,598) (1,250,000) 13,529,028 (34,631)	(2,150,000) 26,516,871 - - - 13,529,028 (34,631)
Transfer to General Reserve Net profit for the Year 2011 Disposal and change of holding in Subsidiaries and Associates Goodwill Adjustment Share Issue Expenses			1,842,593		5,663 - - - - -	1,253,808 - 197,598 - - -	938,500 - - 1,250,000 - -	1,000		11,435,445 1,842,593 (197,598) (1,250,000) 13,529,028 (34,631) 2,969	(2,150,000) 26,516,871 - - 13,529,028 (34,631) 2,969
Transfer to General Reserve Net profit for the Year 2011 Disposal and change of holding in Subsidiaries and Associates Goodwill Adjustment Share Issue Expenses Deemed Disposal Profit			1,842,593		5,663	1,253,808 - 197,598 - - - -	938,500 - - 1,250,000 - - - -	1,000 - - - - - -		11,435,445 1,842,593 (197,598) (1,250,000) 13,529,028 (34,631) 2,969 (211,190) 2,824,990	(2,150,000) 26,516,871 13,529,028 (34,631) 2,969 (211,190)
Transfer to General Reserve Net profit for the Year 2011 Disposal and change of holding in			1,842,593		5,663 - - - - - - -	1,253,808 - 197,598 - - - - -	938,500 - 1,250,000 - - - -	1,000 - - - - - - -	- - - - - - - -	11,435,445 1,842,593 (197,598) (1,250,000) 13,529,028 (34,631) 2,969 (211,190)	(2,150,000) 26,516,871 13,529,028 (34,631) 2,969 (211,190) 2,824,990
Transfer to General Reserve Net profit for the Year 2011 Disposal and change of holding in Subsidiaries and Associates Goodwill Adjustment Share Issue Expenses Deemed Disposal Profit Transfer to Investment Fund		- - - - - - - - -	1,842,593		5,663 - - - - - - - -	1,253,808 - 197,598 - - - - - -	938,500 - 1,250,000 - - - - -	1,000	- - - - - - - 2,230,900	11,435,445 1,842,593 (197,598) (1,250,000) 13,529,028 (34,631) 2,969 (211,190) 2,824,990 (2,230,900)	(2,150,000) 26,516,871 13,529,028 (34,631) 2,969 (211,190) 2,824,990

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1. Corporate Information

The People's Bank is a Governmentowned Bank, established under People's Bank Act No. 29 of 1961 on 1st July 1961 and is domiciled in Sri Lanka. The Consolidated Financial Statements of the Bank for the year ended 31st December 2011 comprise the Bank, its Subsidiaries i.e., People's Leasing Co. Ltd. and People's Travels (Pvt) Ltd. and the Sub-Subsidiaries i.e., People's Leasing Fleet Management Ltd., People's Leasing Property Development Ltd., People's Insurance Ltd., People's Finance PLC, People's Microfinance Ltd., People's Leasing Havelock Properties Ltd. and its interest in Associate Company i.e., People's Merchant Bank PLC.

The Consolidated Financial Statements for the year ended 31st December 2011 were authorised for issue on 19th March 2012 by the Board of Directors.



2. Principal Activities

Bank

The Bank's business comprises,
Accepting Deposits, Granting
Credit Facilities, Personal Banking,
Development Banking, Pawnbroking,
International Trade, Dealing in
Government Securities, Leasing, Credit
Card Operations and FCBU for Foreign
Currency Banking.

Subsidiaries

The principal activities of People's Leasing Co. Ltd. are Providing Leases, Hire Purchase Assets, Financing and Islamic Financial Services. People's Travels Ltd., relates to arrangement of Tours and Air Ticketing.

Sub-Subsidiaries

The principal activities of the Bank's Sub-Subsidiaries are as follows:

Name of Company	Principal Activity
People's Leasing Fleet Management Ltd.	Providing operating leases
People's Leasing Property Development Ltd.	Providing property development and constructions
People's Insurance Ltd.	Providing non-life insurance services
People's Finance PLC	Granting finance leases, operating leases, hire purchase assets, financing and accepting deposits
People's Microfinance Ltd.	Microfinance Lending
People's Leasing Havelock Properties Ltd.	Development of Havelock Properties

Associates

The principal activities of People's Merchant Bank Ltd., relate to Trade Finance, Leasing, Hire Purchase, Real Estate, Short-Term Investments and Corporate Finance Services.



3. Directors' Responsibility for Financial Statements

The Board of Directors is responsible for the preparation and presentation of the Financial Statements of the Bank and its Subsidiaries in accordance with Sri Lanka Accounting Standards.



Statement of Compliance

The Consolidated Financial Statements and the Separate Financial Statements of the Bank have been prepared in accordance with generally accepted accounting principles and Sri Lanka Accounting Standards laid down by The Institute of Chartered Accountants of Sri Lanka. These principles and standards used in the preparation of these Financial Statements have been applied consistently with the preceding year and appropriately improved in compliance with the Revised Accounting Standards. The preparation and presentation of these Financial Statements are in compliance with the requirement of the Banking Act No. 30 of 1988 and Amendments thereto.



5. Comparative Information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period for all amounts reported in the Financial Statements in order

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to enhance the understanding of the current period's Financial Statements and to enhance the inter-period comparability.

The Accounting Policies adopted by the Bank and the Group are consistent with those of the previous financial year as permitted by Sri Lanka Accounting Standard No. 3 (Revised 2005) - 'Presentation of Financial Statements.' However, when the presentation or classification of items in the Financial Statements is amended, comparative amounts are also reclassified to conform with the current year's presentation.



Changes to the Accounting Policies

There were no changes to the Accounting Policies adopted by the Bank and Group during the year under review.

Effect of Accounting Standards Issued but not yet Effective:

The Institute of Chartered Accountants of Sri Lanka has issued a new volume of Sri Lanka Accounting Standards which have become applicable for financial periods beginning on or after 1st January 2012 and accordingly, the reporting framework for the year ending 31st December 2012 will be LKAS/SLFRS. Due to the complex nature of the effect of these Accounting Standards, the Bank carried out an initial impact analysis, based on few initial assumptions and approximation. The key impact areas for the Bank in 2012 with the adoption of LKAS/SLFRS as specified below:

LKAS 32 - Financial Instruments (presentation), LKAS 39 -Financial Instruments (Recognition and measurement) and SLFRS 07 - Financial Instruments (Disclosures)

These three standards provide a guidance on identification, classification, measurement and presentation of financial assets, financial liabilities, equity instruments and derivative instruments. According to these standards, it is required to measure such financial asset or liability at its fair value on initial recognition and transaction costs that are directly attributable to the acquisition or issue of financial asset, financial liability and subsequently measure either at fair value or amortised cost depending on the categorisation of financial assets and financial liabilities.

Further, principles used with regard to impairment provision estimation for loans and advances in the aforesaid Accounting Standards for financial assets are considerably different from the current rules set out by the Central Bank of Sri Lanka.

In accordance with the implementation plan set out by the Accounting Standard Committee, Central Bank of Sri Lanka and the banking industry, the Bank is currently in the process of evaluating the impact, the aforesaid Accounting Standards will have on its Financial Statements, and also has developed a road map to facilitate their implementation by the effective date, in order to comply with the requirements of these Accounting Standards.

Based on our preliminary assessment of potential impact, there is no additional provision required for impairment on loans and advances when compared with the existing provisions and interest in suspense in accordance with CBSL guidelines.

In addition to the above, there may be some impact with the adoption of other new/revised accounting standards which have become effective from 1st January 2012, and the Bank does not expect this to be material.



7. Basis of Preparation

7.1 Basis of Measurement

The Financial Statements of the Bank and Group are prepared in Sri Lankan Rupees on a historical cost basis except for the Government Treasury Bills & Bonds and Dealing Securities which are stated at valuation as explained in paragraph 8.5.6 and revaluation of certain freehold and leasehold premises. No adjustments have been made for inflationary factors.

7.2 Significant Accounting Judgements, Estimates and Assumptions

In the process of applying the Bank's Accounting Policies, management is required to make judgements, apart from those involving estimations, which may have a significant effect on the amounts recognised in the Financial Statements. Further, the management is required to consider key assumptions

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concerning the future and other key sources of estimation uncertainty at the Balance Sheet date, that have significant risk of causing a material adjustment to the carrying amount of assets and liabilities. The respective carrying amounts of assets and liabilities are given in the related Notes to the Financial Statements. The key items which involve these judgements, estimates and assumptions are discussed below.

7.2.1 Defined Benefit Plans

The cost of the defined benefit plans such as pension and gratuity are determined using actuarial valuation. The actuarial valuation is based on assumptions on discount rates, expected return on assets, future salary increases, mortality rates, etc. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

7.2.2 Impairment Losses on Loans and Advances

In addition to the provision made for possible loan losses based on the parameters and directives for specific and general provision on Loans and Advances by the Central Bank of Sri Lanka, the Bank reviews its Loans and Advances portfolio at each recruiting date or more frequently, if events or changes in circumstances necessitate to assess whether further provision for impairment against exposures which, although not specifically identified as requiring specific provisions, have a greater risk of default than when originally granted.

The judgement by the management is required in the estimation of these amounts and such estimations are based on assumptions about a number of factors such as any deterioration of country risk, industry and technological obsolescence, as well as identify structural weaknesses and deterioration in cash flows.

7.2.3 Impairment of Non-Financial Assets

The Group assesses at each reporting date or more frequently if events or changes in circumstances indicate that the carrying value may be impaired, whether there is an indication that a non-financial asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

7.3 Offsetting

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a legally enforceable right to set-off the recognised amounts and there is an intention to settle on a net basis, or realise the assets and settle the liability simultaneously.

8. Summary of Significant Accounting Policies

The Principal Accounting Policies applied in the preparation of these Consolidated Financial Statements are set out below:

8.1 Basis of Consolidation

8.1.1 Subsidiary Companies

The Subsidiary Companies are accounted in conformity with Sri Lanka Accounting Standard No. 26 (Revised 2005) - 'Consolidated and Separate Financial Statements', which are those companies in which the Bank, directly or indirectly has an interest of more than one-half of the voting rights or otherwise has power to exercise control over financial and operating policies, have been consolidated. Subsidiaries are consolidated from the date on which effective controls are transferred to the Bank and are no longer consolidated from the date of disposal. Accounting Policies for Subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. The interests of the outside shareholders are disclosed separately under the heading 'Minority Interest'.

The Consolidated Financial Statements include the results, assets and liabilities of People's Bank and its Subsidiaries up to the end of 31st December 2011. All Subsidiaries have 31st March financial year ends. Accounts drawn up as at 31st December 2011 have been used

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in the consolidation. The Consolidated Income Statement reflects profits or losses relating to the Subsidiaries for 12 months from 1st January 2011 to 31st December 2011.

8.1.2 Associate Companies

Associates are those enterprises in which the Group has significant influence, but not control over the financial and operating policies.

Investments in associate companies are accounted for under the equity method, in conformity with Sri Lanka Accounting Standard No. 27 (Revised 2005) - 'Investment in Associates', whereby the Group's shares of profits/losses of the associate companies are included in the Consolidated Income Statement. The Group's share of post-acquisition retained profits/losses and reserves is aggregated with the cost of this investment in the Consolidated Balance Sheet.

8.1.3 Goodwill on Consolidation

Goodwill acquired in a business combination is initially measured at cost, being the excess of the cost of the business combination over the Bank's interests in the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Sri Lanka Accounting Standard No. 25 (Revised 2004) on 'Business Combinations' requires that following the initial recognition, goodwill is to be measured at cost, less any accumulated impairment losses and goodwill to be

reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

8.1.4 Transactions Eliminated on Consolidation

All inter-company transactions, balances and unrealised surpluses and deficits on transactions between the Bank and subsidiary companies have been eliminated in preparing the Consolidated Financial Statements.

8.2 Foreign Currency Translation

The Consolidated Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency. Each entity in the Group determines its own functional currency and items included in the Financial Statements of each entity are measured using the functional currency.

8.2.1 Monetary assets and liabilities denominated in foreign currencies are translated using the rates of exchange ruling at the Balance Sheet date and transactions in foreign currencies during the year are converted at the rate ruling at the transaction date and foreign exchange differences resulting from the translation and settlement of transactions, are recognised in the Income Statement in compliance with Sri Lanka Accounting Standard No. 21 on 'The Effects of Changes in Foreign Exchange Rates'.

Non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the date of the initial transaction.

8.2.2 Foreign exchange commitments under forward purchases and sales contracts are valued at the forward market rate ruling on the date of the Balance Sheet and other Off-Balance Sheet items at exchange rates prevailing on transaction dates. Unrealised gains and losses are dealt with through the Income Statement.

8.2.3 Transactions of the Off-Shore Banking Centre have been recorded in accordance with the paragraph 8.2.1 overleaf except for the application of monthly average exchange rate in the Income Statement.

8.3 Taxation

8.3.1 Current Taxation

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the Commissioner General of Inland Revenue in respect of the current year as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or subsequently enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit for the year as adjusted for taxation purpose in accordance with the provision of the Inland Revenue Act No. 10 of 2006 and the Amendment thereto, at the rates specified in Note 08 to the Financial Statements.

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8.3.2 Deferred Taxation

Deferred tax is provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purpose. Deferred tax liabilities are recognised for all temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in Subsidiaries and Associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible differences. Carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

 Where deferred tax assets relating to the deductible temporary differences arise from the initial recognition of an

- asset or liability in a transaction that is not a business combination and at the time of the transaction, affects neither the accounting profit nor the taxable profit or losses; and
- In respect of deductible temporary differences associated with investments in Subsidiaries and Associates, deferred tax assets are recognised only to the extent it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which temporary differences can be utilised.

The carrying amount of a deferred tax asset is reviewed at each Balance Sheet date and reduced to the extent it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each Balance Sheet date and are recognised to the extent that it is probable that future taxable profit will allow the deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised or the liabilities are settled, based on tax rates and tax laws that have been enacted or subsequently enacted at the Balance Sheet date.

Deferred tax assets and liabilities are set-off if a legally enforceable right exists to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

8.3.3 Value Added Tax on Financial Services (VAT)

The Bank's total value addition was subjected to a 12% Value Added Tax as per Section 25 A of the Value Added Tax Act No. 14 of 2002 and Amendments thereto.

8.3.4 Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No. 13 of 2006, ESC is payable on the liable turnover at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set-off against the income tax payable in the four subsequent years.

8.4 Events after the Balance Sheet Date

All material events arising after the Balance Sheet date, if any and where necessary, have been considered and appropriate adjustments and disclosures have been made in the Financial Statements.

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8.5 Assets and Bases of their Valuation

8.5.1 Cash and Short-Term Funds

Cash and Short-Term Funds include cash in hand, balances with banks, placements with banks and money at call and at short notice. Details of the cash and short-term funds are given in Note 10 to the Financial Statements.

8.5.2 Balances with the Central Bank

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a statutory reserve equal to 8% on all local currency deposits. Details of the cash and short-term funds are given in Note 10 to the Financial Statements.

8.5.3 Loans and Advances to Customers

Loans and Advances to Customers are stated in the Balance Sheet net of provision for possible loan losses and net of interest in suspense, which is not accrued to revenue.

8.5.3.1 Non-Performing Loans and Advances

Loans and Advances which are in arrears of due capital and/or interest are classified as non-performing as per the Direction No. 3 of 2008 on 'Classification of Loans and Advances, Income Recognition and Provisioning', as amended by the Direction No. 9 of 2008 on 'Amendments to Directions on

Classification of Loans and Advances, Income Recognition and Provisioning for Licensed Commercial Banks in Sri Lanka' of the Central Bank of Sri Lanka

Details of the non-performing Loans and Advances are given in Note 13.6 to the Financial Statements.

8.5.3.2 Provision for Loan Losses

Provision for bad and doubtful loans is made on the basis of a continuous review of all loans and advances to customers. In determining the level of the provision required, management considers numerous factors including, but not limited to, composition of the loan portfolio, period outstanding, prior experience and stipulations of the Central Bank of Sri Lanka in relation to provisioning for doubtful debts. Specific provision is made for those loans that have been individually reviewed and identified as bad or doubtful in accordance with Sri Lanka Accounting Standard No. 23 on 'Revenue Recognition and Disclosure in the Financial Statements of Banks'.

A general provision for loans and advances is made on the basis of 0.5% of performing and overdue loans and advances according to the Central Bank Guidelines.

The Bank has complied with the Standards and Guidelines that have been issued by the Central Bank of Sri Lanka in connection with the accounting and classification of non-performing advances and provision for possible losses that may arise from such advances.

8.5.3.3 The classification of these doubtful Loans and Advances together with the level of provisioning made is as follows:

Period Outstanding	Classification	Provisions made on Exposures net of Realisable Value of Security(%)
	Sub-standard	
4 to 6 months	Credit Cards	25
6 to 12 months	Others	20
	Doubtful	
6 to 8 months	Credit Cards	50
12 to 18 months	Others	50
	Loss	
8 months and over	Credit Cards	100
18 months and over		100

The discounted realisable value or the net realisable value of security as per the amended directions issued on 9th May 2008 by the Central Bank of Sri Lanka under Sections 46 (1) and 46 (A) of the Banking Act No. 30 of 1988 as amended by Amendment Banking Act No. 33 of 1995 is considered in provisioning for advances.

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8.5.3.4 Amended guidelines for discounting of immovable property are as follows:

% of Forced Sale Value of Immovable Property that can be considered as the Value of Security

	the value of Set	curity
	Freehold Property	Leasehold Property
At the first time of provisioning	75%	60%
Period of Los	s Section	
Less than 12 Months	75%	60%
12 to 24 Months	60%	50%
24 to 36 Months	50%	40%
36 to 48 Months	40%	30%
More than 48 Months	Property should be reviewed on a regular basis, and discounted further at management discretion	Nil

Where an Advance is in Loss Category of Immovable Freehold Property over 4 years, the Central Bank of Sri Lanka has given the discretion to determine the discount factor to the Board of Directors. Accordingly, the Board has decided to discount the Forced Sale Value of Immovable Freehold Property offered as security for Advances in the Loss Category for more than four years, by 30%.

8.5.3.5 When a loan is uncollectible it is written-off against the related provision for loan losses and uncovered balances, if any, are charged against the Income Statement. Subsequent recoveries of loans are credited to the Income Statement against which such sums had been previously written-off.

8.5.4 Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title are classified as finance leases. Lease rentals receivable are stated in the Balance Sheet net of provision for doubtful debts and net of interest in suspense, which is not accrued to revenue. The accounting for leases is in conformity with Sri Lanka Accounting Standard No. 19 (Revised 2005) on 'Leases'.

8.5.4.1 Provision for Lease Receivable

Specific provision has been made in relation to identified bad and doubtful leases.

In addition, a general provision for possible losses on Lease Receivable is made at 0.5% of the total Lease Receivable according to the Central Bank Guidelines.

8.5.5 Credit Card Receivable

Amounts receivable on credit cards are included in Loans and Advances to customers at the amount expected to be recovered.

Provision for credit card receivable is made when minimum payment is in arrears for periods exceeding 4 months and beyond.

In addition, a general provision for possible losses on credit card receivable is made at 0.5% of the total credit card receivable according to the Central Bank Guidelines.

8.5.6 Investments

8.5.6.1 Dealing Securities

Dealing Securities are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are carried at the market value at the Balance Sheet date. Any gains/losses in market value are accounted for in the Income Statement.

8.5.6.2 Investment in Government Securities held for Maturity and held for Sale

Investments in Government of Sri Lanka
Treasury Bills and Bonds, other
Government Securities and Central Bank
Securities are purchased primarily with
the intention of holding them to maturity
and are stated at cost. Discount/
Premium on purchase is amortised/
accredited to income/expenditure on a
pattern reflecting a constant periodic
rate of return.

Securities purchased for trading purpose are marked to market, based on current market rates. PAGE 165
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Long-term Treasury Bonds received in settlement of outstanding loans to CWE are treated as an Investment Security and are stated at cost

Securities purchased under Resale Agreements are advances collateralised by purchase of Treasury Bills and Treasury Bonds from the public, subject to an agreement to re-sell them at a predetermined price. The asset is recorded in respect of the consideration paid and interest accrued thereon.

8.5.6.3 Other Investments Securities

Investments (other than Government Securities) that are held for long-term or until maturity are stated at cost. Provision is made for any diminution in value, other than for those which are temporary, determined on an individual basis for each investment.

8.5.6.4 Investments in Subsidiaries

Investments in Subsidiaries are stated at cost in the Bank's Financial Statements in accordance with Sri Lanka Accounting Standard No. 26 (Revised 2005) on 'Consolidated Financial Statements and Accounting for Investment in Subsidiaries'.

8.5.6.5 Investments in Associates

Investments in Associates are accounted for under the cost method in the Bank's Financial Statements and under the equity method in the Consolidated Financial Statements in accordance with Sri Lanka Accounting Standard
No. 27 (Revised 2005) on 'Accounting for
Investments in Associates'.

8.5.7 Foreclosed Property

The immovable property acquired by foreclosure of collateral from defaulting customers, or which has devolved on the Bank as part settlement of debt, has not been accounted for as an investment property or as part of the assets of the Bank in accordance with directions issued by the Central Bank of Sri Lanka.

8.5.8 Property, Plant & Equipment 8.5.8.1 Basis of Recognition

Property, Plant & Equipment are recognised as an asset if it is probable that future economic benefits associated with the item will flow to the Bank and cost of the asset can be measured reliably.

8.5.8.2 Measurement

An item of Property, Plant & Equipment that qualifies for recognition as an asset is initially measured at its cost of purchase directly attributable to the acquisition of the asset or construction or valuation together with any incidental expenses thereon. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located.

Cost Model

Plant & Equipment are stated at cost, excluding the cost of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost includes the cost of replacing part of the Plant & Equipment when the cost is incurred, if the recognition criteria are met.

Revaluation Model

The Bank applies the revaluation model for the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation, less any subsequent accumulated depreciation and impairment charged subsequent to the date of the revaluation.

Revaluations are performed every 7 years to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any revaluation surplus is credited to the revaluation reserve included in the equity section of the Balance Sheet, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except that deficit directly offsetting a previous surplus on the same asset is directly offset against the surplus in the asset revaluation reserve.

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Subsequent Cost

The cost of replacing part of an item of Property, Plant & Equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow into the Group and its cost can be reliably measured.

Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant & Equipment in order to restore or maintain future economic benefits is charged to Income Statement as incurred.

Derecognition

An item of Property, Plant & Equipment is derecognised upon disposal when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the Income Statement in the year the asset is derecognised.

Capital Work-in-Progress

These are expenses of a capital nature directly incurred in the construction of building, major plant and machinery and system development, awaiting capitalisation. These are stated in the Balance Sheet at cost.

8.5.8.3 Depreciation

Depreciation is calculated on a straightline basis over the useful life of the asset. The asset's residual value, useful life and method of depreciation are reviewed, and adjusted, if appropriate, at each financial year-end. The rates of depreciation are given below:

Category of Asset	Period of Depreciation
Leasehold Building	over the period of lease
Freehold Buildings	2% p.a.
Furniture, Equipment & Machinery	20% p.a.
Freehold & Leasehold Motor Vehicles	25% p.a.
Prepaid Leases	over the period of lease

8.5.9 Leasehold Property

Leasehold property is stated at recorded carrying value as per the Sri Lanka Accounting Standard No. 19 (Revised 2005) on 'Leases'. Such carrying amounts are amortised over the remaining lease period of the leasehold property. Details of the Leasehold Property are given in Note 20 to the Financial Statements.

8.5.10 Intangible Assets 8.5.10.1 Basis of Recognition

An intangible asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with Sri Lanka Accounting Standard No. 37 on 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. Following the initial recognition of the intangible asset, the cost model is applied requiring the asset to be

carried at cost, less any accumulated amortisation and accumulated impairment losses.

8.5.10.2 Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed when incurred.

8.5.10.3 Amortisation

The useful lives of intangible assets are assessed to be either finite or infinite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with the finite useful life is reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible asset with finite life is recognised in the Income Statement.

The useful lives and the amortisation methods of Intangible Assets with finite life are as follows:

The Class of Intangible Assets		Amortisation Method
IT-related	5 Years	Straight-
capital items		line method

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8.5.10.4 Derecognition

Intangible assets are derecognised when it reveals that they will not generate economic benefits or circumstances indicate that the carrying value is impaired. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset are recognised in the Income Statement when the asset is derecognised.

8.5.11 Other Assets

All other assets are valued net of specific provision, where necessary, so as to reduce the carrying value of such assets to reflect their estimated realisable values.

8.6 Liabilities and Provisions

8.6.1 **Deposits from Customers**

Deposits include non-interest bearing deposits, savings deposits, term deposits, deposits payable at call and certificates of deposits. They are stated in the Balance Sheet at amount payable, interest paid/payable on these deposits are charged to the Income Statement.

8.6.2 Borrowings

Borrowings include refinance borrowings, call money borrowings, REPO borrowings and borrowings from financial institutions. Borrowings are stated in the Balance Sheet at amount payable, interest paid/payable on these borrowings are charged to the Income Statement.

8.6.3 Securities Sold under Repurchase **Agreements**

These are borrowings collateralised by sale of Treasury Bills and Bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to an agreement to repurchase at a predetermined price. Such securities remain on the Bank's Balance Sheet and the liability is recorded in respect of the consideration received and interest accrued thereon.

8.6.4 Debentures

These represent the funds borrowed by the Bank for long-term funding requirements. These are recorded in the Balance Sheet at the cash value to be realised when settled. Details of Debentures are given in Note 27.

Pension Plans

8.6.5.1 Defined Benefit Pension Plans

8.6.5.1.1 Pre-1996 Pension Scheme

The People's Bank Pre-1996 Pension Scheme is a funded, non-contributory, defined retirement benefit scheme, operated for the payment of pensions to the members of its permanent staff who qualify for such payment. Permanent staff who have joined the Bank prior to 1st January 1996 qualify to be members of this Pension Scheme.

The Bank has complied with Sri Lanka Accounting Standard No. 16 (Revised 2006) on 'Employee Benefit' and Sri Lanka Accounting Standard No. 42 on 'Accounting and Reporting

by Retirement Benefit Plans', when accounting and reporting of Retirement Benefit Plans.

The Bank provides an annual contribution to the Pension Fund, based on actuarial valuation estimates on the required funding level that is needed to maintain the Pension Fund at or near a fullyfunded state. The actuarial valuation uses assumptions relating to actuarial estimates of life expectancy, future earnings income from investments of the Fund, retirement expectations of staff, inflation rate projections and estimations of annual wage rate increases.

The latest actuarial valuation was carried out as of 1st January 2011, by Piyal S. Gunatilleke FSA (USA), Member of the American Academy of Actuaries and Consulting Actuaries. The valuation has been carried out, based on Projected Benefit Method recommended by Sri Lanka Accounting Standard No. 16 (Revised 2006) on 'Employee Benefits'.

The principal financial assumptions used in the valuation as at 1st January 2011 are as follows:

Interest/Discount Rate	10% p.a.
Increase in Cost of	5% p.a.
Living Allowances	

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The Bank provides a pension to retiring staff on the following basis:

Staff are eligible to draw a pension after 10 years of service and after reaching normal age of retirement of 55 years. The quantum of pension paid is dependent on the length of service which is as follows:

Length of Service	Quantum of Pension
(i) 10 to 20 years	80% of last drawn salary.
(ii) 21 to 29 years	80% plus 1% for each additional year in excess of 20 years of last drawn salary.
(iii) 30 years and above	90% of last drawn salary.

A separate fund is maintained to meet future obligations of the Fund, based on the recommendation of a qualified Actuary and managed by a Board of Trustees. Pension payments are made out of the funds of the Pension Fund, while annual contributions are made by the Bank to top-up the funding level of the Fund as explained above.

The accounts of the Pension Fund are maintained separately and are subject to annual audit by Independent External Auditors. The Statement of Accounts as well as the Auditor's Report are tabled and reviewed by the Board of Trustees. These Statements of Accounts and Auditor's Report are also submitted for review of the disclosure of the Bank, as the Bank has an obligation of ensuring that funding is made at optimum levels. Pension is payable monthly as long as the participant is alive.

A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle such obligations, in accordance with Sri Lanka Accounting Standard No. 36 on 'Provisions, Contingent Liabilities and Contingent Assets'.

8.6.5.1.2 Gratuity

The employees who joined the Bank on or after 1st January 1996 will be eligible for gratuity under the Payment of Gratuity Act No. 12 of 1983, as they are not eligible to join the Pension Scheme described in 8.6.5.1.1.

Other employees whose services are terminated other than by retirement are eligible to receive the terminal gratuity under the Payment of Gratuity Act
No. 12 of 1983 at the rate of one-half of the gross salary applicable to the last month of the financial year in which the employment is terminated, for each year of continuous service, for those who have served in excess of 5 years.

The Bank makes a monthly provision towards such Gratuity Payment Liabilities and this value is reflected in the Balance Sheet of the Bank. Up to 31st December 2007, the Bank made a provision, based on the gratuity formula. However, from 2008 onwards in line with Sri Lanka Accounting Standard No. 16 (Revised 2006) on 'Employee Benefits', the provision is made, based on actuary's valuation.

The Subsidiary and Associate Companies of the Bank provide for gratuity under the Payment of Gratuity Act No. 12 of 1983. Provision for gratuity has been made for employees who have completed one year of service with the companies, in accordance with Sri Lanka Accounting Standard No. 16 (Revised 2006) on 'Employee Benefits'. These liabilities are not externally funded.

8.6.5.2 Defined Contribution Plans

Contributions to Defined Pension Plans are recognised as an expense in the Income Statement on monthly basis.

The Bank contributes to the following Schemes:

8.6.5.2.1 Employees' Provident Fund

The Bank and employees contribute 12% and 8%, respectively, of the employee's monthly gross salary (excluding overtime) to the Provident Fund. The Bank's Provident Fund is an approved fund under the Employees' Provident Fund Act.

8.6.5.2.2 Employees' Trust Fund

The Bank contributes 3% of the employee's monthly gross salary (excluding overtime) to the Employees' Trust Fund maintained by the Employees' Trust Fund Board.

8.6.5.3 Post-1996 Pension Scheme

As approved by the Ministry of Finance, the Bank plans to initiate a new pension scheme for permanent employees who joined the Bank post - 1st January 1996.

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The Bank has transferred Rs. 198 Mn of the gratuity fund as initial start up or seed money for this new pension scheme. In addition, Rs. 150 Mn, Rs. 200 Mn and Rs. 200 Mn were funded in the years 2009, 2010 and 2011 respectively for this proposed scheme.

The Bank still awaits formal approval and clearance on this scheme by the Ministry of Finance and other related authorities.

Signing of a common Trust Deed, appointment of Trustees, monthly contributions to this fund, fund management, disbursement of pensions and other details are to be finalised in the year 2012.

8.6.5.4 Widows'/Widowers' and Orphans' Pension Scheme

A separate Fund is maintained by the Bank to meet the future obligations under the Scheme, based on the advice of a qualified actuary, and a separate set of books of accounts maintained to record movements of the Fund. Pension payments are charged against the Fund in respect of surviving Widows/Widowers and Orphans.

Provision for Liabilities

A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle such obligations, in accordance with

Sri Lanka Accounting Standard No. 36 on 'Provisions, Contingent Liabilities and Contingent Assets'.

8.7 Income Statement

8.7.1 Revenue Recognition

8.7.1.1 Interest Income from Customer Advances

In terms of provisions of Sri Lanka Accounting Standard No. 23, 'Revenue Recognition and Disclosures in the Financial Statements of Banks', Interest Income from advances is recognised on an accrual basis. Interest ceases to be taken into revenue when principal and/or interest on an advance is more than 90 days overdue and is classified as a non-performing loan.

Interest on advances that is classified as non-performing has been accounted for on a cash basis.

Interests falling due on non-performing advances have been credited to the Interest in Suspense Account. Interest accrued up to three months on such non-performing advances has been eliminated from Interest Income and transferred to Interest in Suspense.

8.7.1.2 Interest Income from Other Sources

Interest Income from Money Market Operations, Government Securities and other Investments are recognised on an accrual basis. Discounts on purchase are amortised to income on a constant yield basis over periods to maturity.

Income from all other interest-bearing investments and interest coupons of Treasury Bonds is recognised on an accrual basis

8.7.1.3 Fees and Commission Income

Fees and Commission Income are recognised on cash basis and comprise mainly of fees received from customers for guarantees and other services provided by the Bank, together with fees for foreign and domestic payment tariffs.

Income on the endorsement of Bills of Exchange is recognised only when the Bill is received and either issued or endorsed and payment under the particular instrument has been effected.

8.7.1.4 Dividend Income

Dividend Income is recognised on a cash basis.

8.7.1.5 Gains or Losses Arising from Sale of Securities

All realised gains and losses from the sale of equity shares, units and financial instruments, including Treasury Bills sold prior to maturity are accounted for in the Income Statement on the date on which the transaction takes place.

8.7.1.6 Recovery of Non-Performing Loans and Advances

Interest recovered from Non-Performing Loans and Advances is recognised as income on a cash basis.

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8.7.1.7 Accounting for Lease Income

The Bank follows the finance lease method of Accounting for Lease Income as recommended by Sri Lanka Accounting Standard No. 19.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned lease income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease commencing with the month in which the lease is executed in proportion to the declining receivable balance.

Gross earnings under finance leases in respect of lease rentals due, cease to be taken to revenue when they are in arrears for over three months. Thereafter, such income is recognised on cash basis.

8.7.1.8 Other Income

Other Income is recognised on an accrual basis.

8.7.2 Interest on Deposits and Borrowings and Other Expenses

Interest on Deposits and Borrowings and Other Expenses payable are recognised on an accrual basis in the Income Statement, in accordance with Sri Lanka Accounting Standard No. 23, 'Revenue Recognition and Disclosures in Financial Statements of Banks'.

8.7.3 Off-Balance Sheet Transactions

The Bank enters into Off-Balance Sheet Transactions such as forward exchange contracts and currency SWAPS.

Unrealised gains and losses are dealt with through the Income Statement.

8.8 Commitment and Contingencies

All discernible risks have been accounted for in determining the amount of other liabilities. The Bank's share of any contingencies and capital commitments of a Subsidiary or an Associate for which the Bank is also liable severally or otherwise has been included where necessary with appropriate disclosures.

8.9 Segment Reporting

In accordance with Sri Lanka Accounting Standard No. 28 on 'Segment Reporting', the Bank has presented the required disclosures in respect of the Group business. These segments comprise Banking, Leasing and Travels under business segments. In addition, the Bank has also geographically divided operations between domestic and foreign currency banking under geographical segments. Information relating to the above is reflected in the Note 33 to the Accounts of the Bank.

8.10 Cash Flow Statement

The Cash Flow Statement has been prepared by using the 'Direct Method' of preparing cash flows in accordance with Sri Lanka Accounting Standard No. 9 on 'Cash Flow Statements'. Cash and cash equivalents comprise cash balances and short-term funds with less than 90 days' maturity and amounts due to Banks from the date of acquisition including cash and balances with the Central Bank, Treasury Bills and other eligible Bills and amounts due from other Banks and Trading Securities have been included in the computation of this Statement.

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	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
1. Interest Income				
Loans and Advances	48,494,273	43,458,663	60,544,981	51,386,491
Treasury Bills and Treasury Bonds	9,318,563	9,990,259	9,318,563	9,990,259
Government of Sri Lanka Restructuring Bonds	1,684,290	_	1,684,290	-
Placement with Other Banks and Other Money Market Instruments	2,325,343	3,085,250	2,567,175	3,182,570
Total Interest Income	61,822,469	56,534,172	74,115,009	64,559,320
2. Interest Expenses				
Customer Deposits	27,395,121	26,832,472	27,329,738	26,804,234
Refinance and Bank Borrowings	3,570,785	3,065,647	9,387,025	6,387,341
Others	737,500	737,603	737,500	737,603
Total Interest Expenses	31,703,406	30,635,722	37,454,263	33,929,178
- Quoted	10,547 23,301	18,999	10,547 23,301	18,999 10.748
Dividends from Investments	10 E/7	10.000	10 E/7	10.000
- Unquoted	23,301	10,748	23,301	10,748
- Subsidiaries and Associate Companies	833,250	288,385	-	-
Profit on Share Trading	_	_	_	-
Recovery of Bad Debts Written-Off and Provision Reversals	1,026,434	1,058,934	1,048,931	1,102,931
Other Operating Income	143,652	156,204	749,600	750,744
Total Other Income	2,037,184	1,533,270	1,832,379	1,883,422
4. Operating Expenses				
4. Operating Expenses				
Operating Expenses Operating Expenses Include inter alia the following;				
. 5 .	3,117	1,645	5,898	4,013
Operating Expenses Include <i>inter alia</i> the following;	3,117 4,458	1,645 8,120	5,898 7,472	
Operating Expenses Include <i>inter alia</i> the following; Directors' Emoluments - Fees				10,658
Operating Expenses Include <i>inter alia</i> the following; Directors' Emoluments - Fees Auditors' Remuneration Depreciation of Property, Plant & Equipment (Note 19)	4,458	8,120	7,472	10,658 731,955
Operating Expenses Include inter alia the following; Directors' Emoluments - Fees Auditors' Remuneration Depreciation of Property, Plant & Equipment (Note 19) Amortisation of Prepaid Leases	4,458 908,383	8,120 592,245	7,472 1,095,536	10,658 731,955 25,329
Operating Expenses Include <i>inter alia</i> the following; Directors' Emoluments - Fees Auditors' Remuneration	4,458 908,383 23,864	8,120 592,245 25,329	7,472 1,095,536 23,864	4,013 10,658 731,955 25,329 (30,660) 4,053,556

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	BANK	(GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
5. Provision for Staff Retirement Benefits				
5.1 Bank's Contribution to Defined Benefit Plans				
People's Bank Pension Trust Fund	1,260,000	1,116,009	1,260,000	1,116,009
Proposed Pension Plan for Post-1996 Recruited Employees	200,000	200,000	200,000	
People's Bank Widows'/Widowers' & Orphans' Pension Fund	39,120	39,120	39,120	200,000 39,120
Total Contribution for the Year	1,499,120	1,355,129	1,499,120	1,355,129
6. Provision for Loan Losses				
General Provision				
- Performing Loans/(Reversal)	(592,774)	92,843	(592,774)	92,843
- Pawning	469,720	189,586	469,720	189,586
- Bills Charge/(Reversal)	55,692	(64,872)	55,692	(64,872)
- Leases Charge/(Reversal)	(5,926)	(10,944)	(1,904,875)	(10,944)
Specific Provisions				
- Non-Performing Loans	1,064,129	812,504	1,026,535	1,218,628
- Bills	_	-	-	-
- Leases Charge/(Reversal)	_	_	_	_
- Credit Card	(19,922)	(5,711)	(19,922)	(5,711)
Total Provision for Loan Losses	970,919	1,013,406	(965,624)	1,419,530
7. Provision for (Fall)/Increase in Value of Dealing Securities and Others				
(Fall)/Increase in Value of Dealing Shares	(119,396)	54,560	(119,396)	54,560
(Fall)/Increase in Value of Investment (SriLankan Airlines)	(59,824)	(841,842)	(59,824)	(841,842)
(Fall)/Increase in Value of Treasury Bonds	(255,197)	(74,337)	(255,197)	(74,337)
(Fall)/Increase in Value of Treasury Bills	(55,011)	54,320	(55,011)	54,320
Net Provision for Gains/(Losses) on Dealing Securities and Others	[489,428]	(807,299)	[489,428]	(807,299)

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	BANK	<	GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
8. Provision for Taxation				
8.1 Provision for Taxation is as follows:				
Bank				
Income Tax on Profits for the Year	4,812,323	3,729,695	4,812,323	3,729,695
Under/(Over) Provision for Taxation in Previous Year	465,734	(168,757)	465,734	(168,757)
Transfer/(Reversal) to Deferred Taxation	(124,429)	3,716	(124,429)	3,716
	5,153,628	3,564,654	5,153,628	3,564,654
Subsidiary Companies				
People's Leasing Co. Ltd.	-	-	1,913,411	1,215,076
People's Travels (Pvt) Ltd.	_	_	985	3,986
Associate Company				
People's Merchant Bank	-	-	-	4,021
	5,153,628	3,564,654	7,068,024	4,787,737

Income tax liability has been computed based on Inland Revenue Act No. 10 of 2006. As the Bank's ESC liability is more than Rs. 30 Mn per quarter, the balance is limited to pay maximum amount of Rs. 120 Mn Economic Service Charges per annum and this payment has been set off against the income tax liability.

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	BAN	К
	2011 Rs. '000	2010 Rs. '000
8.2 Income Tax Reconciliation		
Profit before Tax	15,310,666	8,771,077
Add: Disallowable Expenses	5,082,436	6,943,440
Less: Tax Deductible Expenses	(2,936,937)	(5,035,015)
Assessable Income	17,456,165	10,679,502
Less: Qualifying Payments	-	-
Taxable Income	17,456,165	10,679,502
Income Tax at 28%	4,718,861	3,590,244
Income Tax at 20%	93,462	84,332
Deemed Dividend Tax	_	-
Social Responsibility Levy	_	55,119
Income Tax on Current Year Profit	4,812,323	3,729,695
(Over)/Under Provision in respect of Previous Year	465,734	(168,757)
Increase/(Decrease) in Current Year Profit	5,278,057	3,560,938
Deferred Tax Charged/(Credit)	(124,429)	3,716
Notional Tax Credit	-	-
Income Tax Expenses	5,153,628	3,564,654
Effective Tax Rate	34%	41%

8.3 Income Tax has been Provided on the Taxable Income at the Following Rates:

	2011 %	2010 %
Domestic Operations of the Bank	28	28
On-Shore Banking Operations of the Off-Shore Banking Unit	28	28
Off-Shore Banking Operations of the Off-Shore Banking Unit	20	20
People's Leasing Co. Ltd.	28	28
People's Travels (Pvt) Ltd.	15	15
People's Merchant Bank PLC	28	28

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

The Inland Revenue (Amendment) Act No. 10 of 2006, provides that a company, which derives interest income from the secondary market transactions in Government Securities 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.

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9. Earnings Per Share

9.1 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	
	2011	2010	2011	2010	
Number of Ordinary Shares of Rs. 50/- in Issue ('000)	1,000	1,000	1,000	1,000	
Net Profit after Tax (Rs. Mn)	10,157	5,206	13,529	6,579	
Earnings per Share (Rs.)	10,157	5,206	13,529	6,579	

9.2 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	
	2011	2010	2011	2010	
Number of Ordinary Shares of Rs. 50/- in Issue ('000)	1,000	1,000	1,000	1,000	
Number of Ordinary Shares Pending Allotment (Note 29) ('000)	143,040	143,040	143,040	143,040	
Total Shares in Issue and Pending Allotment ('000)	144,040	144,040	144,040	144,040	
Diluted Earnings per Share (Rs.)	71	36	94	46	
	BANK		GROUP		
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	
10. Cash and Short-Term Funds					
Cash in Hand and Balances with Banks	16,799,554	11,339,780	17,882,596	11,998,344	
Money at Call and Short Notice	18,224,811	35,017,148	22,093,613	36,850,064	
Total Cash and Short-Term Funds	35,024,365	46,356,928	39,976,209	48,848,408	
11. Balance with the Central Bank					
Current Account with Central Bank	35,717,033	26,739,341	35,717,033	26,739,341	

The balance with the Central Bank of Sri Lanka is the statutory cash reserve is 8% of Rupee deposit liabilities. This is a non-interest bearing balance. A similar reserve is not required in respect of foreign currency deposits liabilities in the Domestic Banking Unit and Deposit Liabilities in the Off-Shore Banking Unit.

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	BAN	K	GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
12. Government Treasury Bills and Treasury Bo	nds			
Treasury Bills	17,651,108	13,484,273	17,980,570	13,484,273
Treasury Bonds	50,475,447	55,325,439	50,475,447	55,325,439
Gain/(Loss) on Mark to Market Valuation	(268,119)	42,090	(268,119)	42,090
Total Government Treasury Bills and Treasury Bonds	67,858,436	68,851,802	68,187,898	68,851,802
12.1 Government Treasury Bills and Treasury Bonds				
Gross Government Treasury Bills and Treasury Bonds held for Trading	23,289,988	20,455,714	23,619,450	20,455,714
Gain/(Loss) on Mark to Market Valuation	(268,119)	42,090	(268,119)	42,090
Net Government Treasury Bills and Treasury Bonds held for Trading	23,021,869	20,497,804	23,351,331	20,497,804
Government Treasury Bills and Treasury Bonds held to Maturity	44,836,567	48,353,998	44,836,567	48,353,998
	67,858,436	68,851,802	68,187,898	68,851,802

Government Treasury Bills and Bonds held to maturity include the investment made using the Investment Fund Account (IFA) amounting to Rs. 1.6 Bn.

12.2 Assets Pledged

The following assets have been pledged as security for liabilities:

Nature of Liabilities	Nature of Assets				
Secured against the	Government Treasury Bills	_	_	_	_
	Government Treasury Bonds	14,342,250	29,403,207	14,342,250	29,403,207
Total		14,342,250	29,403,207	14,342,250	29,403,207

The above disclosed amount signifies the carrying amount of assets pledged of Government Treasury Bills and Treasury Bonds as at 31st December 2011.

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	BANI	K	GROUP		
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	
13. Loans and Advances					
13.1 Bills of Exchange					
13.1.1 Bills of Exchange					
Export Bills	703,977	860,601	703,977	860,601	
Import Bills	1,605,326	1,826,065	1,605,326	1,826,065	
Local Bills	14,295,969	1,115,994	14,295,969	1,115,994	
Gross Bills of Exchange	16,605,272	3,802,660	16,605,272	3,802,660	
Less: Provision for Losses (Note 13.1.2), (Note 13.1.3)	(1,706,149)	(1,704,475)	(1,706,149)	(1,704,475)	
Net Bills of Exchange	14,899,123	2,098,185	14,899,123	2,098,185	
13.1.2 Provision for Doubtful Bills - Specific					
Opening Balance	1,686,245	1,686,245	1,686,245	1,686,245	
Provisions during the Year	2,132	_	2,132	_	
Provision Reversals	(47,419)	-	(47,419)	_	
Amount Written-off against Provisions	(8,731)	_	(8,731)	_	
Closing Balance	1,632,227	1,686,245	1,632,227	1,686,245	
13.1.3 Provision for Doubtful Bills - General					
Opening Balance	18,230	83,103	18,230	83,103	
General Provision during the Year	55,692	(64,873)	55,692	(64,873)	
Provision Reversals	_	_	_	-	
Amount Written-off against Provisions	_	_	_	_	
Closing Balance	73,922	18,230	73,922	18,230	

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	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
13.2 Loans and Advances				
13.2.1 Loans and Advances				
Overdrafts	63,528,228	79,964,424	62,390,083	78,874,666
Trust Receipts	3,427,595	3,189,431	3,427,595	3,189,431
Staff Loans	16,098,916	15,501,758	16,398,042	15,630,841
Other Loans	378,505,340	268,397,570	378,158,661	268,041,331
	461,560,079	367,053,183	460,374,381	365,736,269
Add:				
Interest Receivables in Non-Performing Advances	33,133,569	33,587,191	33,191,538	33,624,225
Gross Loans and Advances	494,693,648	400,640,374	493,565,919	399,360,494
Less:				
Interest in Suspense	(33,463,148)	(34,023,624)	(33,579,086)	(34,107,693)
	461,230,500	366,616,750	459,986,833	365,252,801
Less:				
Provision for Losses (Note 13.2.2)	(11,388,831)	(12,071,624)	(11,630,592)	(12,358,984)
Net Loans and Advances	449,841,669	354,545,126	448,356,241	352,893,817
13.2.2 Movement in the Provision for Loan Losses				
Specific Specific				
Opening Balance	9,685,944	10,268,289	9,888,153	10,422,601
Translation Difference in Foreign Currency Banking Unit	52,203	(216,935)	52,203	(216,935)
Provision during the Year	1,042,075	830,519	1,079,726	878,416
Amount Written-off against the Provision	(788,007)	(316,329)	(788,007)	(316,329)
Provision Reversal	(866,009)	(879,600)	(866,009)	(879,600)
Closing Balance	9,126,205	9,685,944	9,366,065	9,888,153
General				
Opening Balance	2,385,680	2,103,251	2,470,831	2,159,229
Provision during the Year				
- Pawning Charge	469,720	189,586	469,720	189,586
- Performing Loans	(592,774)	92,843	(676,024)	122,016
Closing Balance	2,262,626	2,385,680	2,264,527	2,470,831
Total Loan Loss Provision	11,388,831	12,071,624	11,630,592	12,358,984
			 -	

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	BAN	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	
13.2.3.a Local Currency Loans and Advances					
Bills	16,113,964	3,189,186	16,113,964	3,189,186	
Overdrafts	62,816,753	79,251,422	61,678,608	78,161,664	
Trust Receipts	1,610,833	1,616,051	1,610,833	1,616,051	
Leases	179,215	948,581	100,530,383	61,299,739	
Other Loans	335,205,807	260,232,032	334,859,128	259,875,793	
Staff Loans	16,098,916	15,501,758	16,398,042	15,630,841	
Total Local Currency Loans and Advances	432,025,488	360,739,030	531,190,958	419,773,274	
13.2.3.b Foreign Currency Loans and Advances					
Bills	491,308	613,474	491,308	613,474	
Overdrafts	711,475	713,002	711,475	713,002	
Trust Receipts	1,816,762	1,573,380	1,816,762	1,573,380	
Other Loans	43,299,533	8,165,538	43,299,533	8,165,538	
Total Foreign Currency Loans and Advances	46,319,078	11,065,394	46,319,078	11,065,394	
Total Loans and Advances	478,344,566	371,804,424	577,510,036	430,838,668	
13.3 Leases					
13.3.1 Lease Rentals Receivable within One Year					
Gross Lease Rentals Receivable within One Year from Balance Sheet Date	179,215	898,278	37,332,805	42,112,467	
Unearned Lease Income	(20,576)	[84,493]	(11,254,367)	(10,464,750)	
Initial Rentals Received	(86,853)	(128,819)	(339,846)	(163,334)	
Provisions for Bad and Doubtful Debts	[338]	[6,264]	(273,433)	(2,553,177)	
Net Lease Rentals Receivable within One Year	71,448	678,702	25,465,159	28,931,206	
13.3.2 Lease Rentals Receivable from One to Five Years					
Gross Lease Rentals Receivable from One to Five Years from Balance Sheet Date		50,303	63,185,109	19,186,086	
Unearned Lease Income		(2,006)	(10,635,462)	(3,631,403)	
Initial Rentals Received	_	(33,889)	(511,947)	(878,658)	
Provisions for Bad and Doubtful Debts			(455,960)	_	
Net Lease Rentals Receivable from One to Five Years		14,408	51,581,740	14,676,025	

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	BAN	NK	GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
13.3.3 Lease Rentals Receivable after Five Year	rs			
Gross Lease Rentals Receivable after Five Years from Balance Sheet Date	_	_	12,469	1,186
Unearned Lease Income	_	-	(500)	(33)
Initial Rentals Received	_	_	(6,537)	_
Provisions for Bad and Doubtful Debts	_	_	(83)	-
Net Lease Rentals Receivable after Five Years		_	5,349	1,153
Total Net Lease Rentals Receivable	71,448	693,110	77,052,248	43,608,384
13.4 Summary of Gross Loans and A	Advances			
Bills of Exchange	16,605,272	3,802,660	16,605,272	3,802,660
Loans and Advances	461,560,079	367,053,183	460,374,381	365,736,269
Leases	179,215	948,581	100,530,383	61,299,739
Total Gross Loans and Advances	478,344,566	371,804,424	577,510,036	430,838,668
13.5 Summary of Provision for Loan	n Losses			
Bills of Exchange - Specific	1,632,227	1,686,245	1,632,227	1,686,245
- General	73,922	18,230	73,922	18,230
Loans - Specific	9,126,205	9,685,944	9,366,065	9,888,153
- General	2,262,626	2,385,680	2,264,527	2,470,831
Leases - Specific	_	_	714,151	775,675
- General	338	6,264	15,325	1,777,502
Total Loan Loss Provision	13,095,318	13,782,363	14,066,217	16,616,637

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	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
13.6 Non-Performing Advances and Interest in Suspense on Non-Performing Advances				
Non-Performing Advances (Note 13.6.1)	16,061,589	18,738,403	16,842,695	19,885,305
Interest in Suspense on Non-Performing Advances	33,133,569	33,587,191	33,191,538	33,624,225
13.6.1 Non-Performing Advances				
Bills of Exchange	1,635,313	1,863,146	1,635,313	1,863,146
Loans and Advances	14,422,110	16,870,105	14,422,110	16,870,105
Leases	4,166	5,152	785,272	1,152,054
	16,061,589	18,738,403	16,842,695	19,885,305

13.7 Sector-Wise Credit Exposure

		BANK			GROUP			
Sector	2011 Rs. '000	Composition %	2010 Rs. '000	Composition %	2011 Rs. '000	Composition %	2010 Rs. '000	Composition %
Agriculture and								
Fishing	30,781,320	6.4	29,204,354	7.9	33,001,616	5.7	30,977,130	7.2
Manufacturing	14,022,723	2.9	23,013,525	6.2	14,040,062	2.4	23,946,571	5.6
Tourism	3,509,345	0.7	3,199,780	0.9	3,956,948	0.7	3,514,631	0.8
Transport	178,460	0.0	356,884	0.1	15,083,466	2.6	15,755,691	3.7
Construction	89,146,560	18.6	71,724,589	19.3	92,048,921	15.9	73,715,980	17.1
Traders	74,787,161	15.6	65,442,954	17.6	92,142,382	16.0	81,066,392	18.8
Financial and Business Services	5,003,456	1.0	4,374,934	1.2	5,007,190	0.9	4,374,934	1.0
Infrastructure	26,585	0.0	254,185	0.1	27,438	0.0	254,185	0.1
Other Services	72,383,965	15.1	38,307,277	10.3	115,942,675	20.1	61,307,212	14.2
Credit Card	932,210	0.2	834,297	0.2	932,210	0.2	834,297	0.2
Pawning*	186,994,018	39.1	133,299,451	35.9	186,994,018	32.4	133,299,451	30.9
Other	578,763	0.1	1,792,194	0.5	18,333,110	3.2	1,792,194	0.4
Total	478,344,566	***************************************	371,804,424		577,510,036		430,838,668	

 $^{{\}it * Mainly disbursed for agriculture, fisheries and housing construction purposes.}\\$

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	2011 Rs. Mn	2010 Rs. Mn
13.8 Government Guarantees		
Total Loans and Advances for which Government Guarantees have been received	39,632	39,200

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	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
14. Other Assets				
Other Assets and Prepayments	5,758,619	5,541,573	8,988,549	9,559,600
Interest Receivable and Accrued Other Income	13,626,515	10,616,786	13,589,595	10,616,786
Less: Provision for Losses Against Other Assets	(4,134,163)	(4,076,918)	(4,166,876)	(4,116,715)
Total Other Assets Net of Provisions	15,250,971	12,081,441	18,411,268	16,059,671
	BAN	BANK		JP
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
15. Dealing Securities				
Dealing Securities	869,172	478,052	962,339	536,118
Dealing Securities at Market Value	869,172	478,052	962,339	536,118

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	No. of Share(s) Units	Cost 2011 Rs. '000	Market Value as at 31.12.2011 Rs. '000	No. of Share(s) Units	Cost 2010 Rs. '000	Market Value as at 31.12.2010 Rs. '000
15.1.a Dealing Securities - Bank						
Magpeck Limited	125,000	5,000	_	125,000	5,000	_
Overseas Reality (Ceylon) PLC	20,722,353	300,474	290,113	20,722,353	165,771	317,052
National Equity Fund	5,112,735	130,630	133,136	5,112,735	76,134	161,000
Aitken Spence	80,100	8,811	9,644	-	-	-
ACL Cables	183,200	13,630	13,557	-	-	-
Bairaha	73,900	15,076	15,541	_	-	_
Browns	47,600	11,238	11,176	-	_	-
Brown Investments	501,500	2,056	2,106	-	-	-
Colombo Fort Land	62,800	2,939	3,065	_	_	
Chevron Lubricants Lanka	118,500	19,564	20,145	-	_	-
Colombo Dockyard	93,700	22,207	22,375	-	-	_
Colombo Land	159,900	8,729	8,778	-	_	-
Dialog Axiata	1,193,800	9,550	9,312	-	_	-
Distilleries Company	100,000	15,680	14,710	_	_	_
Expo Lanka	295,000	2,746	2,655	-	_	-
Free Lanka	1,650,900	5,118	5,118	-	_	-
Hemas Holdings	316,400	10,599	10,441	-	-	_
Hemas Power	41,000	1,140	1,095	_	_	
Janashakthi	69,000	979	1,035	-	_	-
John Keells Holdings	259,200	44,064	44,116	_	_	_
Kegalle Plantation	47,700	5,008	5,008	-	_	-
Kotagala Plantation	49,800	3,456	3,202	-	-	-
Lanka IOC	112,800	2,064	2,089	_	_	
Laugfs Gas NV	407,200	9,895	9,366	_	-	
National Development Bank	77,100	9,260	10,647	-	-	_
Nawaloka Hospitals	1,090,300	4,143	4,252	_	_	
Pan Asia Power	500,000	2,150	2,150		-	_
PC House	60,000	858	834	-	-	_
Pelwatta Sugar	58,100	1,365	1,365	_	_	
Renuka Holdings	27,895	1,496	1,503		-	
Richard Pieris Company PLC	1,500,000	14,100	13,500	-	-	_
Royal Ceramic	142,300	19,922	20,135	_	_	
Sampath Bank	109,200	22,189	21,294		-	
Singer Industries	2.000	464	508	_	_	_
Lion Brewery	39,400	7,289	7,486	_	_	
Tokyo Cement NV	149,200	4,551	4,551	_	_	_
The Finance Company	2,080,400	84,256	84,256	_	_	
Textured Jersey	3,755,800	40,938	38,309	_	_	_
United Motors	55,000	8,325	8,030	_	_	_
Vallibel Power	407,000	3,337	3,256	_	_	_
Vallibel One	391,300	9,352	9,313	_	_	_
Total Value of the Dealing Securities		884,648	869,172		246,905	478,052

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	No. of Share(s) Units	Cost 2011 Rs. '000	Market Value as at 31.12.2011 Rs. '000	No. of Share(s) Units	Cost 2010 Rs. '000	Market Value as at 31.12.2010 Rs. '000
15.1.b Dealing Securities - Group						
Magpeck Limited	125.000	5.000	_	125.000	5.000	_
Overseas Reality (Cevlon) PLC	20.722.353	300.474	290,113	20,722,353	165,771	317.052
National Equity Fund	5,112,735	130,630	133,136	5,112,735	76,134	161,000
Nations Trust Bank	365,000	27,458	20,799	309,900	23,873	25,846
Keells Hotels	100,000	2,001	1,350	100,000	2,001	2,000
Commercial Bank V	132	12,761	13,235	15,000	2,455	3,898
Seylan Bank V	58,000	3,974	3,943	25,000	1,505	2,445
Seylan Bank NV	168,000	5,929	5,185	25,000	962	1,225
Browns Ltd	47,600	11,238	11,176	10,000	1,146	2,469
ODEL Ltd	= 7,000	- 11,200	-	5,400	81	197
Aitken Spence	163,100	25,098	19,613	75,000	14,898	12,742
Hemas Holdings	341,400	11,708	11,266	25,000	1,109	1,112
John Keells Holdings Ltd	319,200	57,669	54,328	20,000	6,289	5,968
Laugfs Gas Ltd	-	-	-	3,900	90	101
Laugfs Gas Ltd NV	407,200	9.895	9,366	3,400	51	63
ACL Cables	183,200	13,630	13,557		-	_
Bairaha	73,900	15,076	15,541		_	
Brown Investments	501,500	2.056	2.106	_	_	_
Colombo Fort Land	62,800	2,939	3,065		_	
Chevron Lubricants Lanka	118,500	19,564	20,145	_	-	
Colombo Dockyard	93,700	22,207	22,375	_	_	
Colombo Land	159,900	8,729	8,778		_	_
Dialog Axiata	1,193,800	9,550	9,312			–
Distilleries Company	100,000	15,680	14,710		_	_
Expo Lanka	295,000	2,746	2,655			
Free Lanka	1,650,900	5,118	5,118		_	_
Hemas Power	41,000	1.140	1,095	–	_	-
Janashakthi	69,000	979	1,035	_	_	_
Kegalle Plantation	47,700	5,008	5,008	-	_	-
Kotagala Palntation	49,800	3,456	3,202	-	-	-
Lanka IOC	112,800	2,064	2,089	-	-	-
National Development Bank	77,100	9,260	10,647	-	_	_
Nawaloka Hospitals	1,090,300	4,143	4,252	_	_	_
Pan Asia Power	500,000	2,150	2,150	_	_	_
PC House	60,000	858	834	_	_	_
Pelawatta Sugar	58,100	1,365	1,365	_	_	_
Renuka Holdings	27,895	1,496	1,503	-	-	-
Richard Pieris Company PLC	1,500,000	14,100	13,500	_	-	_
Royal Ceramic	142,300	19,922	20,135	_	_	_
Sampath	109,200	22,189	21,294	-	-	-
Singer Industries	2,000	464	508	-	-	-
Lion Brewery	39,400	7,289	7,486	-	-	-
Tokyo Cement NV	249,200	9,201	7,601	-	-	-
The Finance Company	2,080,400	84,256	84,256	-	-	-
Textured Jersey	3,755,800	40,938	38,309	-	-	-
United Motors	55,000	8,325	8,030		_	_
Vallibel Power	407,000	3,337	3,256	-	-	-
Vallibel One	441,300	10,841	10,503	_	-	-
Commercial Bank NV	217,000	16,705	16,188	_	-	-
Hatton National Bank NV	77,000	7,905	6,357	_	-	-
Horana Plantations	5,000	389	189	_	-	-
People's Finance PLC	19,000	888	675	_	-	_
Total Value of the Dealing Securities		999,798	962,339		301,365	536,118

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- 15.2 The market value of the investments in quoted equity shares are based on the market value ruling as at the Balance Sheet date.
- 15.3 The market value of investments in unit trusts is based on the manager's buying price ruling as at the Balance Sheet date.

		BANK			GROUP	
		2011 Rs. '000		2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
16. Other Investment Securities						
16.1 Long-Term Investments - Equities						
Unquoted Shares (Note 16.1.1) (Note 16.1.2)	1	,309,758	1,	309,758	1,459,768	1,409,768
Less: Provision for Permanent Diminution in Value of Investment		(897,212)		[865,252]	(897,212)	(865,252)
Net Value of Long-Term Investments (Equities)		412,546		444,506	562,556	544,516
Long-Term Investments - Debt Securities						
Sri Lanka Development Bonds US\$	24	,368,558	17	,256,725	24,368,558	17,256,725
Long-Term Treasury Bonds (Note 16.2)		625,000		625,000	625,000	625,000
Net Value of Long-Term Investments (Debt Securities)	24	24,993,558		,881,725	24,993,558	17,881,725
Total Investment Securities	25	25,406,104		,326,231	25,556,114	18,426,241
	No. of Share(s)	Direct Valuation 31.12. Rs.	as at	Cost as at 31.12.2011 Rs. '000	Directors' Valuation as at 31.12.2010 Rs. '000	Cost as at 31.12.2010 Rs. '000
16.1.1 Unquoted Shares - Bank						
Sri Lankan Airlines Ltd.	4,236,135	264	,788	1,137,000	296,199	1,137,000
Credit Information Bureau of Sri Lanka	47,400	50	,715	50,715	50,715	50,715
District Corporate Union	135		_	_	_	_
Southern Development Financial Company Ltd.	2,500,000		_	25,000	549	25,000
Society for Worldwide Inter Bank Fund Transfer	14	1	,168	1,168	1,168	1,168
Regional Development Bank	7,418,448	72	,000	72,000	72,000	72,000
Lanka Financial Services Bureau Ltd.	225,000	2	,250	2,250	2,250	2,250
Fitch Rating Lanka Ltd.	62,500		625	625	625	625
Lanka Clear (Pvt) Ltd.	2,100,000		,000	21,000	21,000	21,000
Total Value of Unquoted Investment		412	,546	1,309,758	444,506	1,309,758

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	No. of Share(s)	Directors' Valuation as at 31.12.2011 Rs. '000	Cost as at 31.12.2011 Rs. '000	Directors' Valuation as at 31.12.2010 Rs. '000	Cost as at 31.12.2010 Rs. '000
16.1.2 Unquoted Shares - Group					
Sri Lankan Airlines Ltd.	4,236,135	264,788	1,137,000	296,199	1,137,000
Credit Information Bureau of Sri Lanka	57,400	50,725	50,725	50,725	50,725
District Corporate Union	135	_	-	-	-
Southern Development Financial Company Ltd.	2,500,000	_	25,000	549	25,000
Society for Worldwide Inter Bank Fund Transfer	14	1,168	1,168	1,168	1,168
Regional Development Bank	7,418,448	72,000	72,000	72,000	72,000
Lanka Financial Services Bureau Ltd.	225,000	2,250	2,250	2,250	2,250
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
Sanasa Development Bank Ltd.	100,000,000	100,000	100,000	100,000	100,000
City Finance Corporation	_	50,000	50,000	_	-
Total Value of Unquoted Investment		562,556	1,459,768	544,516	1,409,768

The carrying value of all unquoted investments is based on Board of Directors' valuations - i.e. lower of cost or net assets value.

16.2 Long-Term Treasury Bonds

Long-Term Treasury Bonds represent Bonds received 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 received as part of the restructuring process of the CWE and its financial obligations. These Bonds are not negotiable and carry a zero coupon rate of interest with a maturity of 13 years. However, these Bonds carry an interest payment scheme for which CWE is required to make a semi-annual payment of interest at 3.68% p.a. net of withholding tax.

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17. Investments in Subsidiaries and Associate Companies

	BAN	IK	GROUP		
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	
Investments in Subsidiaries	1,419,950	1,519,950	_	_	
Investments in Associates	273,100	155,500	377,196	248,830	
Total Investment in Subsidiaries and Associates Companies	1,693,050	1,675,450	377,196	248,830	

	Fillicipat	10.01	Hotaling %	70 COSt		
	Activity	Shares	as at 31.12.2011	2011 Rs. '000	2010 Rs. '000	
17.1 Investments in Subsidiaries						
People's Leasing Co. Ltd.	Leasing					
- Ordinary Shares		50,000,000	75	465,000	465,000	
- Preference Shares		105,000,000	75	950,000	1,050,000	
People's Travels (Pvt) Ltd.	Travel Agent	495,000	99	4,950	4,950	
Total Value of Investment at the Year end				1,419,950	1,519,950	

		BANK			GROUP		
	Holding %	Cost		Holding %	Cost		
	as at	2011	2010	as at	2011	2010	
	31.12.2011	Rs. '000	Rs. '000	31.12.2011	Rs. '000	Rs. '000	
17.2 Investments in Associates							
People's Merchant Bank PLC							
- Ordinary Shares	26.13	263,100	145,500	39.2	367,196	238,830	
- Preference Shares		10,000	10,000		10,000	10,000	
Smart Net Lanka (Pvt) Ltd. (Non-Operational)	37.3	25,000	25,000	37.3	25,000	25,000	
		298,100	180,500		402,196	273,830	
Less : Provision for Smart Net Lanka (Pvt) Ltd.		(25,000)	(25,000)		(25,000)	(25,000)	
Total Value of Investment at the Year end		273,100	155,500	•	377,196	248,830	

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18. Government of Sri Lanka Restructuring Bonds

18.1 In April 1993, the Bank received Restructuring Bonds amounting to Rs. 10,541 Mn from the Government of Sri Lanka (GOSL) for the following purposes:

	Rs. Mn	
(i)	1,152.0	To achieve the capital adequacy requirement in accordance with CBSL guidelines.
(ii)	1,700.5	To write-off loans granted to Sri Lanka State Plantations Corporation and Paddy Marketing Board for Rs. 1,467 Mn and Rs. 233.5 Mn, respectively.
(iii)	4,355.0	To finance pension liabilities.
(iv)	3,231.0	To provide for loan loss provision.
(v)	102.5	For loans to be transferred to special recovery unit (RACA).
	10,541.0	

- 18.2 The above value of Bonds granted by GOSL effectively relates to accounting entries that were booked to clear carrying values of advances granted under State recommendation, which were deemed as irrecoverable.
- 18.3 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 Balance Sheet date, no recoveries have been made of those specific loan losses.

- (b) As per the initial agreement an interest rate of 12% p.a. would apply, with interest received half yearly.
- (c) A value of 25% of income derived from (b) above would be refunded to the GOSL annually.
- 18.4 As indicated in 19.1, 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.

- 18.5 The financial implications of these Bonds in year the 2011 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. 1,684 Mn was received during the year as income of which Rs. 806 Mn is pertaining to FY 2010 and is reflected under Interest Income.

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19. Property, Plant & Equipment

	Freehold Land and	Leasehold Buildings	Motor Vehicles	Leasehold Motor	Furniture Equipment	Total 31.12.2011	Total 31.12.2010
	Buildings Rs. '000	Rs. '000	Rs. '000	Vehicles Rs. '000	& Machinery Rs. '000	Rs. '000	Rs. '000
BANK	113. 000	113. 000	113. 000	113. 000	113. 000	113. 000	113. 000
Cost or Valuation							
As at the beginning of the Year	5,802,588	1,179,822	164,199	371,630	8,044,611	15,562,850	14,655,708
Additions	506,026	28,525	28,200	196,305	624,171	1,383,227	1,030,718
Transfers		_	177,224	(177,224)	_		
Disposals	(7,258)	(22,540)	(1,367)	(2,974)	_	(34,139)	(123,576)
As at the end of the Year	6,301,356	1,185,807	368,256	387,737	8,668,782	16,911,938	15,562,850
Depreciation							
As at the beginning of the Year	397,915	484,099	152,127	313,883	6,832,429	8,180,453	7,616,235
Charge for the Year (Note 4)	127,364	78,861	8,345	86,072	607,741	908,383	592,245
Transfers	_	_	177,224	(177,224)	_	_	_
Disposals	–	_	(1,367)	(2,974)	_	(4,341)	(28,027)
As at the end of the Year	525,279	562,960	336,329	219,757	7,440,170	9,084,495	8,180,453
Net Book Value as at 31.12.2011	5,776,077	622,847	31,927	167,980	1,228,612	7,827,443	7,382,397
Capital Work-in-Progress, at Cost						589,910	341,728
Furniture, Equipment and Machinery at Store					***************************************	92,514	137,430
						8,509,867	7,861,555
Net Book Value as at 31.12.2010	5,404,673	695,723	12,072	57,747	1,212,182		7,382,397
GROUP							
Cost or Valuation							
As at the beginning of the Year	6,284,841	1,217,994	244,286	707,520	8,501,462	16,956,103	15,762,883
Additions	1,181,701	28,525	95,251	196,305	1,283,887	2,785,669	1,739,334
Transfers		(38,172)	513,114	(513,114)	38,172		
Disposals	(7,258)	(22,540)	(90,252)	(2,974)	(3,396)	(126,420)	(546,114)
As at the end of the Year	7,459,284	1,185,807	762,399	387,737	9,820,125	19,615,352	16,956,103
Depreciation							
As at the beginning of the Year	398,999	518,564	202,512	448,160	7,085,383	8,653,618	8,123,300
Charge for the Year (Note 4)	127,364	78,861	74,857	86,072	728,382	1,095,536	731,955
Transfers		(34,465)	311,501	(311,501)	34,465	-	
Disposals	(1,084)		(76,492)	(2,974)	(1,845)	(82,395)	(201,637)
As at the end of the Year	525,279	562,960	512,378	219,757	7,846,385	9,666,759	8,653,618
Net Book Value as at 31.12.2011	6,934,005	622,847	250,021	167,980	1,973,740	9,948,593	8,302,485
Capital Work-in-Progress, at Cost						694,175	783,660
Furniture, Equipment and Machinery at Store						92,514	137,430
<u> </u>						10,735,282	9,223,575

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	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
20. Prepaid Leases				
Cost	706,204	683,632	706,204	683,632
Less: Accumulated Amortisation	380,979	357,115	380,979	357,115
Net Book Value	325,225	326,517	325,225	326,517
21. Intangible Assets				
IT-Related Capital Items				
Cost or Valuation				
As at the beginning of the Year	886,334	879,263	948,734	933,125
Branch Conversions and Related IT Capital Expenses	_	7,071	28,170	15,609
Disposals/Reversals during the Year				-
As at the end of the Year	886,334	886,334	976,904	948,734
Accumulated Amortisation				
As at the beginning of the Year	689,698	730,052	727,438	758,098
Amortisation for the Year	95,829	(40,354)	107,600	(30,660)
As at the end of the Year	785,527	689,698	835,038	727,438
Net Book Value	100,807	196,636	141,866	221,296
Goodwill				
Cost or Valuation				
As at the beginning of the Year	-	-	337,908	337,908
Additions during the Year	_	-	_	-
Disposals/Reversals during the Year			(29,362)	-
As at the end of the Year			308,546	337,908
Accumulated Amortisation				
As at the beginning of the Year	_	_	_	_
Amortisation for the Year				-
As at the end of the Year			_	_
Net Book Value			308,546	337,908
Total Net Book Value	100,807	196,636	450,412	559,204

During the year 2009, People's Leasing Co. Ltd. acquired Seylan Merchant Leasing PLC. Goodwill is booked as a result of this acquisition. Subsequently, this Company was named as 'People's Finance PLC'.

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	BAN	GROUP		
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
22. Deposits from Customers				
Demand Deposits	42,521,383	40,617,338	42,522,013	39,057,966
Saving Deposits	232,339,102	203,003,880	233,277,130	203,402,247
Time Deposits	252,009,020	215,107,187	259,239,002	217,837,534
Certificates of Deposits	413,241	244,194	416,461	262,439
Other Deposits	12,578,793	3,167,656	12,578,793	3,167,656
Total Deposits as at the end of the Year	539,861,539	462,140,255	548,033,399	463,727,842
22.(a) Local Currency Deposits				
Demand Deposits	42,363,104	40,422,652	42,363,734	38,863,280
Saving Deposits	211,416,265	191,120,531	212,354,293	191,518,898
Time Deposits	234,167,613	197,826,110	241,397,595	200,556,457
Certificates of Deposits	413,241	244,194	416,461	262,439
Other Deposits	11,968,764	2,880,810	11,968,764	2,880,810
Total Local Currency Deposits	500,328,987	432,494,297	508,500,847	434,081,884
Demand Deposits	158,279	194,686	158,279	194,686
Saving Deposits	20,922,837	11,883,349	20,922,837	11,883,349
Time Deposits	17,841,407	17,281,077	17,841,407	17,281,077
Other Deposits	610,029	286,846	610,029	286,846
Total Foreign Currency Deposits	39,532,552	29,645,958	39,532,552	29,645,958
Total Deposits as at the end of the Year	539,861,539	462,140,255	548,033,399	463,727,842
23. Borrowings				
Refinance Borrowings:				
-				
Central Bank of Sri Lanka	3,064,715	2,733,822	3,064,715	2,733,822
	3,064,715	2,733,822 -	3,064,715 25,119	2,733,822 25,119
Government of Sri Lanka		2,733,822 - 673,760		25,119
Government of Sri Lanka Financial Institutions		-	25,119	25,119
Government of Sri Lanka Financial Institutions Long-Term Borrowings:		-	25,119	25,119 673,760
Government of Sri Lanka Financial Institutions Long-Term Borrowings: Financial Institutions of Sri Lanka	763,876	- 673,760	25,119 763,876	25,119 673,760
Government of Sri Lanka Financial Institutions Long-Term Borrowings: Financial Institutions of Sri Lanka Other Borrowings:	763,876	- 673,760	25,119 763,876	25,119 673,760
Central Bank of Sri Lanka Government of Sri Lanka Financial Institutions Long-Term Borrowings: Financial Institutions of Sri Lanka Other Borrowings: Call Money Borrowings Treasury Bills/Bonds/Pro Notes Repurchases	- 763,876 270,114	- 673,760 270,307	25,119 763,876 24,217,366	25,119 673,760 12,466,713

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	BANK	BANK		
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
24. Deferred Liabilities				
Deferred Tax (Note 24.1.2)	_	_	410,382	36,564
Provision for Gratuity (Note 24.2)	314,682	223,712	349,662	249,123
Balance as at the end of the Year	314,682	223,712	760,044	285,687
	BANK		GROUF	
	2011 Temporary Difference Rs. '000	Tax Effect Rs. '000	2011 Temporary Difference Rs. '000	Tax Effect Rs. '000
24.1.1 Deferred Tax Asset				
As at the beginning of the Year	(178,422)	(62,455)	209,662	(73,381)
Amount Originating/(Reversing) during the Year	(444,389)	(124,429)	(626,450)	(175,406)
As at the end of the Year	(622,811)	(186,884)	(416,788)	(248,787)
24.1.2 Deferred Tax Liabilities				
As at the beginning of the Year	_	_	104,469	36,564
Amount Originating/(Reversing) during the Year	-	_	1,335,064	373,818
As at the end of the Year	_		1,439,533	410,382
	BANK		GROUF	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
24.2 Provision for Gratuity				
Opening Balance	223,712	164,014	249,123	183,742
Provision during the Year	92,500	62,000	103,102	68,848
Payments during the Year	(1,530)	(2,302)	(2,563)	(3,467)
Closing Balance	314,682	223,712	349,662	249,123

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	BAN	BANK		JP
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
25. Other Liabilities				
Cheques Sent for Collection	2	65,138	2	65,138
Pay Orders and Drafts	1,009,534	1,117,707	1,009,534	1,117,707
Accrued Interest and Other Expenses	15,888,629	13,917,409	15,888,590	13,917,409
Other Liabilities	2,725,644	2,520,971	10,988,731	10,751,329
Total Other Liabilities as at the end of the Year	19,623,809	17,621,225	27,886,857	25,851,583
26. Retirement Benefits Pensioners' Medical Fund Widows' and Orphans' Pension Fund Proposed Post-1996 Recruited Employees' Pension Fund	386,684 19,962 748,000	495,000 89,835 548,000	386,684 19,962 748,000	495,000 89,835 548,000
Total Liabilities	1,154,646	1,132,835	1,154,646	1,132,835
26.1 Movement in Widows'/Widowers' & Orphans' F Opening Balance Contribution to the Fund	und 89,835 98,332	32,186 98,942	89,835 98,332	32,186 98.942
Interest Income Earned	540,183	702,015	540,183	702,015
Payments during the Year	(287,120)	(231,669)	(287,120)	(231,669)
Realisation of/(Transferred to) Fixed Deposit	(421,268)	(511,639)	(421,268)	(511,639)
Closing Balance	19,962	89,835	19,962	89,835
				

^{26.2} This Fund was established in January 1965 for the payment of pensions to widows of former employees and retired employees of the Bank who are contributors to the Fund. The Fund is not open to employees recruited post 1st January 1996. The members of the Fund contribute 5% of their basic salary and certain allowances. The assets of the W&OP Fund are managed by a Board of Management.

^{26.3} The transfer of the W&OP balance to fixed deposits during the year, reflects management's decision to maintain funds belonging to the W&OP as an independent deposit from Bank assets.



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27. Debentures

The Bank has issued -

- 1. Two million five hundred thousand (2,500,000) unsecured subordinated redeemable debentures 2008/2016 of the aggregate value of Rupees two thousand five hundred million at a par value of one thousand Rupees each at the rate of 16% p.a. (payable biannually) on 30th December 2008.
- Two million five hundred thousand (2,500,000) unsecured subordinated redeemable debentures 2009/2017 of the aggregate value of Rupees two thousand five hundred million at a par value of one thousand Rupees each at the rate of 13.5% p.a. (payable biannually) on 30th December 2009.
- 3. Five million (5,000,000) unsecured subordinated redeemable debentures 2011/2019 of the aggregate value of Rupees five billion at a par value of one thousand Rupees each at the rate of 12% p.a. (payable biannually) on 30th December 2011.

28. Share Capital

28.1 Movement of Share Capital

	BANK	(GROUP		
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000	
Authorised					
20,000,000 Ordinary Shares of Rs. 50/- each	1,000,000	1,000,000	1,000,000	1,000,000	
Issued & Fully-Paid					
999,960 Ordinary Shares of Rs. 50/- each	49,998	49,998	49,998	49,998	

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

28.2 Principal Shareholders of the Bank are as follows:

	2011 %	2010 %
Government of Sri Lanka	92.27	92.27
Co-operative Societies	7.73	7.73
	100.00	100.00

29. Capital Pending Allotment Account

- 29.1 The Government of Sri Lanka has injected Rs. 7,152 Mn as capital to the Bank. This amount is currently in the Capital Pending Allotment Account. The Bank is planning to issue 143,040,000 shares of Rs. 50/- each, subsequent to the increase in authorised Share Capital.
- 29.2 The increase in paid up capital requires an amendment to the People's Bank Act and it is yet to be finalised.
- 29.3 The Ministry of Finance of the Government of Sri Lanka infused capital to the Bank as follows. Four tranches of Rs. 1 Bn, Rs. 2 Bn, Rs. 1.5 Bn and Rs. 1.5 Bn for the years 2005, 2006, 2007 and 2008 to meet the stipulated minimum capital requirement by the Central Bank of Sri Lanka.

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30. Reserves

30.1 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	Investment Fund Rs. '000	Profit/ (Loss) Rs. '000	Total 2011 Rs. '000	Total 2010 Rs. '000
BANK										
Balance at beginning of the Year	49,998	5,630,460	5,663	1,253,808	938,500	1,000	-	5,756,883	13,636,310	10,598,194
Profit for the Year	-	-	-	-	-	-	-	10,157,038	10,157,038	5,206,423
Transfer to Special Risk Reserve	-	-	-	-	-	-	-	197,598	-	-
Transfer to General Reserve	-	-	-	-	-	-	-	1,250,000	-	-
Transfer to Investment Fund during the Year	_	_	_	_	_	-	1,897,702	(1,897,702)	_	_
Transfer to Reserve Fund	1,842,593	_	_	_	_	-	_	(1,842,593)	_	_
Dividend Paid to GOSL (Note 30.8)	-	-	-	-	-	-	_	-	_	(18,307)
Special Levy to Treasury (Note 30.9)							_	(4,500,000)	(4,500,000)	(2,150,000)
Balance as at end of the Year	1,892,591	5,630,460	5,663	1,253,808	938,500	1,000	1,897,702	6,226,028	19,293,348	13,636,310
Notes	(30.2)	(30.3)	(30.4)	(30.5)	(30.6)	(30.7)	(30.10)	_	_	_
GROUP										
Balance at beginning of the Year	49,998	5,630,460	5,663	1,253,808	938,500	1,000	-	11,435,445	19,314,874	14,903,736
Profit for the Year	_	_	_	_	_	_	_	13,529,028	13,529,028	6,579,445
Transfer to Special Risk Reserve	_	_	_	197,598	_	_	_	(197,598)	_	_
Transfer to General Reserve	_	-	-	-	1,250,000	-	-	(1,250,000)	_	-
Disposal and Change of Holding in Subsidiaries and Associates	-	-	-	-	-	-	-	(34,631)	(34,631)	-
Goodwill Adjustment	-	-	-	-	-	-	-	2,969	2,969	-
Share Issue Expenses	-	-	-	-	-	-	-	(211,190)	(211,190)	-
Deemed Disposal Profit	_	-	-	-	-	-	-	2,824,989	2,824,989	-
Transfer to Investment Fund during the Year	-	-	_	_	_	-	2,230,900	(2,230,900)	_	-
Transfer to Reserve Fund	1,842,593	-	-	-	-	-	-	(1,842,593)	-	-
Dividend Paid to GOSL (Note 30.8)	_	-	_	-	_	-	-	-	_	(18,307)
Special Levy to Treasury (Note 30.9)	_	_	_	_	_	_	_	(4,500,000)	(4,150,000)	(2,150,000)
Balance as at end of the Year	1,892,591	5,630,460	5,663	1,451,406	2,188,500	1,000	2,230,900	17,525,519	30,926,039	19,314,873
Notes	(30.2)	(30.3)	(30.4)	(30.5)	(30.6)	(30.7)	(30.10)			

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30.2 Permanent Reserve (Statutory Reserve Fund)

The Permanent Reserve is maintained as required by the Banking Act No. 30 of 1988. Accordingly, the Bank should transfer not less than 5% of net profit after taxation but before any dividend is declared, to the Permanent Reserve until the Permanent Reserve is equals to 50% of paid up or assigned capital, and further sum not less than 2% until the Permanent Reserve equals the paid-up or assigned capital.

30.3 Revaluation Reserve

This reserve was 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.

30.4 Capital Reserve

This reserve was created in 1987 and increased in 1998, has no transfers to date.

30.5 Special Risk Reserve

In terms of Central Bank Directives, 25% of the profit has been transferred to Special Risk Reserve in order to promote safety, soundness and the stability of the Primary Dealer System and to build-up a Primary Dealer Capital Base.

30.6 General Reserve

This reserve has been created under Section 22 (2) of the People's Bank Act No. 29 of 1961. The General Reserve represents accumulated unallocated retained Profits and Losses which are available for distribution and for settlement of debentures issued.

30.7 Building Reserve

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

30.8 Dividend Paid to GOSL

According to the Agreement between the Government of Sri Lanka and the People's Bank, the Bank is required to pay back 25% of the Restructuring Bond interest to the General Treasury as a dividend. Additional details relating to this expense are reflected in Note 18.

30.9 Special Levy to Treasury

This pertains to a special dividend paid to the consolidated fund of the Government of Sri Lanka as determined by the Ministry of Finance. The amount payable for 2011 has been estimated at Rs. 4,500 Mn.

30.10 Investment Fund Account

As per Central Bank of Sri Lanka guidelines, this fund is created using the nominal tax savings from the reduced taxation rates applicable on Financial VAT and mainstream taxation from 2011.

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	BANK		GROUP	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
31. Minority Interest				
Balance at beginning of the Year	-	-	83,225	6,217
Acquired during the Year	_	_	3,969,092	73,902
Goodwill Adjustment	_	_	154,843	_
Share of Net Profit/(Loss) for the Year	=	_	406,043	3,118
Dividend Payments during the Year	_	_	(55,770)	(13)
Balance at end of the Year			4,557,433	83,225

32. Commitments and Contingencies

32.1 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.

	BAN	BANK		UP
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Commitments				
Non-Disbursed Loans	293,200	353,190	293,200	353,190
Non-Disbursed Overdrafts	19,719,713	26,084,818	19,719,713	26,084,818
	20,012,913	26,438,008	20,012,913	26,438,008
Contingent Liabilities				
Acceptances	51,071,798	41,489,046	51,071,798	41,489,046
Documentary Credit	81,052,753	33,945,717	81,052,753	33,945,717
Guarantees	25,928,142	22,241,936	25,928,142	22,241,936
	158,052,693	97,676,699	158,052,693	97,676,699
Forward Exchange Contracts	12,959,751	7,636,022	12,959,751	7,636,022
Total Commitments and Contingencies	191,025,357	131,750,729	191,025,357	131,750,729

32.2 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 defences. The Bank is also contesting certain Labour Tribunal cases. In the opinion of the 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. 8.28 Bn.

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32.3 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	
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Approved and Contracted for	854,962	180,827	854,962	180,827
Approved but Not Contracted for	-	8,874	-	8,874
	854,962	189,701	854,962	189,701

33. Financial Reporting by Segments

	Ban	king	Leas	sing	Travels		Gro	oup
	2011 Rs. '000	2010 Rs. '000						
Interest	61,188,701	56,110,411	_	-	-	-	61,188,701	56,110,411
Exchange	973,624	1,120,022	-	_	_	_	973,624	1,120,022
Leasing	41,664	175,066	12,884,143	8,272,971	_	_	12,925,807	8,448,037
Share Trading/Dividend	33,848	29,747	_	_	_	-	33,848	29,747
Commissions and Fees	3,822,017	3,170,590	-	_	24,036	19,782	3,846,053	3,190,372
Other	1,252,950	1,366,280	792,754	661,768	501	872	2,046,205	2,028,920
Total Revenue from External Customers	67,312,804	61,972,116	13,676,897	8,934,739	24,537	20,654	81,014,238	70,927,509
Inter-Segment Revenue	1,513,235	560,311	73,231	159,068	2,060	2,411	1,588,526	721,790
Total Revenue	68,826,039	62,532,427	13,750,128	9,093,807	26,597	23,065	82,602,764	71,649,299
Segment Result	15,310,666	8,771,077	6,559,064	2,897,302	9,381	5,534	21,045,861	11,385,528
Income from Associates	_	_	_	-	_	_	33,663	(15,228)
Income Tax Expenses	(5,153,628)	(3,564,654)	(1,913,411)	(1,215,076)	(985)	(3,986)	(7,068,024)	(4,787,737)
Minority Interest	_	-	-	_	_	-	(406,043)	(3,118)
Net Profit for the Year	10,157,038	5,206,423	4,645,653	1,682,226	8,396	1,548	13,605,456	6,579,445
Segment Assets	662,804,054	547,460,329	94,594,435	56,905,704	36,569	29,734	748,201,180	595,567,644
Investment in Associates	273,100	155,500	_	-	_	-	377,196	248,830
Total Assets	663,077,154	547,615,829	94,594,435	56,905,704	36,569	29,734	748,578,376	595,816,475
Segment Liabilities	636,581,808	526,777,521	76,911,869	49,591,134	7,997	9,530	705,892,906	569,216,379
Total Liabilities	663,077,154	547,615,829	94,594,434	56,905,704	36,569	29,734	748,578,376	595,816,475

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	В	ANK
	2011 Rs. '000	
33.1 Geographical Segmentation		
Assets		
Domestic Banking Unit	607,614,817	536,705,614
Foreign Currency Banking Unit	55,462,337	10,910,215
Gross Income		
Domestic Banking Unit	67,155,793	61,723,536
Foreign Currency Banking Unit	1,670,246	808,891
Profit before Tax		
Domestic Banking Unit	14,843,356	8,349,415
Foreign Currency Banking Unit	467,310	421,662
Profit after Tax		
Domestic Banking Unit	9,736,073	4,870,159
Foreign Currency Banking Unit	420,965	336,264

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34. Bank - Maturity Profile of Assets and Liabilities (Rs. '000)

	Up to 3 M	3-12 M	1–3 Years	3–5 Years	Over 5 Years	Total	2010
Interest Earning Assets							
Short-Term Funds	18,224,811	_	_	_	_	18,224,811	35,017,148
Treasury Bills	11,733,333	5,917,775				17,651,108	13,488,024
Treasury Bonds	5,604,436	11,038,247	20,600,525	7,518,870	5,445,249	50,207,327	55,363,777
Unquoted Bond/Shares	570,000	1,708,000	10,134,000	11,956,558	3,443,247	24,368,558	17,256,725
Bills of Exchange	11,174,342	3,724,781	10,134,000	11,730,336		14,899,123	2,098,185
Loans and Advances	101,365,022	163,304,436	53,482,911	53,311,898	78,377,402	449,841,669	
GOSL Bonds	101,365,022	163,304,436	53,482,911	03,311,878			354,545,126
Leases				71,448	7,323,000	7,323,000 71,448	7,323,000
As at 31.12.2011				72,858,774		582,587,044	693,110
As at 31.12.2011	148,671,944	185,693,239	84,217,436		91,145,651		485,785,095
AS at 31.12.2010	97,243,951	245,204,927	55,243,648	11,779,857	76,312,712	485,785,095	
Non-Interest Earnings Assets							
Cash	16,799,554		_	_	_	16,799,554	11,339,780
Balance with Central Bank	7,579,452	13,221,187	4,440,223	3,905,808	6,570,364	35,717,034	26,739,342
Dealing Securities	869,172		_		_	869,172	478,052
Subsidiaries	_	-	_	-	1,419,950	1,419,950	1,519,950
Associates	-	-	-	-	273,100	273,100	155,500
Unquoted Bond/Shares	-	-	-	-	1,037,547	1,037,547	1,069,506
Other Assets	13,942,954	144,000	594,000	288,900	468,000	15,437,854	12,143,896
Property, Plant & Equipment	_	_	_	_	8,509,867	8,509,867	7,861,555
Prepaid Leases	_	_	_	_	325,225	325,225	326,517
Intangible Assets	_	_	_	_	100,807	100,807	196,636
As at 31.12.2011	39,191,132	13,365,187	5,034,223	4,194,708	18,704,860	80,490,110	61,830,734
As at 31.12.2010	40,549,767	8,253,226	359,737	385,775	12,282,229	61,830,734	-
Total Assets as at 31.12.2011	187,863,076	199,058,426	89,251,659	77,053,482	109,850,511	663,077,154	547,615,829
Total Assets as at 31.12.2010	137,793,718	253,458,153	55,603,385	12,165,632	88,594,941	547,615,829	_
Liabilities							
Deposits	114,563,114	199,837,715	67,113,795	59,036,131	99,310,785	539,861,540	462,140,255
Amount Due to Banks	72,799	-	-	-	_	72,799	2,454,883
Borrowings - Money Markets	4,099,902	-	-	-	_	4,099,902	3,675,419
Borrowings - REPO Agreements	11,207,665	5,099,878	-	-	-	16,307,543	29,314,406
Borrowings - Refinance/Others	37,177,670	5,159,178	3,500	-	-	42,340,348	3,687,338
Retirement Benefit s	1,154,646	-	-	-	_	1,154,646	1,132,835
Debentures	=	-	-	-	10,000,000	10,000,000	5,000,000
Total Interest - Bearing Liabilities as at 31.12.2011	168,275,796	210,096,771	67,117,295	59,036,131	109,310,785	613,836,778	507,405,136
Total Interest - Bearing Liabilities							
as at 31.12.2010	310,107,581	156,570,529	7,519,049	7,490,239	25,717,738	507,405,136	-
Total Non-Interest - Bearing Liabilities	22,745,030	-	-	-	-	22,745,030	19,372,385
Shareholders' Fund	-	_	-	_	26,495,346	26,495,346	20,838,308
Total Liabilities as at 31.12.2011	191,020,826	210,096,771	67,117,295	59,036,131	135,806,131	663,077,154	547,615,829
Total Liabilities as at 31.12.2010	328,895,259	157,155,236	7,519,049	7,490,239	46,556,046	547,615,829	-
Net Liquidity Gap as at 31.12.2011	(3,157,750)	(11,038,345)	22,134,364	18,017,351	(25,955,620)		_
Net Liquidity Gap as at 31.12.2010	(191,101,541)	96,302,917	48,084,336	4,675,393	42,038,895		
						•	

The material reduction in the net liquidity gap in FY 2011 over FY 2010 is due to apportionment of the Bank's captured and growing savings deposit base over medium term buckets. The methodology was adopted based on the new Central Bank guidelines and approved by the Bank's Assets and Liabilities Committee.

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35. Related Party Disclosures

35.1 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 activities of the Bank. Such Key Management Personnel include Chairman, Executive and Non-Executive Directors, Chief Executive Officer/General Manager of the Bank and their close family members.

35.1.1 Compensation of Key Management Personnel of the Bank

	2011 Rs. '000	2010 Rs. '000
Short-Term Employee Benefits	16,715	4,602
Post-Employment Pension	_	1,015
Termination Benefits	-	1,452
Share-Based Payments	-	-

35.1.2 Transactions with Key Management Personnel

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	Balance as at the Year end		the Year
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Residential Mortgages	-	2,424	_	77
Credit Cards	130	53	12	53
Guarantees	-	-	_	-

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35.2 Transactions with Subsidiary Companies

The following table provides the outstanding balance of Loans & Advances, Other Credit Facilities, Deposits and the Corresponding Interest during the year of subsidiary companies:

	Balance as at the Year end		Income /Expenses do	uring the Year
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
People's Leasing Co. Ltd.				
Investments - Ordinary Shares (Refer Note 17.1)	465,000	465,000	660,000	75,000
- Preference Shares (Refer Note 17.1)	950,000	1,050,000	173,250	212,147
Loans & Advances	8,230,256	4,610,592	592,107	248,695
Off-Balance Sheet Accommodations	-	-	-	-
Deposits	100,021	668,855	8,922	50,497
Other Receivables (Loan Interest, Building Rentals, etc.)	40,669	50,135	-	-
Other Payables (Agency Commission, Hiring Rentals, Lease Rentals, etc.)	345,991	253,304	_	-
Building Rental Received	***************************************		15,000	19,689
Service Charges Received			-	3,542
Agency Commission Paid			8,922	38,672
Hiring Rental Paid			-	33,728
Lease Rental Paid			36,783	36,172
People's Travels (Pvt) Ltd.				
Investments - Ordinary Shares (Refer Note 17.1)	4,950	4,950	_	1,238
Loans and Advances	_	-	_	_
Off-Balance Sheet Accommodations	15,050	12,000	50	211
Deposits	15,125	7,108	646	797

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35.3 Transactions with Sub-Subsidiaries Companies

The following table provides the outstanding balance of loans and advances, other credit facilities, deposits and the corresponding interest during the year of Sub-Subsidiaries Companies.

	Balance as at th	Balance as at the Year end		ring the Year
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
People's Leasing Fleet Management Ltd.				
Deposits	-	9,289	-	-
Hiring Rental Payable	11,886	11,588	_	-
Hiring Rental Paid	_	-	34,262	24,983
People's Leasing Property Development Ltd.				
Deposits	-	16	_	-
Building Rental Payable	179,206	-	_	-
Building Rental Paid	_	-	13,896	-
People's Insurance Ltd.				
Deposits	_	6,578	_	-
Repo Investments	298,374	63,522	12,991	3,542
Other Receivables	_	7,831	_	-
Service Charges and Claims Received	_	-	21,613	-
Insurance Premium Paid		_	271,501	-
People's Finance PLC				
Deposits	7,925	149,414	459	126
Repo Investments	408,440	-	37,787	-
Interest Payable	474	-	_	-
People's Microfinance Ltd.				
Repo Investment		14,482	352	182
People's Leasing Havelock Properties Ltd.				
Repo Investments	18,355	35,300	1,320	401

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35.4 Transactions with Associate Companies

The following table provides the outstanding balance of loans and advances, other credit facilities, deposits and the corresponding interest during the year of the Associate Company:

	Balance as at the	Balance as at the Year end		ıring the Year
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
People's Merchant Bank PLC				
Investments - Ordinary Shares (Refer Note 17.2)	263,100	145,500	-	-
- Preference Shares (Refer Note 17.2)	10,000	10,000	_	_
Loans and Advances	224,600	323,070	44,710	41,589
Off-Balance Sheet Accommodations	_	_	_	_
Deposits	50,400	280	799	-

35.5 Transactions with Government of Sri Lanka (GOSL) and State-Owned Enterprises (SOEs)

35.5.1 GOSL and SOE Loans and Advances

	2011 Balance			Income		2010 Balance			Income	
	Overdrafts Rs. '000	Loans & Advances Rs. '000	Bills Rs. '000	Total Rs. '000	Rs. '000	Overdrafts Rs. '000	Loans & Advances Rs. '000	Bills Rs. '000	Total Rs. '000	Rs. '000
Sri Lanka Government	23,195,571	2,419,989	_	25,615,560	59,736	22,927,235	3,490,048	17,332	26,434,615	181,664
Local Government Bodies	602,830	_	_	602,830	191,777	559,331	_	3,323	562,654	77,605
Provincial Councils	166	32,469	_	32,635	4,921	691	36,853	-	37,545	6,226
Government Corporations	14,380,863	49,630,556	4,315,000	68,326,419	3,489,103	35,328,495	20,675,131	_	56,003,626	4,700,695
Total	38,179,430	52,083,014	4,315,000	94,577,444	3,745,537	58,815,752	24,202,032	20,655	83,038,440	4,966,190

35.5.2 GOSL and SOE Deposits

			2011					2010		
		Bal	lance		Expenses		Bal	ance	Expense	
	Demand	Savings	Time	Total		Demand	Savings	Time	Total	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka Government	8,594,360	252,232	2,847,502	11,694,094	240,621	8,468,368	646,426	2,933,059	12,047,853	521,688
Local Government Bodies	1,240,905	_	426,602	1,667,508	34,865	1,207,109	38,244	448,767	1,694,121	184,691
Provincial Councils	2,417,858	_	466	2,418,325	36	1,524,081	-	544	1,524,625	254,845
Government Corporations	4,513,870	720,886	25,834,379	31,069,135	1,721,368	3,522,018	869,480	16,473,603	20,865,101	801,847
Total	16,766,994	973,117	29,108,950	46,849,062	1,996,890	14,721,576	1,554,151	19,855,974	36,131,700	1,763,072

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PAGES 170-182 SIGNIFICANT

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35.5.3 GOSL and SOE Off-Balance Sheet Items

			2011		2010			
	Acceptances	Documentary Credit	Guarantees	Total	Acceptances	Documentary Credit	Guarantees	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Sri Lanka Government	209,371	6,688,173	_	6,897,544	5,395	9,335,265	-	9,340,660
Government Corporations	47,457,264	67,392,388	380,230	115,229,882	38,472,232	19,337,810	607,836	58,417,877
Total	47,666,635	74,080,561	380,230	122,127,426	38,477,626	28,673,075	607,836	67,758,537

35.5.4 Government-Directed Loans and Advances

	Balance as at t	Balance as at the Year end		g the Year
	2011 Rs. '000	2010 Rs. '000	2011 Rs. '000	2010 Rs. '000
Microfinance Loans	454,736	307,725	20,766	24,258
Agriculture and Other Development Loans	2,879,340	2,356,863	213,580	168,185
Housing Loans Granted to Government Servants	19,567,504	14,646,427	2,194,176	1,460,231

35.6 Transactions with Staff Retirement Benefits

	Rs. '000	Rs. '000
Contribution during the Year - People's Bank Pension Trust Fund	1,260,000	1,116,009
- Proposed Pension Plan for Post-1996 Recruited Employees	200,000	200,000
- Widows'/Widowers' & Orphans' Pension Fund	39,120	39,120
	1,499,120	1,355,129

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VALUE ADDED STATEMENT

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INCOME STATEMENT US\$

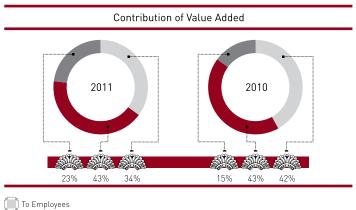
PAGE 225
BALANCE SHEET US\$

PAGE 226 QUARTERLY FINANCIAL HIGHLIGHTS

VALUE ADDED STATEMENT

OF INCOME

For the year ended 31st December	2011 Rs. ¹ 000	%	2010 Rs. '000	%
Value Added				
Income Earned by Providing Banking Services	62,796,093		57,654,194	
Cost of Services	(38,595,770)		(38,154,180)	
Value Added by Banking Services	24,200,323		19,500,014	
Non-Banking Income	6,029,946		4,878,233	
Provision for Bad Debts	(970,919)		(1,013,406)	
	29,259,350		23,364,841	
Value Allocated to Employees				
Salaries, Wages and Other Benefits	10,084,982	34.5	9,778,541	41.9
To Government				
Dividend Paid on GOSL Bonds	_	-	18,307	0.1
Special Levy to Treasury	4,500,000	15.4	2,150,000	9.2
PAYE Tax	25,043	0.1	300,248	1.3
Income Tax	5,153,628	17.6	3,564,654	15.3
Value Added Taxation (VAT)	2,680,646	9.2	3,835,612	16.4
Other Indirect Taxes	129,936	0.4	102,143	0.4
For Expansion and Growth				
Retained Income	5,657,039	19.3	3,038,116	13.0
Depreciation/Amortisation	1,028,076	3.5	577,220	2.5
	29,259,350	100.0	23,364,841	100.0





To Government

To Expansion & Growth

PAGES 227-232 BRANCH NETWORK

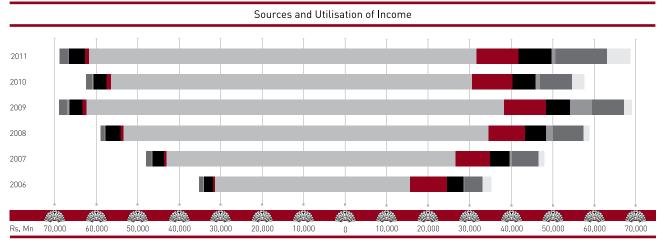
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PAGES 245-247 GLOSSARY OF FINANCIAL/ BANKING TERMS PAGE 248 CORPORATE INFORMATION

SOURCES AND UTILISATION OF INCOME

For the Year ended 31st December	2006 Rs. '000	2007 Rs. '000	2008 Rs. '000	2009 Rs. '000	2010 Rs. '000	2011 Rs. '000
Sources of Income						
Interest	31,429,436	43,074,181	53,453,556	62,341,236	56,534,172	61,822,469
Exchange	486,915	648,988	818,399	1,120,819	1,120,022	973,624
Commission and Fees	2,197,631	2,866,414	3,591,387	3,108,401	3,170,590	3,822,017
Capital Gain	154,464	86,774	110,988	674,447	174,373	170,745
Other	862,526	1,307,691	973,780	1,804,705	1,533,270	2,037,184
Total	35,130,972	47,984,048	58,948,110	69,049,608	62,532,427	68,826,039
Utilisation of Income						
To Depositors as Interest	15,622,100	26,541,983	34,491,766	38,414,583	30,635,722	31,703,406
To Employees as Emoluments	8,918,858	8,405,683	8,895,182	10,063,967	9,778,541	10,084,984
To Providers of Supplies & Services	3,918,364	4,633,972	5,107,471	5,743,785	5,553,225	7,920,438
Provision for Possible Loan Losses & Others	352,786	722,174	1,620,025	5,272,496	1,013,406	970,919
To Government - Taxes, Special Levy & Dividends	4,260,119	6,226,043	7,348,508	7,654,273	7,654,273	12,489,253
Retained for Growth	2,058,745	1,454,193	1,485,158	1,900,504	3,038,116	5,657,039
Total	35,130,972	47,984,048	58,948,110	69,049,608	62,532,427	68,826,039





PAGE 221 SOURCES AND UTILISATION CAPITAL ADEQUACY INCOME STATEMENT US\$ OFINCOME

PAGES 222-223

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PAGE 226 BALANCE SHEET US\$ QUARTERLY FINANCIAL HIGHLIGHTS

CAPITAL ADEQUACY

Computation of Risk-Weighted Assets

	Bala	ince	Risk	Risk-Wei	ghted Balance
As at 31st December	2011	2010	Weight	2011	2010
	Rs. '000	Rs. '000	%	Rs. '000	Rs. '000
Assets					
Claims on Government of Sri Lanka and Central Bank of Sri Lanka	113,232,124	129,386,482	_	_	_
Claims on Foreign Sovereigns and Their Central Banks	_	-	0-150	-	-
Claims on Public Sector Entities (PSEs)	19,783,164	16,984,694	20-150	19,783,164	16,984,694
Claims on Official Entities and Multilateral Development Banks (MDBs)	_	_	0-150	_	_
Claims on Banks	17,358,131	7,601,220	20-150	9,794,992	2,510,203
Claims on Financial Institutions	8,491,907	4,091,689	20-150	4,772,017	2,245,509
Claims on Corporates	28,505,621	32,753,594	20-150	22,558,702	26,714,352
Retail Claims	63,207,283	44,165,905	75-100	55,066,907	44,165,905
Claims Secured by Residential Property	52,610,855	44,227,690	50-100	26,305,428	22,113,845
Claims Secured by Commercial Real Estate	_	-	100	_	-
Non-Performing Assets (NPAs)	5,234,453	7,366,376	50-150	5,841,635	8,483,433
Cash Items	11,369,594	10,163,206	0-20	199,632	233,202
Property, Plant & Equipment	8,959,936	8,384,708	100	8,959,936	8,384,708
Other Assets	3,311,383	7,513,744	100	3,311,383	7,526,244
Total	332,064,451	312,639,308		156,593,796	139,362,095

Off-Balance Sheet Exposure

	Bala	nce	Credit Conversion	Credit Equivale	
	2011 Rs. '000	2010 Rs. '000	Factor %	2011 Rs. '000	2010 Rs. '000
Instruments					
Direct Credit Substitutes	4,636,433	4,742,388	100	4,636,433	4,742,388
Transaction-Related Contingencies	19,958,050	16,323,916	50	9,979,025	8,161,958
Short-Term Self-Liquidating Trade-Related Contingencies	34,966,686	37,181,174	20	6,993,337	7,436,235
Sale and Repurchase Agreements and Assets Sale with Recourse where the Credit Risk Remains with the Bank	_	_	100	_	-
Obligations under an On-going Underwriting Agreement	_	_	50	_	_
Other Commitments with an Original Maturity of up to One Year or which can be Unconditionally Cancelled at any time	21,547,157	16,010,337	0-20	4,250,792	3,131,429
Commitments with an Original Maturity up to One Year			20	_	_
Other Commitments with an Original Maturity of over One Year	_	-	50	_	-
Foreign Exchange Contracts	12,959,750	7,632,022	0-5	259,195	152,720
Interest Rate Contracts	_	_	0-3	-	_
Total	94,068,076	81,889,837		26,118,782	23,624,730

PAGES 227-232

Total Risk-Weighted Assets

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PAGES 240-242

PAGES 243-244 BRANCH NETWORK SERVICE CENTRES WORLDWIDE PARTNERS DECADES AT A GLANCE PERFORMANCE

PAGES 245-247 GLOSSARY OF FINANCIAL/ CORPORATE REVIEW 1999-2011 BANKING TERMS

PAGE 248 INFORMATION

As at 31st December	2011 Rs. ′000	2010 Rs. '000
Computation of Capital		
Tier I: Core Capital		
Paid-Up Ordinary Shares/Common Stock/Assigned Capital	7,201,998	7,201,998
Statutory Reserve Fund	1,892,591	49,998
Published Retained Profits	6,226,026	5,756,883
General and Other Reserves	5,544,271	2,198,970
Deductions - Tier I	404,348	346,250
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	232,500	232,500
50% Investments in the Capital of Other Banks and Financial Institutions	171,848	113,750
Total Eligible Core Capital (Tier I)	20,460,538	14,861,599
Tier II: Supplementary Capital		
Revaluation Reserves (as approved by Central Bank of Sri Lanka)	2,208,884	2,208,884
General Provisions	2,336,886	2,346,976
Approved Subordinated Term Debt	6,900,000	5,000,000
Deductions - Tier II		
50% of Investments in Unconsolidated Banking and Financial Subsidiary Companies	232,500	232,500
50% Investments in the Capital of Other Banks and Financial Institutions	171,848	113,750
Total Eligible Supplementary Capital (Tier II)	11,041,422	9,209,610
Total Capital Base	31,501,960	24,071,208
Computation of Ratios		
Total Risk-Weighted Assets for Credit Risk	156,593,794	139,362,094
Total Risk-Weighted Assets for Market Risk	6,676,882	5,381,906
Total Risk-Weighted Assets for Operational Risk	49,317,885	43,014,133
Total Risk-Weighted Assets (RWA)	212,588,561	187,758,133
Core Capital Ratio - Tier I (Minimum Requirement 5%)	9.6%	7.9%
Core Capital		
Total Risk-Weighted Assets x 100		
Total Capital Ratio (Minimum Requirement 10%)	14.8%	12.8%
Total Capital Base		
Total Risk-Weighted Assets		

Note: The above Report has been prepared in accordance with Basel II guidelines set out by the Central Bank of Sri Lanka.

PAGE 221 SOURCES AND UTILISATION CAPITAL ADEQUACY OF INCOME

PAGES 222-223

PAGE 224 INCOME STATEMENT US\$

PAGE 225 BALANCE SHEET US\$

PAGE 226 QUARTERLY FINANCIAL HIGHLIGHTS

INCOME STATEMENT US\$

		BANK			GROUP	
For the year ended 31st December	2011 US\$ '000	2010 US\$ '000	Change %	2011 US\$ '000	2010 US\$ '000	Change %
Income	604,135	563,406	7.2	710,417	639,044	11.2
Interest Income	542,659	509,363	6.5	650,531	581,668	11.8
Interest Expenses	(278,283)	(276,022)	0.8	(328,748)	(305,696)	7.5
Net Interest Income	264,376	233,340	13.3	321,783	275,972	16.6
Foreign Exchange Gain	8,546	10,091	(15.3)	8,546	10,091	(15.3)
Fee and Commission Expenses	33,549	28,566	17.4	33,758	28,745	17.4
Capital Gain on Treasury Bills and Bonds	1,499	1,571	(4.6)	1,499	1,571	(4.6)
Other Income	17,882	13,814	29.4	16,083	16,969	(5.2)
Total Income	325,852	287,384	13.4	381,669	333,348	14.5
Operating Expenses						
Personnel Costs	83,390	92,508	(9.9)	90,871	97,371	(6.7)
Provision for Staff Retirement Benefits	13,159	12,209	7.8	13,158	12,209	7.8
Premises, Equipment and Establishment Expenses	33,588	26,189	28.3	35,328	27,338	29.2
Fee and Commission Expenses	265	491	(46.0)	265	142	86.2
Other Overhead Expenses	48,239	60,557	(20.3)	62,170	73,643	(15.6)
	(178,641)	(191,954)	(6.9)	(201,793)	(210,703)	(4.2)
Profit before Loan Losses, Provisions and Provision for Fall in Value of Dealing Securities/Others	147,211	95,430	54.3	179,876	122,645	46.7
Less: Provision for Loan Losses	(8,522)	(9,131)	(6.7)	8,476	(12,790)	166.3
Provision for Fall in Value of Dealing Securities/Others	(4,296)	(7,274)	(40.9)	(4,296)	(7,274)	
Operating Profit	134,393	79,026	70.1	184,055	102,582	79.4
Share of Associate Companies' Profit/Loss before Taxation	_	_	_	295	(137)	315.4
Profit Before Taxation	134,393	79,026	70.1	184,351	102,444	80.0
Provision for Taxation	(45,237)	(32,117)	40.9	(62,038)	(43,137)	43.8
Profit After Taxation	89,155	46,909	90.1	122,313	59,308	106.2
Less: Minority Interest	_	_	_	(3,564)	(28)	12,584.5
Profit for the Year	89,155	46,909	90.1	118,749	59,280	100.3

Exchange Rate: 1 US\$ was Rs. 113.93 as at 31st December 2011 (Rs. 110.99 as at 31st December 2010).

The Income Statement and the Balance Sheet given on pages 224 and 225 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

PAGE 248 INFORMATION

BALANCE SHEET US\$

		BANK			GROUP	
As at 31st December	2011 US\$ '000	2010 US\$ '000	Change %	2011 US\$ '000	2010 US\$ '000	Change %
Assets						
Cash and Short–Term Funds	307,434	417,668	(26.4)	350,884	440,115	(20.3)
Balance with the Central Bank	313,514	240,917	30.1	313,500	240,917	30.1
Government Treasury Bills and Treasury Bonds	595,641	620,342	(4.0)	598,507	620,342	(3.5)
Bills of Exchange	130,780	18,904	591.8	130,774	18,904	591.8
Loans and Advances	3,948,577	3,194,388	23.6	3,935,366	3,179,510	23.8
Leases	627	6,245	(90.0)	676,312	392,904	72.1
Other Assets	133,869	108,852	23.0	161,602	144,695	11.7
Deferred Tax	1,640	563	191.5	2,184	661	230.3
Dealing Securities	7,629	4,307	77.1	8,447	4,830	74.9
Investment Securities	223,007	165,116	35.1	224,314	166,017	35.1
Investments in Subsidiaries and Associate Companies	14,861	15,096	(1.6)	3,311	2,242	47.7
Government of Sri Lanka Restructuring Bonds	64,279	65,979	(2.6)	64,276	65,979	(2.6)
Property, Plant & Equipment	74,697	70,831	5.5	94,227	83,103	13.4
Prepaid Leases	2,855	2,942	(3.0)	2,855	2,942	(3.0)
Intangible Assets	885	1,772	(50.1)	3,953	5,038	(21.5)
Total Assets	5,820,295	4,933,920	18.0	6,570,512	5,368,200	22.4
Liabilities						
Amounts due to Banks	639	22,118	(97.1)	639	22,118	(97.1)
Deposits from Customers	4,738,745	4,163,801	13.8	4,810,264	4,178,105	15.1
Borrowings from Banks and Others	550,782	330,455	66.7	987,313	607,801	62.4
Taxation Payable	24,635	13,762	(79.0)	30,086	19,219	56.5
Deferred Taxation	2,762	2,016	37.0	6,671	2,574	159.2
Other Liabilities	172,252	158,764	8.5	244,772	232,918	5.1
Retirement Benefits	10,135	10,207	(0.7)	10,135	10,207	(0.7)
Debentures	87,777	45,049	100.0	105,967	55,595	90.6
Total Liabilities	5,587,727	4,746,171	17.7	6,195,848	5,128,538	20.8
Funds Employed						
Share Capital	439	450	(2.6)	439	450	(2.6)
Capital Pending Allotment	62,778	64,438	(2.6)	62,775	64,438	(2.6)
Reserves	169,351	122,861	37.8	271,448	174,024	56.0
	232,568	187,749	23.9	334,662	238,912	40.1
Minority Interest	-	_	_	40,002	750	_
Total Funds Employed	232,568	187,749	23.9	374,664	239,662	56.3
Total Liabilities and Funds Employed	5,820,295	4,933,920	18.0	6,570,512	5,368,200	22.4
Commitments and Contingencies	1,676,764	1,187,050	41.3	1,676,691	1,187,050	41.2

Exchange Rate: 1 US\$ was Rs. 113.93 as at 31st December 2011 (Rs. 110.99 as at 31st December 2010).

The Income Statement and the Balance Sheet given on pages 224 and 225 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements.

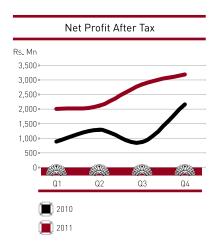
PAGE 221 SOURCES AND UTILISATION OF INCOME PAGES 222-223 CAPITAL ADEQUACY PAGE 224
INCOME STATEMENT US\$

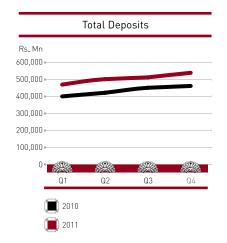
PAGE 225
BALANCE SHEET US\$

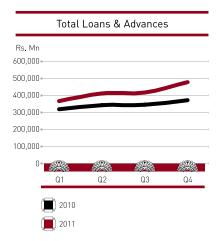
PAGE 226 QUARTERLY FINANCIAL HIGHLIGHTS

QUARTERLY FINANCIAL HIGHLIGHTS

For the Quarter Ended	2011			2010				
	Quarter 1 Rs. Mn	Quarter 2 Rs. Mn	Quarter 3 Rs. Mn	Quarter 4 Rs. Mn	Quarter 1 Rs. Mn	Quarter 2 Rs. Mn	Quarter 3 Rs. Mn	Quarter 4 Rs. Mn
Income Statement - YTD								
Net Interest Income	6,760	13,823	22,052	30,119	6,163	12,766	18,504	25,898
Non-Funded Income	1,164	2,433	4,287	7,004	1,168	2,598	3,916	5,998
Operating Expenses	(4,721)	(9,714)	(14,855)	(20,352)	(4,627)	(9,877)	(14,915)	(21,305)
Net Profit before Tax	3,079	6,323	10,711	15,311	1,773	4,080	5,820	8,771
Provision for Income Tax	(1,078)	(2,213)	(3,749)	(5,154)	(881)	(1,902)	(2,777)	(3,565)
Net Profit after Tax	2,001	4,110	6,962	10,157	892	2,178	3,043	5,206
Income Statement - for the Quarter								
Net Interest Income	6,760	7,063	8,228	8,067	6,163	6,603	5,738	7,395
Non-Funded Income	1,164	1,269	1,854	2,717	1,168	1,430	1,319	2,082
Operating Expenses	(4,663)	(4,993)	(5,141)	(5,496)	(4,627)	(5,250)	(5,038)	(6,390)
Net Profit before Tax	3,079	3,244	4,388	4,599	1,773	2,307	1,740	2,951
Provision for Income Tax	(1,078)	(1,136)	(1,536)	(1,405)	(881)	(1,021)	(875)	(788)
Net Profit after Tax	2,001	2,109	2,853	3,195	892	1,286	865	2,164
Balance Sheet								
Total Assets	557,346	618,816	620,971	663,077	474,980	500,901	533,022	547,616
Total Loans and Advances	366,440	410,954	416,607	478,345	319,399	342,365	346,031	371,804
Total Deposits	470,304	501,566	512,054	539,862	399,829	422,288	451,335	462,140
Total Shareholders' Funds	20,839	22,448	24,090	26,495	18,617	19,481	18,583	20,838
Key Performance Indicators								
Return on Assets (before Tax)	2.2%	2.2%	2.4%	2.5%	1.5%	1.7%	1.5%	1.7%
Return on Equity (after Tax)	38.4%	38.0%	41.3%	42.9%	19.6%	23.4%	22.3%	27.0%
Cost/Income Ratio	55.7%	55.8%	52.1%	50.7%	56.7%	57.3%	59.9%	60.2%
Fee Based Income/Net Income	14.7%	15.0%	16.3%	18.9%	15.9%	16.9%	17.5%	18.8%
Advances/Deposits Ratio	77.9%	81.9%	81.4%	88.6%	79.9%	81.1%	76.7%	80.5%
NPL Ratio	5.2%	4.6%	4.3%	3.4%	7.4%	6.9%	6.3%	5.0%
Total Capital Adequacy Ratio	12.4%	11.5%	11.1%	14.8%	13.6%	13.0%	12.4%	12.8%







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BRANCH NETWORK



Central Zone

Matale

Nuwara Eliya



Eastern Zone

2a. Ampara

Batticaloa

Trincomalee



Northern Zone

Jaffna

Wanni



North Central Zone

Anuradhapura 4a.

Polonnaruwa



Wayamba Zone

Puttalam

Kurunegala



Sabaragamuwa Zone

Kegalle

Ratnapura



Southern Zone

Galle 7a.

7b. Hambantota

7c. Matara



Uva Zone

Badulla

Moneragla



Western Zone I

Colombo North

Colombo South

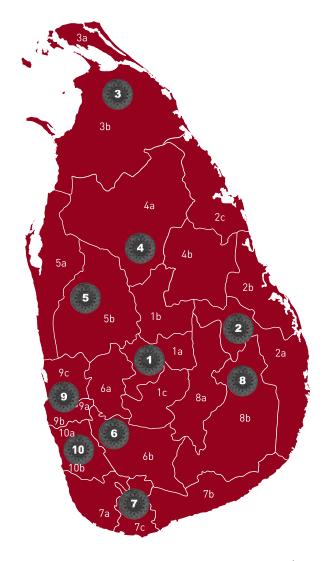
Gampaha



10. Western Zone II

10a. Colombo Outer

10b. Kalutara



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Zone/Region	Branch	Branch Code
♠ Ampara	Addalachchenai	228
	Akkaraipattu	063
	Ampara	015
	Kalmunai	023
	Karaitivu	223
	Mahaoya	181
	Maruthamunai	346
	Nintavur	296
	Pottuvil	164
	Sainthamaruthu	338
	Sammanthurai	064
	Thirukkovil	224
	Uhana	189
♠ Anuradhapura	Anuradhapura	008
(Ba)	Nuwarawewa	220
	Eppawala	170
	Galenbindunuwewa	177
	Galkiriyagama	301
	Galnewa	179
	Horowpathana	218
	Kahatagasdigiliya	051
	Kebithigollewa	150
	Pulmuday	352
	Kekirawa	042
	Medawachchiya	096
	Meegalewa	246
	Nochchiyagama	171
	Padaviya	043
	Talawa	315
	Thambuttegama	219
♠ Badulla	Badulla	010
- Daddila	Muthiyangana	269
	Bandarawela	037
	Boralanda	209
	Diyatalawa	151
	2174141414	131

Zone/Region	Branch	Branch Code
	Haldummulla	195
	Haliela	225
	Haputale	216
	Kandaketiya	250
	Keppetipola	240
	Koslanda	260
	Lunugala	251
	Mahiyangana	058
	Passara	116
	Uva-Paranagama	156
	Welimada	016
Batticaloa	Batticaloa	075
	Batticaloa Town	113
	Chenkalady	227
	Eravur	123
	Kaluwanchikudy	190
	Kattankudy	065
	Kallar	339
	Kokkadicholai	342
	Oddamavadi	340
	Valachchenai	102
Puttalam	Anamaduwa	267
	Chilaw	024
	Dankotuwa	291
	Kalpitiya	125
	Madampe	215
	Mahawewa	300
	Marawila	322
	Nattandiya	083
	Puttalam	009
	Wennappuwa	076

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Zone/Region	Branch	Branch Code
Western Zone I	Bambalapitiya	310
86°	Borella	078
	Borella Town	320
	Central Road	298
	Dam Street	297
	Dematagoda	071
	Duke Street	001
	First City Branch	046
	Grandpass	126
	Headquarters	204
	Hyde Park Corner	025
	Kehelwatta	259
	Kirillapona	319
	Kollupitiya Co-op. House	210
	Kotahena	308
	Liberty Plaza	309
	Lucky Plaza	331
	Malwatte Road	312
	Maradana	236
	Majestic City	200
	Mid City	176
	Mutwal	214
	Narahenpita	119
	Olcott Mawatha	275
	Pettah	139
	Queens Branch	033
	Sangaraja Mawatha	056
	Sea Street	277
	Suduwella	143
	Thimbirigasyaya	086
	Town Hall	167
	Union Place	014
	Wellawatte	145

Zone/Region	Branch	Branch Code
Colombo Outer	Avissawella	029
	Battaramulla	208
	Boralesgamuwa	348
	Dehiwala	019
	Dehiwala - Galle Road	337
	Gangodawila	097
	Hanwella	229
	Homagama	049
	Kaduwela	196
	Katubedda	313
	Kesbewa	327
	Kolonnawa	194
	Kotikawatta	098
	Kottawa	328
	Maharagama	306
	Moratumulla	290
	Moratuwa	091
	Mount Lavinia	336
	Nugegoda	174
	Nugegoda City	335
	Piliyandala	103
	Pitakotte	279
	Ratmalana	080
♣ Galle	Ahangama	188
	Ambalangoda	035
	Baddegama	087
	Balapitiya	154
	Batapola	234
	Elpitiya	073
	Galle Fort	013
	Galle Main Street	169
	Hikkaduwa	136
	Imaduwa	247
	Karapitiya	343
	Koggala	329
	Thalgaswala	272
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Zone/Region	Branch	Branch Code
	Udugama	131
	Uragasmanhandiya	197
	Wanduramba	325
🐇 Gampaha	Delgoda	118
	Gampaha	026
	Ganemulla	332
	Ja-Ela	239
	Kadawatha	273
	Kandana	175
	Katunayake	276
	Kelaniya	055
	Kiribathgoda	237
	Kirindiwela	202
	Mahara	217
	Malwana	191
	Marandagahamula	100
	Meerigama	198
	Minuwangoda	021
	Nittambuwa	278
	Pamunugama	318
	Pugoda	093
	Ragama	316
	Seeduwa	324
	Veyangoda	079
	Wattala	222
	Yakkala	333
	Kochchikade	142
	Negombo	034
♠ Hambantota	Ambalantota	072
	Angunakolapelessa	205
	Beliatta	244
	Hambantota	007
	Kudawella	288
	Middeniya	265

Zone/Region	Branch	Branch Code
	Ranna	345
	Suriyawewa	264
	Tangalle	067
	Tissamaharama	061
	Walasmulla	120
	Weeraketiya	350
J affna	Atchuvely	107
	Chankanai	108
	Chavakachcheri	110
	Chunnakam	109
	Kannathiddy	284
	J/Main Street	104
	J/Stanley Road	030
	J/University	162
	Kankesanthurai	031
	Kayts	105
	Nelliady	106
	Point Pedro	285
	Velvettithurai	141
Kalutara	Aluthgama	084
-	Baduraliya	283
	Bandaragama	121
	Beruwala	311
	Bulathsinhala	161
	Horana	041
	Ingiriya	300
	Kalutara	039
	Maggona	282
	Matugama	070
	Neboda	249
	Panadura	148
	Panadura Town	321
	Pelawatta	261
	Wadduwa	262

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Zone/Region	Branch	Branch Code
Kandy	Akurana	153
	Alawathugoda	294
	Ankumbura	183
	Davulagala	206
	Deltota	257
	Galagedara	114
	Hataraliyadda	341
	Gampola	018
	Hasalaka	140
	Kadugannawa	159
	Kandy	003
	Katugastota	089
	Menikhinna	157
	Nawalapitiya	053
	Panwila	211
	Peradeniya	057
	Pilimatalawa	256
	Pussellawa	274
	Senkadagala	158
	Teldeniya	112
	Wattegama	074
♠ Kegalle	Aranayake	248
3	Bulathkohupitiya	252
	Dehiowita	293
	Deraniyagala	180
	Galigamuwa	185
	Gonagaldeniya	238
	Hemmathagama	221
	Kegalle Main	027
	Kegalle Bazaar	299
	Mawanella	069
	Rambukkana	101
	Ruwanwella	081
	Thulhiriya	270
	Warakapola	054
	Yatiyantota	047

Zone/Region	Branch	Branch Code
♠ Kurunegala	Alawwa	149
	Bingiriya	172
	Galgamuwa	184
	Giriulla	092
	Hettipola	144
	Ibbagamuwa	207
	Kobeigane	281
	Ku/Ethugalpura	334
	Ku/Maliyadeva	226
	Kuliyapitiya	028
	Kurunegala	012
	Maho	052
	Makandura	137
	Mawathagama	199
	Melsiripura	344
	Narammala	082
	Nikaweratiya	124
	Polgahawela	059
	Pothuhera	280
	Ridigama	193
	Wariyapola	163
♠ Matale	Dambulla	138
	Galewela	115
	Matale	002
	Naula	146
	Pallepola	241
	Raththota	128
	Ukuwela	201
	Wilgamuwa	122
♠ Matara	Akuressa	117
May	Deniyaya	132
	Devinuwara	243
	Dickwella	135
	Gandara	307
	Hakmana	130

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Zone/Region	Branch	Branch Code
	Kamburupitiya	133
	Matara - Dharmapala Mawatha	152
	Matara - Uyanwatta	032
	Morawaka	060
	Urubokka	271
	Walasgala	304
	Weligama —	077
Moneragala	Badalkumbura	347
	Bibile	011
	Buttala	147
	Kataragama	168
	Medagama	258
	Moneragala	068
	Thanamalwila	230
	Wellawaya	062
Nuwara Eliya	Ginigathhena	302
	Hatton	186
	Maskeliya	178
	Nildandahinna	127
	Nuwara Eliya	134
	Pundaluoya	173
	Ragala	036
	Talawakelle	038
	Udapussellawa	292
	Hanguranketha	022
Ratnapura	Balangoda	017
· ·	Eheliyagoda	085
	Embilipitiya	045
	Godakawela	245
	Kahawatta	155
	Kalawana	235
	Kaltota	289

Zone/Region	Branch	Branch Code
	Kiriella	266
	Kuruwita	263
	Nivitigala	192
	Pallebedda	349
	Pelmadulla	160
	Rakwana	129
	Ratnapura	088
	Ratnapura Town	317
	Udawalawa	295
Polonnaruwa	Aralaganwila	253
	Bakamuna	242
	Dehiattakandiya	330
	Habarana	203
	Hingurakgoda	006
	Medirigiriya	231
	Polonnaruwa	005
	Polonnaruwa Town	232
	Thambala	351
	Welikanda	254
Trincomalee	Kantalai	090
	Kinniya	094
	Muttur	095
	Serunuwara	233
	Trincomalee	066
	Trincomalee Town	255
Wanni	Kilinochchi re-opened	048
	Mankulam re-opened	165
	Mullaitivu re-opened	020
	Paranthan re-opened	111
	Murunkan	166
	Mannar	044
	Vavuniya	040

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SERVICE CENTRES

Zone/Region	Attached Service Centres	Service Centre Code
Ampara	Oluvil	863
	South-East University, Oluvil	814
	Palamunai	598
	Alayadiwembu	902
	Erakkamam	861
	Nawagampura	597
	Padiyathalawa	860
	Panama	972
	Sammanthurai	862
	Vilinaiyady Town, Sammanthurai	924
	Central Camp	870
	Gonagolla	916
Anuradhapura	Anuradhapura	410
	Nachchiyaduwa	829
	Rambewa	866
	Mihintale	434
	Vilachchiya - Pemaduwa	832
	Thirappane	912
	Bulnewa	931
	Gomarankadawala	938
	Maradankadawala	507
	Ganewelpola	738
	Saliyawewa	508
	Padavi Sri Pura	827
	Padavi Parakkramapura	986
	Rajanganaya	833
	Damsopura	950
	Rajina Handiya - Thambuttegama	911
Badulla	Badulla Bazaar	402
	Badulla - Welekade	910
	Badulla - Pahala Weediya	897
	Uva Provincial Council Premises	824
	Bandarawela Town	431
	Ballaketuwa	542
	Bandarawela Commercial Centre	906
	Perahettiya	745
	Bogahakumbura	548
	Nawa Medagama	928
	Attampitiya	564

Zone/Region	Attached Service Centres	Service Centre Code
	Demodara	895
	Meegahakivula	872
	Madolsima	890
	Lunuwatte	880
	Welimada Town	875
Batticaloa	Iruthayapuram	909
	Puttur	952
	Siththandy	934
	Mandur	874
	Palugamam	974
	Ariyampathi	859
	Wakarai	953
Puttalam	Andigama	554
	Arachchikattuwa	467
	Udappuwa	908
	Fisheries S.C.	589
	Norochcholai	500
	Thoduwawa	547
	Kottaramulla	498
	Welipennagahamulla	570
	Narawila	571
	Madurankuliya	546
	Bolawatta	482
	Lunuwila	483
	Ulhitiyawa	828
Western Zone I	Mihindu Mawatha	884
(Bar	Dematagoda	514
	Colombo Harbour Premises	822
	Grandpass	403
	St. Joseph's Street	843
	Wekanda	515
	Slave Island	891
	Havelock Town	513
	Jampettah Street	553
	Bloemendhal	919
	Lotteries Board H/O Premises	831
	Hultsdorf Courts Premises	808

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Zone/Region	Attached Service Centres	Service Centre Code
	Nagalagam Street	484
	Mutuwella	840
	Registrar of Motor Vehicles Premises - Narahenpita	818
	Central Bank Premises	911
	Maligawatta	485
	Suduwella	401
	Colombo University Premises	586
	Colombo Medical College Premises	803
	Treasury Unit Ministry of Finance	826
Colombo Outer	Kosgama	439
	Thalduwa	460
	Talawathugoda	413
	Malabe	896
	Hokandara	926
	Sri Lanka Foreign Employment Bureau Premises	823
	Attidiya	457
	Nedimala	521
	Delkanda	407
	Sri Ja'pura University Premises	812
	Hanwella Town	418
	Kahahena	551
	Padukka	419
	Godagama	497
	Homagama City	572
	Army H.Q.	807
	Meegoda	883
	Palali Army Camp	809
	Nawagamuwa	535
	Bandarawatta	982
	Soyzapura	428
	Kahatuduwa	409
	Wellampitiya	900
	Gothatuwa	415
	Mulleriyawa (Angoda)	838
	Athurugiriya	416
	Mattegoda	531

Zone/Region	Attached Service Centres	Service Centre Code
	Service Certifies	Code
	Pannipitiya (Moraketiya)	429
	Pamunuwa	922
	Puwakaramba	449
	Rawathawatta	448
	Katukurunda	494
	Embuldeniya	412
	Nawala University Premises	450
	Chapel Lane	526
	Welikada Plaza	821
	Kohuwala	464
	Piliyandala City	839
	Bokundara	741
	Ethulkotte	586
	Sri Ja'pura - Thalapathpitiya	932
	Economic Centre	949
Galle	Ambalangoda - Main Street	549
	Watugedera	560
	Kosgoda	889
	Meetiyagoda	937
	Pitigala	441
	Karandeniya	444
	Kurundugaha Hethekma	869
	Gintota	420
	Wanchawala	520
	Pettigalawatta	987
	Galle Town Service Centres	815
	Kaluwella	404
	Pinnaduwa	587
	Ratgama	469
	Gonapeenuwala	561
	Yakkalamulla	424
	Bogahagoda	980
	Nagoda	522
	Neluwa	442
Gampaha	Weliweriya	512
» Jampana	Gampaha - Ja-Ela Road	533
	Udugampola	907
	Welipillewa	575

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Zone/Region	Attached	Service Centre
	Service Centres	Code
	Weligampitiya	528
	Dehiyagatha Junction	529
	Ekala	925
	Kirillawela	446
	Kadawatha	973
	Averiwatta	576
	Sinharamulla	445
	Peliyagoda (Pattiyahandiya)	536
	Mawaramandiya	525
	Urapola	511
	Enderamulla	555
	Divulapitiya	437
	Demanhandiya	530
	Kotadeniyawa	830
	Pallewela	969
	Thihariya	438
	Pasyala	510
	Wathupitiwala	539
	Dompe	538
	Mahabage	524
	Batuwatta	917
	Raddolugama	834
	Bandaranaike International Airport Premises (Attached to International Div.)	805
	Naiwala	556
	Oliyamulla (Wattala)	557
	Welisara Economic Centre	893
	Mudungoda	532
	Katana	465
	Negombo Main Street	523
	Fishe. Bank - Negombo	590
		-
Hambantota	Hungama	961
	Weerawila (Pannegamuwa)	565
	Katuwana	856
	Vitharandeniya	960
	Lunugamwehera	941

Zone/Region	Attached Service Centres	Service Centre Code
Jaffna	Puttur	970
889	Pandatherippu	957
	Kodikamam	904
	Kopay	966
	Alaweddy	744
	Inuvil	905
	Urumpirai	865
	Manipai	837
	Jaffna Navalar Road	956
	Thirunelvely	855
	Kalviyankadu	964
	Mallakam	899
	Puloly	963
	Uduppidy	971
& Kalutara	Dargatown	451
	Alubomulla	568
	Beruwala Fisheries	
	Harbour Premises	819
	Moragahahena	567
	Millaniya	588
	Gonapola	871
	Pokunuwita	989
	Handapangoda	981
	Kalutara Central Junction	458
	Kalutara North	476
	Kalutara Hospital Junction	929
	Agalawatta	447
	Dodangoda	968
	Panadura Keselwatta	462
	Eluwila	591
	Modarawila	811
	Meegahathenna	975
	Moronthuduwa	534
i Kandy	Ambathanna	882
Nanuy	Welamboda	894
	Galaha	877
	Gelioya	491

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Zone/Region	Attached Service Centres	Service Centre Code
	Gampola	492
	Kurunduwatta	493
	Kolongoda	490
	Mahaiyawa	885
	Kandy Court Premises	903
	Kandy City Centre	944
	Kundasale	927
	Hedeniya	584
	Poojapitiya	804
	Polgolla	984
	Digana	455
	Huluganga	920
	Muruthalawa	583
	Peradeniya University SC	801
	Pottapitiya	915
	Talatuoya	454
	Marassana	858
	Medamahanuwara	456
	Udu Dumbara	854
	Madawala Bazaar	898
🦚 Kegalle	Talduwa	460
	Kotiyakumbura	461
	Nelundeniya	873
	Amithirigala	943
	Morontota	435
	Dewalagama	489
	Mawanella	436
	Aluthnuwara	946
	Pattampitiya	592
	Karawanella	936
	Galapitamada	488
	Horagasmankada	518
	Algama	935
	Kitulgala	519
🦚 Kurunegala	Boyawalana	851
80-	Weerapokuna	577
	Ambanpola	433
	Damabadeniya	474

Zone/Region	Attached	Service Centre
	Service Centres	Code
	Bammanna	985
	Bandarakoswatta	848
	Kumbukgete	473
	Boraluwewa	544
	Hiripitiya	850
	Mallawapitiya	736
	Piduruwella	503
	Maliyadewa	737
	Dummalasooriya	504
	Bihalpola	545
	Kandanegedera	566
	Udubaddawa	868
	Kurunegala Government	
	Hospital Premises	816
	Kurunegala Municipal	
	Council Premises	947
	Polpitigama	414
	Nagollagama	573
	Pannala	475
	Paragahadeniya	432
	Katupotha	405
	Nikaweratiya	574
	Giriulla	886
	Godawela	502
	Mathawa	735
	Panagamuwa	543
	Dodangaslanda	849
	Maspotha	878
Matale	Inamaluwa (Sigiriya)	499
	Madatugama	852
	Dewahuwa	509
	Matale - Trinco Street	406
	Matale - Gongawela	559
	Porcelain Factory Premises	802
	Madawala Ulpotha	853
	Yatawatta	558
	Kaikawala	887
	Warakamura	585
	Laggala - Pallegama	466

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Zone/Region	Attached	Service Centre
	Service Centres	Code
Matara	Telijjawila	463
	Telijjawila Pallegama Kottegoda Kekanadura Deiyandara Kirinda - Puhulwella Makandura Walgama Kotuwegoda Yatiyana Ruhunu University Unit Matara Hospital Premises Pitabeddara Opatha Mawarala Mirissa Okkampitiya Moneragala Dambagalla Siyabalanduwa Hambegamuwa Ethiliwewa Watawala Kotagala Dickoya Bogawantalawa Upcott Walapane Kandapola Nanu Oya Thawalantenna Hapugastalawa Ragala Agarapatana Talawakelle Adikarigama	918
	Kottegoda	487
	Kekanadura	921
	Deiyandara	459
	Kirinda - Puhulwella	930
	Makandura	440
	Walgama	578
	Kotuwegoda	408
	Yatiyana	443
	Ruhunu University Unit	825
	Matara Hospital Premises	945
	Pitabeddara	417
	Opatha	942
	Mawarala	579
	Mirissa —	468
Moneragala	Okkampitiya	857
	Moneragala	569
	Dambagalla	867
	Siyabalanduwa	977
		596
	Ethiliwewa	976
Nuwara Eliya	Watawala	540
	Kotagala	427
	Dickoya	541
	Bogawantalawa	411
	Upcott	552
	Walapane	581
		516
	Nanu Oya	582
	Thawalantenna	876
	Hapugastalawa	913
		495
		496
	***************************************	517
	Adikarigama	739
	Padiyapelella	470
	Hewaheta	471
	Rikillagaskada	472

Zone/Region	Attached Service Centres	Service Centre Code
A D .		400
• Ratnapura		480
		562
		430
		453
	***************************************	537
	5 5	010
		813 477
		477
		478
	<u>.</u>	810
		940
Polonnaruwa	Diyabeduma	563
	Siripura	965
	Sandunpura	733
	Diyasenpura	939
	Kaduruwela	835
	Lankapura	580
	Jayanthipura	734
	Sewanapitiya	933
♣ Trincomalee	Mullipothanai	842
860	Kachchakodithivu	959
	Thoppur	958
		594
Ratnapura Weligepola Pambahinna Eheliyagoda Padalangala Kolonna Sevanagala Sugar Corporation Premises Ayagama Karawita Opanayake Ratnapura New Town Wewelwatta Polonnaruwa Diyabeduma Siripura Sandunpura Diyasenpura Kaduruwela Lankapura Jayanthipura Sewanapitiya Trincomalee Mullipothanai		841
	881	
		593
		501
№ Wanni	Kilinochchi Town	732
- vaiiii		978
	***************************************	731
		599
	• • • • • • • • • • • • • • • • • • • •	979
		967
		742
		955
		951
		983
		595

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WORLDWIDE PARTNERS



Europe
Banca Nationale del Lavoro SpA, (BNL) Rome
Bank of Ceylon, London
Bank of Cyprus Public Company Ltd., Nicosia
Barclays Bank PLC, London
BHF Bank Aktiengesellsschaft, Frankfurt am Main
BNP Paribas SA, Paris
Budapest Bank RT, Budapest
Commerzbank AG, Frankfurt am Main
Credit Suisse, Zurich
Czekoslovenka Obchodna Banca AS, Bratislava
Danske Bank A/S, Copenhagen
Deutsche Bank AG, Frankfurt am Main
Gorengska Banka DD, Ljubljana
HSBC Bank PLC, London
ING Bank NV, Amsterdam

Intesa Sanpaolo SpA, Milano
Komercni Bank NA, Prague
National Westminster Bank PLC, London
Natixis, Paris
Nordea Bank AB (Publ), Stockholm
Nordea Bank Norge ASA, Oslo
SEB Pank, Tallinn
Skandinaviska Enskilda Banken AB (Publ), Stockholm
Societe Generale, Paris
Sparkasse Kolnbonn, Cologne
Svenska Handelsbanken AB (Publ), Stockholm
The Royal Bank of Scotland NV, Amsterdam
The Royal Bank of Scotland, Athens
UBAE SPA, Italy
UBS AG, Zurich
Ukrexim Bank, Kiev

ING Belgium SA/NV, Brussels

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SERVICE CENTRES WORLDWIDE PARTNERS

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GLOSSARY OF FINANCIAL/
BANKING TERMS

PAGE 248 CORPORATE INFORMATION

Unicredit Bank Austria AG, Vienna Unicredit Bank, Sofia UniCredito Italiano SpA, Milan WestLB AG, Dusseldorf

North America

Bank of Montreal, Montreal
Bank of Nova Scotia, Canada
Canadian Imperial Bank of Commerce, Toronto
Citibank NA, New York
Deutsche Bank Trust Company Americas, New York
HSBC Bank USA NA, New York
JP Morgan Chase Bank NA, New York
MashreqBank PSC, New York
Standard Chartered Bank, New York
The Royal Bank of Scotland NV, New York
Wells Fargo Bank NA, USA

South America

Banco de Chile, Santiago
Banco Santander Brazil SA, Sao Paulo
Deutsche Bank, Sao Paulo

Africa

ABSA Bank Ltd., Johannesburg
Bank Misr, Cairo
Barclays Bank of Kenya Ltd., Nairobi
Citi Bank - Ivory Coast
Mauritius Commercial Bank Ltd. - Port Louis
National Bank of Egypt, Cairo
Nedbank Ltd., Johannesburg

Asia

Alfa Bank
Axis Bank Ltd., Mumbai
Bank for Foreign Trade - Hanoi
Bank of Ceylon, Chennai
Bank of China, China
Bank of Communications Co. Ltd.
Bank of Maldives, Male
Bank of Tokyo Mitsubishi UFJ Ltd., Tokyo
China Construction Bank, Beijing
China Development Bank

	CIMB Bank Ltd., Kuala Lumpur
	DBS Bank Ltd., Singapore
	Exim Bank of Korea
	Export Import Bank of China, Beijing
	Habib Bank Ltd., Karachi
	HSBC Bank, Hong Kong
	ICICI Bank Ltd., Mumbai
	Korea Exchange Bank, Seoul
	MashreqBank PSC, Mumbai
	MCB Bank Ltd., Karachi
	Mizuho Corporate Bank Ltd., Tokyo
	Nepal Bank Ltd., Katmandu
	Oversea-Chinese Banking Corp. Ltd., Hong Kong
	Oversea-Chinese Banking Corp. Ltd., Kuala Lumpur
	Oversea-Chinese Banking Corp. Ltd., Singapore
	Pubali Bank Ltd., Dhaka
	Rupali Bank Ltd., Dhaka
	Standard Chartered Bank (Pakistan) Ltd., Karachi
	Standard Chartered Bank, Bangladesh
	Standard Chartered Bank, Tokyo
	State Bank of India, Chennai
	Sumitomo Mitsui Banking Corporation, Tokyo
	The Royal Bank of Scotland NV, Chennai
	UBAF, Singapore
	Woori Bank, Hanoi
h	0

Oceania

ANZ National Bank Ltd., Wellington
Australia & New Zealand Banking Group Ltd., Melbourne
National Australia Bank Ltd., Melbourne
Westpac Bank PNG Ltd. - Port Moresby

Middle East

Ahli United Bank, Kuwait
Al Rajhi Banking & Investment Corp - Riyadh
Bank Dhofar, Ruwi
Bank of Bahrain and Kuwait, Manama
BankMuscat SAOG, Ruwi
Commercial Bank of Dubai PSC, Dubai
MashreqBank PSC, Dubai
National Bank of Abu Dhabi, Abu Dhabi
National Bank of Oman SAOG, Muscat
UBAE S.P.A., Dubai

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QUARTERLY FINANCIAL
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DECADES AT A GLANCE

1961

People's Bank was inaugurated on 1st July 1961. The first branch was opened at Duke Street, Colombo. During the year, eight more branches were opened in Polonnaruwa, Hingurakgoda, Hambantota, Anuradhapura, Puttalam, Matale and Kandy in addition to the Foreign Branch in Colombo. The total number of employees stood at 169.

1962

The Head Office was relocated to Ratnam's Building in Union Place, Colombo 2 and 17 more branches were opened.

1963

The Bank commenced its pawning services.

1964

The Co-operative Rural Banking Scheme was inaugurated.

1965

Some departments of the Bank were relocated to the GCSU building in Sir Chittampalam A. Gardiner Mawatha, Colombo 2. The total number of branches increased to 48, this included new branches in Horana, Kekirawa, Padaviya, Mannar, Embilipitiya, Kahatagasdigiliya, Ragala and Talawakelle.

1967

The Bank commenced a new Agriculture Credit Scheme becoming the pioneer lender to the small farm sector.

\$ 1970

The 'Athamaru' Loan Scheme was introduced to finance economic activities of the informal sector. The Investment Savings Scheme, a Credit Linked Savings Scheme was launched to attract regular savers.

1971

The Bank's hundredth branch was opened at Marandagahamula.

1973

A comprehensive Rural Credit Scheme was launched to provide both production and consumption credit facilities. The Bank initiated the 'ganu-denu' practice, identifying itself with the traditions of the Sinhala and Tamil New Year and encouraging customers to transact with the Bank at the auspicious time.

1975

An aggressive branch expansion programme brought our total branch count to 158.

1977

Our two hundredth branch opened at Kollupitiya. The Head Office was relocated to a building in Fort. The total number of employees reached 5,000. The first Fisheries Bank was opened at Koralawella.

198

Our branch network increased to 290 branches. The Extended Minor Savings Scheme was launched.

982

The three hundredth branch of the Bank opened at Ingiriya. The total number of employees reached 10,000.

1984

The People's Merchant Bank, a subsidiary of the Bank, was established. Our branch at Slave Island was merged with the International Division and the Fort Foreign Branch

1986

The process of computerisation began at our Central Head Office and selected City branches and a Black Light System was introduced. Customer turn-around time was thereby significantly reduced.

1987

Our Headquarters Branch became the Bank's first fully automated branch. A Special Loan Scheme for rural electrification was implemented in collaboration with the CEB.

1989

The Bank participated in a loan scheme sponsored by the Ministry of Labour to provide for housing against assignment of EPF balances. A scheme was launched in association with the Sri Lanka Foreign Employment Bureau to provide loans for job seekers abroad. The Bank participated in a loan scheme launched by REPIA to provide credit to those affected by civil unrest in 1983. A Janasaviya Associated Loan Scheme was introduced during the year. The Bank also commenced the issue of Negotiable Savings Certificates during the year.

1990

An Endowment Savings Deposit Scheme was introduced. The People's Visa Card was introduced in association with Visa International and 24 branches were fully computerised.

1991

The first ATM was installed at our Headquarters Branch.

1992

The Bank supported the Government's 200 Garment Factory Programme. 'People's Automated Banking System' (PABS) a banking application developed in-house, commenced live operations.

1993

The 330 Bank branches were operating throughout the country and 35 main branches were fully automated. 'Vanitha Vasana', a savings scheme for women was introduced.

1994

Eight new ATMs were installed and 160 branches were computerised under the automation programme.

1995

'Gurusetha', a new deposit mobilisation and loan scheme catering to Government teachers was launched with the co-operation of the Ministry of Education.

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1996

'Suwa Sevana', a credit package for Government sector health personnel was launched, 'Sisu Udana', a new deposit scheme for school children was introduced. The Bank participated in two ADB funded credit schemes - the Tea Small Holdings Development Project and the Perennial Crops Development Project. The Bank's fully owned subsidiaries, People's Leasing Co. (PA) Ltd. and People's Travels (Pvt) Ltd. commenced operations. Zonal offices were opened to strengthen decentralised administration and to facilitate better customer service.

The 'Surathura' Loan Scheme was launched to assist self-employment projects. The Bank extended its credit facilities to small and medium scale enterprises and industries under the NDB funded Small and Medium Enterprises Assistance Project (SMEAP).

1998

The total number of ATMs increased to 36 serving over 125,000 PET cardholders. 175 branches were fully automated and the number of pawning centres increased to 188. A special credit cum deposit scheme known as 'Videshika' was introduced in collaboration with the Sri Lanka Foreign Employment Bureau to assist migrant workers.

1999

The Bank launched 'Isuru Udana', a deposit scheme that encourages parents and guardians to save for the benefit of their young charges.

2000

The 'Jana Jaya', savings cum loan scheme was launched. The newly introduced 'Jaya Sri' draw offered attractive prizes for depositors. The ATM network expanded to 74 machines throughout the country. The Central ATM Switch was introduced to connect the PABS branches and the ATM.

2001

The Bank's Corporate Management Team was strengthened by the recruitment of certain Heads of Division from the private banking sector. Restructuring of the Bank was initiated through the launch of a Strategic Plan. The total number of ATM machines grew to 90.

2002

The number of PABS automated branches increased to 218 and 119 branches were connected to the Central ATM Switch. A treasury automation package was implemented.

2003

The 11th CEO/General Manager of the Bank, Mr. Asoka de Silva assumed duties on 1st February 2003. The Young Executive Saver's (YES) Account was launched. The Bank signed up with Silver Lake System SDV BUD Malaysia to install a state-of-the-art core banking package and Trade Services Solutions which will initially be operational in 60 selected branches including Head Office.

2004

The second phase of the restructuring plan for 2004-2008 launched and approved by the Government of Sri Lanka was based on the recapitalisation support of ADB. The Bank obtained the first ever public rating of BBB+ from Fitch Ratings Lanka. The Core Banking project was implemented successfully.

2005

The 15th Chairman of the Bank Dr. P.A. Kiriwandeniya assumed duties at the beginning of December 2005. This was followed immediately thereafter with a receipt of Rs. 2 Bn as the first tranche of Equity Capital Investment in the Bank by the Government of Sri Lanka in keeping with the agreement signed between the Government, ADB and People's Bank. The Core Banking project was further extended across the branch network. The Bank also was a major

intermediary in bringing Government granted financial assistance for the rebuilding of lives, homes and businesses affected by the Tsunami of December 2004.

2006

The Bank obtained an A-rating from Fitch Ratings Lanka Ltd. indicating progress from its earlier Rating level.

People's Bank was awarded the POP Award for 2006 in the Banking and Financial Services Sector by the Sri Lanka Institute of Marketing. The second tranche of capital of Rs. 1 Bn was received from the Government of Sri Lanka.

2007

The 16th Chairman of the Bank Mr. W. Karunajeewa assumed duties in May 2007. The rating level of A - from Fitch Ratings was maintained during the year. The Government of Sri Lanka injected the third capital tranche of Rs. 1.5 Bn into People's Bank. People's Bank won the People's Award for the Banking & Financial Services Brand of the Year for the second consecutive year. The Bank surpassed the Rs. 300 Bn mark in total deposits during the year 2007.

Mr. M. Wickremasinghe assumed office as the 12th CEO/General Manager of the Bank.

The Government of Sri Lanka released the fourth capital tranche of Rs. 1.5 Bn. The Bank reached the Capital Adequacy Level of 10.5% by the end of the year. Further, the Bank's first Debenture issue of Rs. 2.5 Bn was made in the year.

A notable advancement in the Bank's remittance service with the introduction of 'People's e-Remittance', a web-based remittance product supported by latest technology to remit money from overseas within minutes. Two new foreign currency deposit products were launched, viz., 'Doo Daru Ethera Isura' a foreign currency deposit product for children and 'Special Foreign Investment Deposit Account' [SFIDA].

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The 13th CEO/General Manager of the Bank Mr. P.V. Pathirana assumed duties in January, 2009.

The Bank issued its second Debenture for Rs. 2.5 Bn during the year.

214 branches and 236 service centres were connected online. The Bank strategically placed over 300 ATMs islandwide.

Total deposits reached Rs. 400 Bn.

The highest recorded profit before tax of Rs. 6.1 Bn was achieved.

Received a SAFA (South Asian Federation of Accountants) award for the 2008 Annual Report for the first time in the Bank's history.

2010

Mr. H.S. Dharmasiri assumed office as the 14th CEO/General Manager of the Bank in October 2010.

Branch Network and service centres expanded to 679. ATMs increased to 330.

People's International VISA Debit Card was launched in July 2010.

The Bank obtained AA- from Fitch Rating Lanka Ltd. and AAA from Ram Ratings .

Total deposits surpassed Rs. 462 Bn during the year 2010. The highest recorded profit before tax of Rs. 8.7 Bn was achieved.

ARC awarded two Gold Awards to People's Bank Annual Report held at New York.

The Bank received SAFA (South Asian Federation of Accountants) Award for the 1st place in the Public Sector Category for the 2009 Annual Report.

2011

Mr. N. Vasantha Kumar assumed office as the 15th CEO/General Manager of the Bank on 22nd February 2011.

The Bank celebrated the Golden Jubilee on 1st July 2011.

Total branch network reached 714 whilst ATM locations increased to 382 covering almost all parts of the Island.

The Bank obtained an upgraded rating of AA (stable) from Fitch Rating Lanka Ltd.
The Bank's total assets, total deposits and total loans and advances surpassed Rs. 663 Bn, Rs. 539 Bn and Rs. 478 Bn respectively. The highest recorded profit before tax of Rs. 15.3 Bn and a profit after tax of 10.2 Bn was achieved.

People's bank won the SLIM-Nielsen People's Award for the most popular bank in the Sri Lankan Banking and Financial Services Sector, SLIM-Nielsen People's Awards - Service Brand of the Year and also won the Bronze Award for Service Category at the SLIM Brand Excellence Awards 2011.

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PERFORMANCE REVIEW 1999-2011

	1999	2000	2001	2005	2006	2007	2008	2009	2010	2011
(Sri Lanka Rs. Mn)										
Capital & Reserves										
Issued Share Capital	50	50	50	50	50	50	50	50	50	50
Capital Pending Allotment & Reserves	(4,685)	(6,524)	(6,216)	3,967	10,221	12,845	15,830	17,750	20,788	26,445
Total	(4,635)	(6,474)	(6,166)	4,017	10,271	12,895	15,880	17,800	20,838	26,495
Current Liabilities										
Customer Deposits	104,688	115,007	127,543	225,600	269,947	300,956	324,489	396,158	462,140	539,862
Borrowing from Banks and Others	12,405	39,744	28,369	29,134	35,840	49,063	33,714	36,884	39,132	62,821
Other Liabilities	14,458	18,677	17,851	16,512	22,496	17,670	20,965	20,404	20,505	23,900
Debentures	_	_	_	_	-	_	2,500	5,000	5,000	10,000
	131,551	173,428	173,763	271,246	328,283	367,689	381,668	458,445	526,778	636,582
Total Liabilities	126,916	166,954	167,597	275,262	338,555	380,584	397,548	476,245	547,616	663,077
Non-Current Assets										
Property, Plant & Equipment/Intangibles	2,945	2,930	2,834	4,862	8,936	8,414	8,362	7,939	8,385	8,936
Investments	23,066	32,079	25,636	50,583	62,682	61,095	80,109	84,807	82,688	84,681
Current Assets										
Cash and Short-Term Funds	25,260	35,147	24,818	65,592	47,191	57,090	39,663	83,973	87,062	89,210
Loans and Advances (Net)	66,944	87,087	106,142	142,497	207,138	238,293	248,626	283,760	357,336	464,812
Other Assets	8,701	9,711	8,167	11,727	12,608	15,691	20,787	15,766	12,144	15,438
	100,905	131,945	139,127	219,816	266,937	311,075	309,076	383,500	456,543	569,461
Total Assets	126,916	166,954	167,597	275,262	338,555	380,584	397,547	476,245	547,616	663,077
Commitments & Contingencies	19,051	26,365	26,726	45,177	39,450	74,222	138,989	100,867	131,751	191,025
Operations										
Gross Earnings	14,262	18,450	25,198	27,202	35,131	47,984	58,948	69,050	62,532	68,826
Net Income	5,705	8,512	10,513	14,784	19,509	21,442	24,456	30,635	31,897	37,123
Total Overheads	5,459	8,160	8,867	11,070	15,038	15,736	17,159	19,719	21,305	20,352
Profit before Taxation	(6,671)	(1,268)	880	4,035	4,079	5,002	5,664	6,076	8,771	15,311
Provision for Taxation	98	-	-	1,263	922	2,628	2,959	2,755	3,565	5,154
Profit after Taxation	(6,573)	(1,268)	880	2,772	3,157	2,374	2,705	3,320	5,206	10,157
Performance Indicators										
No. of Employees (Permanent)	11,623	11,577	11,401	9,531	9,645	8,416	8,587	8,863	8,399	8,249

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	1999	2000	2001	2005	2006	2007	2008	2009	2010	2011
(Sri Lanka Rs. '000)										
Per Employee										
Deposits	9,007	9,934	11,187	23,670	27,988	35,760	37,788	44,698	55,023	65,446
Advances	5,760	7,522	9,310	14,951	21,476	28,314	28,954	32,016	42,545	56,348
Gross Earnings	1,227	1,594	2,210	2,854	3,642	5,702	6,865	7,791	7,445	8,344
Profit after Tax	(566)	(110)	77	291	327	282	315	375	620	1,231
(Sri Lanka Rs.)										
Per Share										
Profit after Taxation	(6,573)	(1,268)	880	2,772	3,157	2,374	2,705	3,320	5,206	10,157
Total Assets	126,916	166,954	167,597	275,262	338,555	380,584	397,547	476,245	547,616	663,077
Net Worth	(4,635)	(6,474)	(6,166)	4,017	10,271	12,895	15,880	17,800	20,838	26,495
Return on Assets (%) (Before Tax)	(5.4)	(0.9)	0.5	1.6	1.3	1.4	1.5	1.4	1.7	2.5
Return on Equity (%)	2,319.1	22.8	(13.9)	139.2	44.2	20.5	18.8	19.7	26.9	42.9
Cost/Income Ratio (%)	146.0	102.8	89.2	72.7	73.8	68.7	65.4	60.6	60.2	50.7
Non-Performing Loan (NPL) Ratio (Gross) (%)	22.2	18.9	20.9	11.0	7.1	5.9	6.8	6.7	5.0	3.4
Non-Performing Loan (NPL) Ratio (Net) (%)	6.2	4.4	8.2	1.8	0.9	0.7	1.6	2.0	1.3	0.5
Non-Performing Loan (NPL) Coverage Ratio (%)	72.3	76.9	61.0	83.9	87.1	88.0	75.7	70.6	73.6	81.5
Capital Adequacy Ratio (CAR) (%)	-	(11.3)	(10.5)	1.9	5.6	6.9	10.5	13.4	12.8	14.8
Fitch Rating				BBB+	Α-	Α-	Α-	А	AA-	AA
RAM Ratings									AAA	AAA

BANKING TERMS

GLOSSARY OF FINANCIAL/BANKING TERMS

Accounting Policies

Principles, rules and procedures selected and consistently followed by the management of an entity in preparing and reporting the Financial Statements.

Accrual Basis

Recognition of the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

Amortisation

Systematic allocation of the depreciable amount of an intangible asset over its useful life. Depreciation and Amortisation both have the same meaning.

Associate Company

A company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

Bill Discounted

A promissory note or bill of exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity, the holder collects the face value of the bill for its own account.

Bill of Exchange

A signed, written, unconditional order addressed by one person (the drawer) directing another person (the drawee) to pay a specified sum of money to the order of a third person (the payee). The terms bill of exchange and draft are often used interchangeably.

Call Deposits or Call Money

Deposits or funds lent out which are repayable on demand.

Capital Adequacy

The ability of a bank to meet the needs of their depositors and other creditors in terms of available funds. As per requirement of Bank for International Settlements (SIBS) and Central Bank of Sri Lanka, Local Banks should maintain a stipulated minimum capital.

🚵 Tier I Capital (Core Capital)

Core Capital includes selected items of capital funds. Major core capital items are share capital, share premium, statutory reserve funds, retained profits, general reserves, surpluses/losses after tax arising from the sale of fixed and long-term investments.

Tier II Capital (Supplementary) Capital)

Supplementary Capital includes, approved revaluation reserves, general provisions, hybrid (debt/equity) capital items and approved subordinated term debts.

Cash Equivalents

Short-term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Certificate of Deposit (CD)

A certificate issued by a bank against funds deposited with it that specifies the rate of interest payable and the date when the deposit will be repaid to the bearer. CDs are often negotiable.

🦃 Commercial Paper

Unsecured short-term promissory notes issued by banks and credit worthy corporate borrowers.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Contingencies

A condition or situation, the ultimate outcome of which, gain or loss, will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Correspondent Bank

A bank that acts as an agent for another bank. The correspondent bank will generally provide a wide variety of banking services on behalf of the other banks in the region in which the correspondent bank is located.

Cost Income Ratio

Operating expenses as a percentage of net

Counterparty

The other party (including a bank) with whom a deal is made or closed.

🦚 Country Risk

The credit risk associated with lending to borrowers within a particular country, sometimes taken to include sovereign risk.

Cross Rate

The calculated foreign exchange rate from two separate quotations involving the same currency.

Currency Swap

A current exchange of principal amounts in two currencies combined with an agreement to re-exchange the currencies at a later date and to make interest payments, until the re-exchange, on the currency is received.

Deferred Tax

Sum set aside in the Financial Statements for taxation that may become payable in a financial year other than the current financial year.

Derivatives

A financial instrument whose price has a strong relationship with an underlying commodity, bond, equity or currency.

Disintermediation

The term often used to describe borrowers raising funds directly from the capital markets rather than from the banking sector. This is usually only undertaken by borrowers with the strongest credit ratings.

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INCOME STATEMENT US\$

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BALANCE SHEET US\$

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QUARTERLY FINANCIAL
HIGHLIGHTS

Documentary Bill

A bill of exchange that is accompanied by various documents, such as a bill of lading, an invoice and an insurance policy.

Documentary Credit

A letter of credit that stipulates the documents that must be produced in order for payment to be made.

Draft

A term generally synonymous with bill of exchange but sometimes used specifically in the context of inter-bank bills. A banker's draft is a draft, payable on demand, drawn by or on behalf of a bank.

Fixed Charge

A charge on specific property, usually freehold or leasehold property, or plant and machinery, given under a legal mortgage.

Floating Charge

A charge, taken by a lender to secure an advance upon property, such as stock, debtors, or cash, that permits the company to continue using and disposing of those assets in connection with its ordinary business. Such a charge becomes fixed in the event of the company's default.

Foreign Exchange Income

The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan Rupees on the Balance Sheet date at prevailing rates which differ from those rates in force at inception or on the previous Balance Sheet date. Foreign exchange income also arises from trading in foreign currencies.

Forward Contract

A contract that commits two parties to an exchange at a specific future date under terms set out at the contract date.

Forward Rate

The price of currency with a maturity beyond the spot date. Forward rates may be either the same in price as spot rates or different. In the first case, the forward rate is flat. In the second case, the price is either higher, at a premium, or lower, at a discount.

够 Forward Rate Agreement (FRA)

An agreement to exchange payments at a specified future date based on the difference between a particular interest rate index (e.g. LIBOR) and an agreed fixed rate.

General Provision

A Balance Sheet item representing funds set aside by the Bank to pay for losses that are anticipated to occur in the future. This is 1% of total performing advances.

🦣 Group

A group is a parent and all its subsidiaries.

Hedging

A methodology used to cover against risk of unfavourable price movements (interest rates, prices, commodities, etc.).

Impairment

This arises due to decline in recoverable amount below carrying amount.

Indemnity

An agreement whereby a person agrees to bear any loss that is suffered by a party to a contract to which he himself is not a party. The person giving the indemnity assumes primary liability, unlike a guarantor who assumes secondary liability.

Those persons who have the authority and responsibility for planning, directing and controlling the activities of the entity.

Letter of Credit (LC)

A document issued by a bank, requesting another bank or banks to advance money to a third person, up to a certain amount, in accordance with the terms and conditions set out in the document.

Mark to Market

The policy to periodically revaluing positions up or down to their current market or fair value.

Minority Interest

The proportion of the profit or loss and net assets of a subsidiary attributable to equity interest that are not owned, directly or indirectly through subsidiaries, by the Parent.

Mortgage

A lien on real property used to secure a borrowing.

Negotiable Instrument

A security or other financial instrument which can be freely sold to a third party (i.e. 'negotiated'). Bank notes, bearer bonds, bills of exchange and cheques are normally negotiable instruments.

Net Interest Margin

Interest income as a percentage of Average Interest Earning Assets.

Non-Performing Loan

A loan where principal or interest payments are not being made on the due dates, or where the borrower is failing to meet some other term or condition of the loan. Non-performing loans are frequently allocated non-accrual status.

Nostro Account 🖟

A foreign currency current account maintained with another bank, usually but not necessarily a foreign correspondent bank. At the other bank, the deposit is called a nostro account.

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BANKING TERMS

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Off-Balance Sheet Transactions

Transactions not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Position

The netted total commitments in a given currency or interest rate. A position can be either flat or square (no exposure), long (more currency bought than sold overbought) or shot (more currency sold than bought oversold).

Prime Rate

The interest rate which a bank charges its most credit worthy corporate customers.

Promissory Note

An unconditional promise in writing made by one person to another, signed by the promisor, engaging to pay on demand or at fixed or determinable future time a fixed sum to, or to the order of, a specified person, or to bearer

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Jargon for sale and repurchase agreement.

Reserve Assets

Assets of a financial institution which form part of its reserve requirements with the Central Bank.

Reverse Repo

The opposite of a repo, i.e. a purchase and resale agreement.

Revolving Credit

A line of credit that has terms permitting successive drawings and payments at the borrower's discretion. The funds available to the borrower are replenished by any repayments of principal.

🦓 Securitisation

This involves the transfer of a block of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes or commercial paper).

Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates.

Segment Reporting

Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, leasing operations, stock broking and securities dealings, property and insurance.

Settlement Date

The date on which a securities transaction is completed by actual exchange of securities for cash.

Short Position

An excess of liabilities (and/or forward sale contracts) over assets (and/or forward purchase contracts). A dealer's position when the net of purchases and sales leaves a net sold or oversold position.

🦃 Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise (known as the parent).

🦃 Suspense Account

An account used to record items temporarily which are held subject to clarification and transfer to the appropriate account.

Syndicated Loan

A loan arrangement in which a number of banks, in a form of joint venture, provides funds which they would individually be unwilling or unable to provide. Syndications are used for customers whose scale of financing is too great for any single bank to accommodate without distorting its loan portfolio.

🦓 Time Deposit

An interest bearing deposit account which is subject to withdrawal only after a fixed term.

🥨 Total Capital

Is the sum of Tier I capital (core capital) and Tier II capital (supplementary capital).

🦃 Treasury Bond (T-Bond)

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

Value Added

Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital to Government by way of taxes and retained for expansion and growth.

🧶 Value at Risk (VAR)

A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

🥨 Vostro Account

A local currency current account maintained with a bank by another bank (compare with nostro account).

Yield Curve

A graph showing market interest rates as a function of maturity. Normally, the yield curve is upward sloping: interest rates increase with the term of the instrument.

CORPORATE INFORMATION

Name of the Bank

People's Bank

Legal Status

A Licensed Commercial Bank under the Banking Act No. 30 of 1988 incorporated as a Commercial Bank by People's Bank Act No. 29 of 1961.

Head Office (Registered Office)

No. 75, Sir Chittampalam
A. Gardiner Mawatha,
Colombo 2, Sri Lanka.
Cable JANABANK
Tel.: 2327841 (6 Lines),
2446316 (15 Lines), 2481481
e-mail: info@peoplesbank.lk
web: www.peoplesbank.lk
VAT Registration No. 409000037-7000

Auditors

Auditor General, Auditor General's Department, Independence Square, Colombo 7, Sri Lanka.

Secretary

Mr. Rohan Pathirage, *LLB, MMgt. in Banking* Attorney-at-Law

Corporate Banking Division

P.O. Box 437, ANCL (Lake House Building), No. 35, D.R. Wijewardena Mawatha, Colombo 10, Sri Lanka. Tel.: 2320651-6, 2437239-41 e-mail: inter@peoplesbank.lk SWIFT PSBKLKLX

Off-Shore Banking Unit

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e-mail: fcbu@peoplesbank.lk

SWIFT PSBKLKLX

Overseas Customer Services

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People's Travels (Pvt) Ltd.

(Subsidiary of People's Bank)

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+94 112332747, +94 115662935

Fax: 2434530

e-mail: ptravel@peoplesbank.lk

Kandy Travel Desk

No. 17, Dalada Veediya, Kandy, Sri Lanka. Tel.: 081-2234224 Ext. 215

Fax: 081-2234681

Borella Travel Desk

No. 1161, 2nd Floor, People's Leasing Building, Maradana Road, Colombo 8, Sri Lanka.

People's Merchant PLC

(Associate Company of People's Bank)

No. 21, Nawam Mawatha, Colombo 2, Sri Lanka. Tel.: 2300191-4

Fax: 2300191-

People's Leasing Company PLC

1161, Maradana Road, Borella, Colombo 08.

Tel: 2631631 Fax: 2631190

Subsidiaries of People's Leasing Company PLC

People's Finance PLC

No. 385, The Landmark, Galle Road, Colombo 03.

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People's Insurance Ltd.

No. 53, Dharmapala Mawatha, Colombo 03.

Tel: 2206406 Fax: 2206399

People's Leasing Property Development Ltd.

1161, Maradana Road, Borella, Colombo 08.

Tel: 2631631 Fax: 2631190

People's Leasing Fleet Management Ltd.

1161, Maradana Road, Borella, Colombo 08.

Tel: 2631631 Fax: 2631190

People's Microfinance Ltd.

1161, Maradana Road, Borella, Colombo 08.

Tel: 2631631 Fax: 2631190

People's Leasing Havelock Properties Ltd.

1161, Maradana Road, Borella, Colombo 08.

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