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**The New
Pan Asia Bank**

Annual Report 2008

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years and
counting...

We're young and dynamic.

In the few years we have been in
operation, Pan Asia Bank has achieved
several milestones.

Our Vision

To become the most customer preferred
commercial bank in Sri Lanka.

Our Mission

We will create the largest satisfied customer base by providing professional, personalized, secure, quality banking and financial services, using modern technology & innovative products. We will delight our customers, create a better future for employees and enhance stakeholder value.

“The year has been a challenge, but we see challenges as opportunities.”

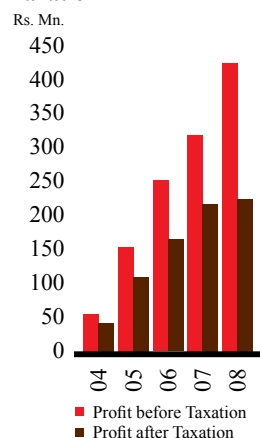
Financial Highlights

- **Record earnings:** Gross income grew by **40%** to reach **Rs. 3,241 Mn** and Operating Profit up by **39%** to **Rs. 555 Mn**
- **Broad-based growth:** Profit Before Tax recorded **Rs. 422 Mn** accelerating to **33%** growth over year 2007 and Profit After tax to **Rs. 224 Mn** for 2008
- **Strong Balance Sheet:** Total Assets grew by **22%** to **Rs.18,984 Mn**
- **Customer Deposits** grew by **19%** above the industry growth of **7.9%**
- **Customer Gross Advances** grew by **20%** above the industry growth of **11.2%**
- **Credit Exposures:** **77%** of Credit Exposures are secured by Cash and Property mortgages
- Launched '**First Class**' Private Banking
- **Shift in focus** from mid and retail clients to increased corporate clientele
- **Liquidity and Capital ratios** comfortably above targets
- **A year of change** with several key changes in personnel, processes and improvement in controls

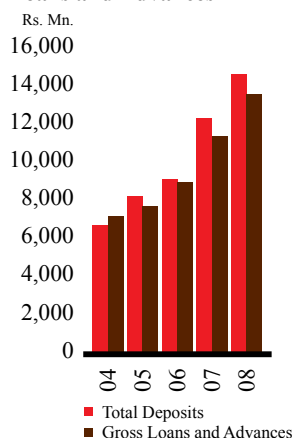
Financial Highlights

	2008	2007	Change %
Results for the Year (Rs. Million)			
Gross Income	3,241.16	2,317.14	39.88%
Profit Before Financial Services VAT & Taxation	555.34	400.49	38.67%
Profit Before Taxation	421.84	316.79	33.16%
Profit After Taxation	223.63	216.07	3.50%
Revenue to the Government	331.71	184.41	79.87%
Position at the Year End (Rs. Million)			
Shareholders' Funds	1,591.84	1,451.19	9.69%
Deposits from Customers	14,448.37	12,130.21	19.11%
Gross loans & Advances to Customers	13,389.86	11,197.09	19.58%
Total Assets	18,984.34	15,525.70	22.28%
Financial Ratios			
Net Asset Value per share (Rs)	14.39	13.12	
Earnings per share (Rs)	2.02	1.95	
Return on Average Assets (ROA) (%)	1.29	1.52	
Return on Average Shareholders' Funds (%)	14.80	16.19	
Statutory Ratios (%)			
Liquid Assets (Minimum Requirement - 20%)	23.09	23.11	
Capital Adequacy	Basel II	Basel I	
- Tier 1 (Minimum Requirement - 5%)	13.26	14.92	
- Tier 1 & 2 (Minimum Requirement - 10%)	14.02	16.13	

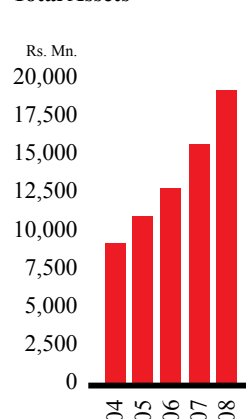
Profit Before & After Taxation



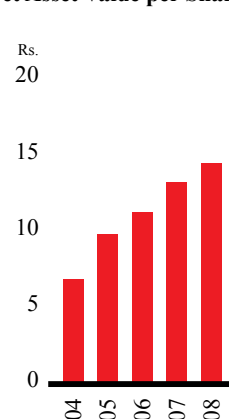
Total Deposits & Gross Loans and Advances



Total Assets



Net Asset Value per Share



Gross Income 2008

Rs. 3,241Mn

Gross Income 2007 – Rs. 2,317 Mn

Profit Before Taxation 2008

Rs. 422Mn

Profit Before Taxation 2007 – Rs. 317 Mn

Profit After Taxation 2008

Rs. 224Mn

Profit After Taxation 2007 – Rs. 216 Mn

Total Assets 2008

Rs. 18,984Mn

Total Assets 2007 – Rs. 15,526 Mn

Deposits From Customers 2008

Rs. 14,448Mn

Deposits From Customers 2007 – Rs. 12,130 Mn

Gross Loans & Advances 2008

Rs. 13,390Mn

Gross Loans & Advances 2007 – Rs. 11,197 Mn

Shareholders' Funds 2008

Rs. 1,592Mn

Shareholders' Funds 2007 – Rs. 1,451 Mn

Earnings Per Share 2008

Rs. 2.02

Earnings Per Share 2007 – Rs. 1.95

Net Asset Value Per Share 2008

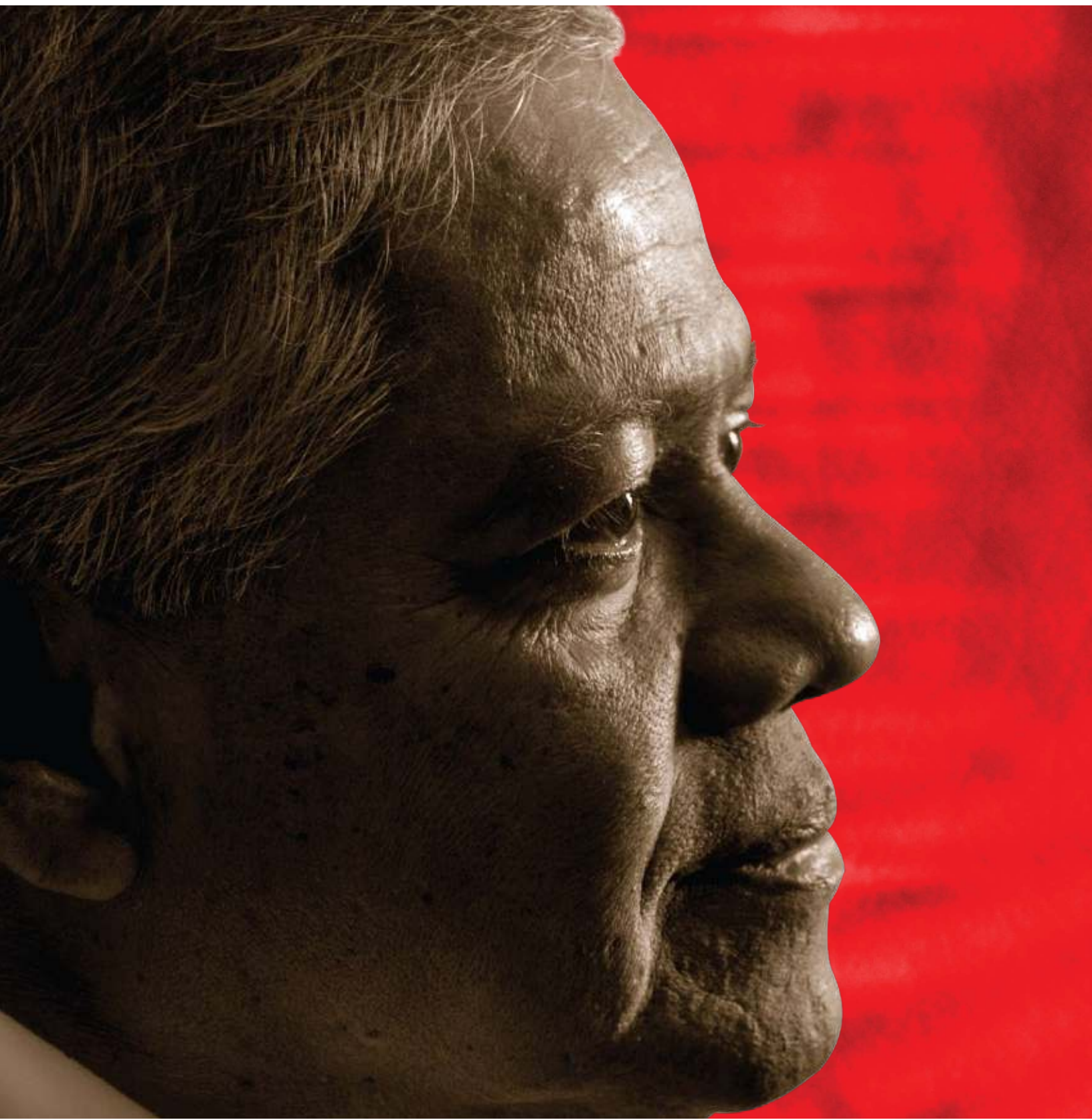
Rs. 14.39

Net Asset Value Per Share 2007 – Rs. 13.12

Net Interest Margin 2008

6.13%

Net Interest Margin 2007 – 5.23%



422

mn

Profit Before Tax 2008



Message from the Chairman

“We’re one of the fastest growing banks in Sri Lanka.
That says a lot about us.”

Message from the Chairman

Building a strong foundation for growth

On behalf of the Board of Directors, it is my pleasure to present to you the Annual Report and Audited Financial Statements of Pan Asia Bank for the year ended December 31, 2008.

The business environment we operated in was not conducive to maximising returns, but your Bank proved its mettle and resilience by posting a significant growth in earnings in the year under review.

Deposit growth amongst the industry reflected a declining trend with investors looking for alternative investments in view of the real income from bank deposits being negative. The high interest rate scenario affected the agriculture, industry and trading sectors. Exports were not price competitive in view of rising costs, which were also not compensated for by adjustment of the exchange rate in keeping with the rate of inflation. Consequent to exchange controls introduced during the latter part of the year, which discouraged imports, there was a reduction in turnover. The financial turmoil in the west did not have a significant impact on our business as a result of our markets not being as sophisticated. The impact of the global recession was felt however in the last quarter of the year by way of lack of demand for our exports and declining prices.

The deposit base of the Bank increased from Rs.12,130 Mn in 2007 to Rs.14,448 Mn as at December 2008 recording an appreciable increase of 19%. In keeping with the growth in deposits, the Bank's Total Assets increased to Rs.18,984 Mn recording an increase of 22%. The Bank managed to improve its market share in deposits and advances during the year. While the Return On Average Assets recorded 1.29% and Return on Average Capital Funds amounted to 14.80% as at end of the year.

Statutory reserves, liquid assets and capital was maintained as required by the monetary authority. The Bank's main focus was on managing assets and liabilities keeping in mind liquidity at all times, while top priority was given to asset quality.

During the year the Board was strengthened by the appointment of three professionally qualified and experienced businessmen as Directors. The Senior Management was also strengthened by the recruitment of staff with a proven track record and experience. The Bank also rationalised the deployment of staff and was able to reduce the cadre from 546 to 507 as at end December 2008. The high cost of human resources has become a concern for all banks in Sri Lanka particularly during 1st half of the year and in view of the availability of job opportunities in the Middle East for experienced bankers, there was a heavy exodus. Retention of experienced staff is possible only at a cost.

Pan Asia Bank opened three branches during the year. The capital expenditure to open a branch is high and is increasing, especially the infrastructure. With the new regulations in place, banks have to open two branches outside the Western Province, to open one in the Western Province. Whilst the idea of taking banking to developing areas is appreciated, this rule will hamper the expansion programmes of new banks.

The Central Bank of Sri Lanka issued directions on corporate governance for Licensed Commercial Banks in December 2007. The directive spells out the responsibilities of the Board, its composition, appointment of Directors, delegation of authority, duties of Chairman and CEO, Board Sub Committees, related party transactions and Disclosures etc and the Bank is geared to comply with the directive. Special mention should be made of the Board Audit Committee, which ensures that all checks and balances are in place and books of accounts are in compliance with the established and accepted accounting standards. The Integrated Risk Management Committee is entrusted with the responsibility of managing among other risks - Credit Risks, Operational risks, Regulatory Risks, Market Risks, Foreign Exchange Risks, Liquidity Risks and Interest Rate Risks. We welcome the directive aimed at ensuring sound administrative practices and good governance.

The Bank is required to enhance the capital base to Rs.2,500 Mn by the end of year 2009. Our present capital funds stands at Rs. 1,592 Mn and we consider as adequate considering our asset book. i.e Capital Adequacy. The banking industry is experiencing a slow growth in assets and liabilities and an increase in Non-Performing Advances. With the predicted growth of GDP for year 2009 at 6.5% - 7.0% and where the Return On Equity in the Banking Sector is negative compared to the risk free rate (Treasury Bill Rate), investors will be wary of looking at this sector. However Pan Asia Bank and the banking sector as a whole need to raise capital funds to support future expansion in a scenario where the business is based on a high cost module, with low margins and high taxation resulting in enhanced costs to the customers and low returns to stakeholders. We need to assure investors of an adequate Return On Equity. Capital funds are a scarce commodity and highly priced. Banks looking for capital funds will have to assure investors of at least the risk free rate which is around 19%, to attract capital.

The banking industry is heavily taxed in Sri Lanka at an effective rate now exceeding 60%. Until the year 2003, banks paid 33% tax, the same rate as other companies. With the special VAT levied on the financial sector, the effective tax rate went up to 60%. This retards capital formation resulting in low asset growth. Heavy taxes prevent the banks from ploughing back profits to undertake expansion programmes. In the long run, heavy taxes could damage the future of the banking industry. The burden of taxation on the sector is clearly evident when we look at our pre-tax profits (before VAT on Financial Services), and post tax profits for the years 2007 & 2008.

	Pre-Tax	Post Tax
2007	400 Mn.	216 Mn.
2008	555 Mn.	224 Mn.

Rising costs of technology, branch expansion and highly priced skills make it necessary for the industry to focus on increasing the size of operations to harness economies of scale.

Pan Asia Bank committed to assisting and developing the weaker segments of society during the year and have invested in several projects in areas such as Ranaviru Harasara and promoting savings among school children. Our investment in Corporate Social Responsibility is explained further under Sustainable Reporting.

We expect the year 2009 to be as challenging as the year just past due to the ongoing ethnic conflict and high inflation. The Bank will find ways and means of meeting these challenges to not only retain and increase market share but also record all-round growth in 2009.

I take this opportunity to record my appreciation and thank the Board of Directors for their valuable contribution, support and guidance in managing the affairs of the Bank. I also wish to thank our former MD/CEO Mr. R. Nadarajah and present Director / CEO Mrs. Kimarli Fernando for their tireless efforts in steering the Bank through difficult times, especially during the latter part of the year. Finally, I wish to thank the entire staff of Pan Asia Bank for their commitment, dedication to duty and contribution in achieving the results reported here.



A. G. Weerasinghe
Chairman

Colombo
19 March 2009

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CEO's Review

“Forward. That’s where we’re headed this year.”

Chief Executive Officer's Review

To Our Stakeholders

We are operating in turbulent times, but your Bank proved that it has the skills, products and tools to weather the storm, and come out stronger. Pan Asia Bank is built on firm foundations and performed well during the year, led by our management of the Bank's liquidity, capital, risk profile and costs.

It is likely that 2009 will see further instability in the global and local financial markets, with several core industries facing significant challenges and the economy weakening. World markets are in turmoil. Just over a year ago the subprime mortgage crisis in the US banking system triggered a recession that has swept across the world. Several Governments have developed emergency plans as well as fiscal and monetary packages to prevent the crisis from spreading and destabilising economies further. The systematic causes of this global crisis appear to be related to the weaknesses in global economic governance, excessive financial deregulation, systematic lapses in governance and regulatory issues.

The coming months and possibly years will be a test for global economies including Sri Lanka, which has felt the impact of the global recession but has largely withstood the financial crisis that affected several countries in the west.

This crisis has made it clear that new thinking and action is required on an urgent basis. Financial markets have to design new rules, processes and structures that reduce systematic risks, improve governance and supervision, whilst ensuring that market dynamics are able to deliver results, without imposing unnecessary restrictions. Several Central Banks and Governments around the world have injected substantial amounts of liquidity into the financial system to win back public confidence.

Whilst our country will be impacted by the global financial crisis, Sri Lanka has a unique opportunity with the very real prospect of an end to the long-drawn out ethnic conflict in the country. Pan Asia Bank is making plans to ensure we are prepared for expansion of our activities in a peaceful Sri Lanka, with a strategy in place to open branches in the north

and east, when the opportunity presents itself.

Pan Asia Bank will continue with its efforts to contribute towards national development, especially in the area of uplifting the rural economy through our expanding branch network. Due to the flat structure of Management, we are able to be quick and nimble in the decision making process. We have built strong relationships with customers, regulators and the business community. Our innovative products and services have given us a competitive edge in the market.

We hope to further strengthen our service quality and delivery capabilities and leverage on technology in further developing our products, beating the challenges and thriving in an uncertain environment.

A Period of Change

Significant changes were made during the year including the centralisation of the processing and credit administration functions that ensured better controls and governance, resulting in improved efficiencies and increased capacities. This enabled the Bank to reduce staff strength from 546 to 507 despite the opening of three new branches during the year. Senior level management changes were made and experienced professionals with foreign and local banking experience joined the Bank, ensuring that best practices are implemented in the Bank's operations, processes and risk controls. We leveraged on our talent pool and created diverse teams, with Employee Efficiency Ratio (Personnel cost to Net Revenue) improving from 36% (2007) to 33% (2008). Despite the challenges, we have been successful in our ability to attract talent.

Improved Controls

We have made prudent decisions on the management of the customer-lending portfolio through specific and general provisions in accordance with monetary regulations and our internal policies. Majority of the Non-Performing Advances are secured by property mortgages and we have been successful in recovery. We further strengthened our recovery processes through high level management involvement and the appointment of a dedicated Deputy

General Manager, a team of recovery officers as well as a legal team responsible for recoveries. During the year we restricted the delegated lending authorities and ability to provide temporary clean lending to ensure prudent credit controls.

Improved Liquidity

The management of prudent liquidity ratios is critical for a sustainable banking organisation. During the year the Bank focused on the need for adequate liquidity within the Bank and was successful in maintaining an Advances to Deposits Ratio (ADR) of 86%. Currently there is no Central Bank regulation on ADR ratio for banking institutes.

As per the Central Bank requirement banks are required to maintain a liquidity ratio of 20%, which includes 2% in cash and the balance invested in Treasury Bills. The Bank maintained a liquidity ratio above 23%, which is higher than the requirement of the Central Bank of Sri Lanka, as a prudent liquidity management strategy made internally. This shielded us during the recent liquidity crisis in the local banking industry.

The Bank maintained the Reserve Requirement as required by the Central Bank of Sri Lanka, which during the first part of the year was 10% and then reduced to 7.75% in November 2008 and further reduced to 7% in 2009. Banks are not able to receive interest on the reserves maintained with the Central Bank.

A Sound Performance

Customers Deposits and Gross Advances saw significant growth trends, posting above 19% and 19.6% respectively, while Total Assets also showed similar movements at 22% growth. Our growth this year in PreTax Profits is 33% which, given the external environment, is highly creditable, considering the turbulent market conditions during the year. Pawning grew from Rs. 336 Mn to Rs. 699 Mn, with a 108% increase.

We grew the corporate book from near zero to 21% by successfully tapping into quoted companies and large local corporates.

We established 3 new branches this year, in Anuradhapura, Gampola and Borella, with the interesting factor being that only one is in the Western Province, emphasising our focus of reaching beyond urban locations. The concentrated strategy to spur sustainable economic growth into the Non-Western Province areas is in line with Sri Lanka's National Development vision Mahinda Chinthanaya and the Central Bank of Sri Lanka directives.

The current tax regime has been an impediment to the creation of shareholder value. This is due to the effective tax rate of 24% as VAT on Financial Services and 36% as Income Tax, resulting an overall effective tax rate of 60% levied on our bank's profits.

Creating a Winning Team

TEAM Pan Asia went through several changes during the year, as we needed to ensure that we had the required skills and experience to thrive in a very turbulent market environment. The Bank's staff strength was reduced from 546 to 507 and it was necessary to disengage several employees during the period. Several job rotations and cross-functional moves were made taking into account the skills needed and resources available. This process was critical to have in place change agents who not only have the skills and experience but the ability to influence and drive the required changes in the organisation.

Efficiency ratios improved during the year, with Gross income per employee increasing from Rs. 4.2 Mn to Rs. 6.4 Mn, whilst cost per employee was reduced to Rs. 1.2 Mn compared to Rs. 1.6 Mn in 2007. Some key initiatives were introduced and implemented over last year in terms of our employment policy and HR framework, such as an HR Manual and staff grievance handling procedures. To enable the staff to have the necessary skills, extensive training programs were held with over 85% of the staff attending training sessions during the year. The performance management system is being re-engineered to reflect a performance-based culture, where performance, rewards and recognition are an integral part of our HR strategy to create a winning team.

Chief Executive Officer's Review

Building a Sustainable Business

We have a very clear strategy to build a sustainable business that covers several aspects from financial sustainability to support for the community. Our sustainability plans are explained in more detail later in this report.

Expanding our reach - Our branch network expansion, subject to Central Bank of Sri Lanka approval, would be increased from the present 33 to 38, including possibly new branches in Malabe, Peradeniya, Hambantota, Vavuniya and Matale. In the second half of 2008 we launched 3 new branches in Gampola, Borella, Anuradhapura and a branch in Kalutara in February 2009.

Capital Plan - Our Capital as at December 31, 2008 stood at Rs. 1,592 Mn and we are in communication with Central Bank of Sri Lanka regarding the requirement to maintain Rs. 2,500 Mn in capital by December 2009.

As per December 2008 published financials of the banking sector, peer analysis reflects that our bank is currently over capitalised, in comparison to our peers.

I urge the Central Bank of Sri Lanka to reconsider the current regulation for Rs. 2,500 Mn in capital by December 2009 irrespective of the size of the asset book, which has resulted in banks with a large asset book, irrespective of the asset quality, also being mandated to maintain the minimum of Rs. 2,500 Mn in capital, in contrast to the Rs. 200 Mn Capital requirement for Non-Bank Financial Institutions. This has resulted in our bank being currently under-capitalised in the eyes of the regulator and rating agencies but in fact the current capital structure depicts an excess capital for the size of the asset book, which is also 77% secured by cash and property mortgages.

Recoveries of Non Performing Advances - We aggressively follow up and take actions towards recovery of our Non-Performing Advances portfolio, majority of which is secured by tangible security.

Governance & Transparency - We have almost completed centralisation of credit administration of our bank branches, with a view to improving controls and mitigating overall risks. We also place great emphasis on transparency and high standards of corporate governance.

Prudent Lending - We are growing the pawning business, which is not just secure but also remunerative. This will help us to build our revenue, whilst mitigating overall credit risks. We are also venturing into selective assets including selectively growing the corporate book, with a view to cross-selling more products and services.

Manage Interest Rate Risk - We are managing the downward trend in interest rates and inflation with Small & Medium Enterprises and Middle Market lending that can demand premium pricing on a secured basis.

Reduced Exchange Risk - Due to low dependency on the import trade business, the Bank has a limited risk exposure on exchange movements.

Grow Leasing - We are pursuing a growing lease portfolio on a selective basis, with a view to benefiting from secured lending and tax incentives, thereby improving shareholder value.

Building our Leadership - We are re-engineering our Performance Evaluation tool with a view to developing a performance culture and a means of differentiating performance, so that results are adequately rewarded. Despite turbulent economic conditions globally and locally, we continue to invest in improving the skills of our staff, build on new skills, to improve the quality of our human capital so that the team is geared and energised to deliver and grow the business even in a turbulent and changing environment.

Continuously Improving the Way we Work - We are improving the processing functions in our Cash Operations and Trade Finance with a view to improving overall efficiencies, capacity and controls.

First Class Banking - The Private Banking business of Pan Asia Bank under the brand 'First Class Banking' was launched and is being developed further by providing convenient tailor made personalised services to our customers. Tapping into the liability base of this sector will ensure adequate liquidity that is paramount in the current banking environment and to maintain the sustainability of the banking system.

Specialised Desk - A Specialised Desk is being set up to market to specific segments, with a view to supporting the prudent liquidity ratios set internally.

Worker Remittances - The Bank is pursuing products and services tailor-made for capturing migrant worker remittances.

Sustainable Reporting - The Bank has developed a product for our disabled war heroes that will help them re-enter the economic mainstream.

Savings Products - In order to help improve the savings habit of Sri Lankans, we are planning to launch the Mithuru & Siyadaru savings account for children with special promotional gifts and insurance, during 2009.

Sustainable Cost Management - We will pursue a sustainable cost management strategy to manage our resources in a more cost effective manner by working smarter, whilst keeping the key values intact.

IT Infrastructure - We will leverage on technology to gain a competitive advantage; for instance the automation of the leasing business, internet banking and SMS banking is available to all account holders, enhancing customer convenience, improving efficiencies as a result of the associated cost reduction due to IT enhancements.

Consumer Banking - Consumer banking that includes Master International credit card issuance business has not grown aggressively due to reduced consumer purchasing power and current market conditions.

Foreign Exchange Services - The Bank continues to be a significant issuer of Travellers Cheques for American Express (Amex) in Sri Lanka and we will continue to maintain our prime position despite the reduction in the overall market for this business, subject to approval from Amex.

Brand Building - We will continue to re-enforce the brand Pan Asia Bank and our positioning as a modern and reliable bank, through our promotional and brand activities .

Conclusion

Our business involves the management of risk while achieving high returns and we will continue to be prudent in the management of risks and the rewards. We will take advantage of opportunities and strive to become a modern, competitive, unconventional banking solutions organisation, with a fresh approach to the Sri Lanka banking industry.

We see challenges and turbulent times as opportunities and are confident that we will deliver a strong performance in 2009.

Acknowledgements

We are the custodians of shareholders and public funds. We will ensure we act with utmost good faith, with prudence, with high levels of Corporate Governance and in a transparent manner and be held accountable to the stakeholders and public.

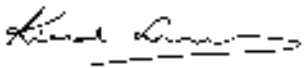
Chief Executive Officer's Review

I extend my sincere appreciation to the Chairman and my fellow Directors and TEAM Pan Asia Bank for their unstinted support and passion in striving to achieve and bring out the best in the organisation. The entire team has been an immense source of support in a rapidly changing, often turbulent environment.

The loyalty of our customers and key relationships the Bank has with them has enabled us to grow our business despite intense competition. I thank them for the confidence they have placed in us. I take this opportunity to thank His Excellency the President for his leadership and the Governor of the Central Bank of Sri Lanka, Ajith Nivard Cabraal and his team of staff who have had to meet extraordinary challenging market conditions, for their guidance and support during 2008.

I wish to thank our External Auditors, M/s Ernst & Young for excellent work in completing their assignment on time and for their advice and guidance during the audit.

I also would like to thank all stakeholders for the trust and confidence they place in Pan Asia Bank.



Kimarli Fernando

Director/ Chief Executive Officer

Colombo

19 March 2009



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ways to reach you

We're expanding. Rapidly.
In 2008 we grew our branch network to
cover the main cities across the island.

“The Bank’s strong balance sheet position has given us the confidence to pursue key strategic priorities.”

Management Review

Economic Review

Sri Lanka's Economic Environment

Sri Lanka's economy registered a growth of 6% during 2008 compared to the 6.8% recorded for the last year 2007. The performance is encouraging, given the challenging macroeconomic environment, both locally and globally. Monetary policy was tightened to check inflation, while the economy also grappled with high oil and food prices and the effects of a global recession in the backdrop of the global financial crisis.

Economic growth in the year 2008 was broad-based, with significant contributions from most sectors. The Services sector expanded by 5.6% during 2008, compared to 7.1% in 2007. The Agriculture sector grew 7.5% largely due to the recovery in tea and paddy production during the first half of the year, although the latter part of the year saw a drop in prices of tea and rubber. The Industry sector decelerated to 5.9% compared to the 7.6% growth in 2007 mainly due to the global economic slowdown.

Inflation increased significantly during the first half of 2008 due to the pass-through of external supply shocks as well as demand pressures in the economy. Annual average change in inflation based on Colombo Consumers' Price Index (CCPI) was on a steady upward path during the first half and it reached 21% by June 2008 from 15.8% as at end 2007. This was largely due to the upward adjustments in administered prices such as kerosene, petrol and diesel to reflect global prices and the subsequent adjustment in transport fares. In addition, the increase in commodity prices globally had a significant impact on the prices of imported goods.

However in the second half of the year as the Central Bank continued its tight monetary policy, there was a substantial deceleration in money and credit growth. Hence, from July onwards, the inflation rate began to increase at a slower pace than in the first half and recorded a rate of 22.6% by

end December 2008. This trend is expected to continue with rapidly declining international commodity prices, the continuation of stringent demand management policies adopted by the Central Bank and the improvements in domestic supply conditions.

The external sector performed well in the first half of 2008, registering a surplus in the Balance Of Payments (BOP) largely supported by higher remittances flows from migrant Sri Lankans, increased Foreign Direct Investment and higher debt flows to the Government. However, the trade and current account deficits widened sharply due to increased import expenditure. Towards the latter part of the year the outflow of foreign investments in Government Treasury Bills and Bonds caused by the global financial crisis and repayment of large petroleum bills effected the BOP position. By end December 2008 official reserves stood at USD 1.8 Bn sufficient to cover two and a half months of imports.

Exports grew by 4.2% during 2008 compared to 19.6% in 2007, mainly driven by the improved performance of agricultural exports, particularly tea, rubber and other agricultural crops. Imports grew by 21.3% during 2008 compared against 17.3% in 2007.

The Rupee-US dollar exchange rate remained stable and the Rupee appreciated against most of the major currencies during the first nine months of 2008. The Central Bank intervened to preserve the stability of the currency against the US Dollar. However following the outflow of foreign exchange with the global crisis and sharp depreciation of currencies of some trading partners, resulted in the rupee-dollar exchange rate depreciating sharply.

The Government continued to introduce measures to further augment revenue collection such as by broadening the tax base, changing tax rates, providing exemptions and development incentives. As a result Government revenue increased by 20% to Rs. 587 Bn in 2008.

Management Review

Developments in Sri Lanka's Financial Sector

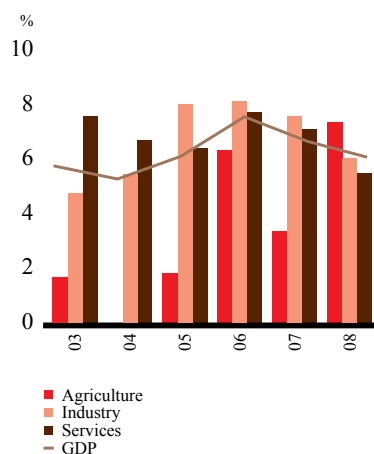
Sri Lanka's financial system remained stable and resilient in 2008 in view of the tighter monetary policy stance adopted by the Central Bank of Sri Lanka. The overall performance of financial institutions, particularly banks was strong despite increasing pressures from the external environment and the domestic macroeconomic environment.

Interest rates in the domestic money market exhibited greater stability in the first nine months of the year compared to last year, due to the availability of adequate liquidity as well as regulatory measures taken by the Central Bank. Yields in the Treasury bill market increased during most of the first nine months of 2008, mainly due to strong investor preference for short-term securities, but showed a tendency to decline towards the end of this period. The Treasury Bond market at the medium-to-long end of the yield curve for government securities has remained largely inactive during this period, mainly due to rising inflation expectations during the first half of the year.

Activity in the inter-bank foreign exchange market increased with the exchange rate being more stable vis-à-vis the US dollar, in terms of which most of Sri Lanka's external transactions take place.

The inter-bank call money rates exhibited less volatility in the first 9 months of 2008, than the previous year, as the Central Bank provided liquidity to the market through its Reverse repurchase window whenever overall liquidity in the money market was in a deficit or a balanced position.

GDP and Sectoral Growth



The inter-bank foreign exchange (FX) market was more active during the first nine months of 2008, with both spot and forward market transactions increasing. The daily average turnover in the FX market, including the forward market was USD 58.3 Mn in the first nine months of 2008, which is considerably higher than the average daily turnover of USD 32.8 Mn in the first nine months of 2007.

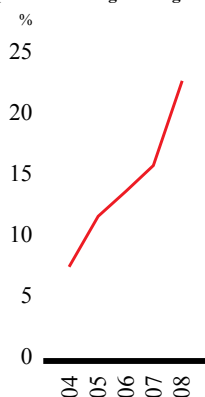
Yields on Treasury Bills moderated along with the further liberalisation of the government securities market. The market for commercial paper continued to be active in 2008, with the value of commercial paper issued with the support of commercial banks during the first eight months of 2008 amounting to Rs. 16.8 Bn compared to Rs. 20.3 Bn raised for the same period last year.

Equity prices rose in the first quarter of the year and reached record levels by April although the market could not maintain the upward momentum and equity prices declined during the second and third quarters of 2008. The main indicators all showed a decline: the All Share Price Index (ASPI) dropped by 40.8% by the end of December 2008, compared with a decline of 6.7% in 2007. The Milanka Price Index (MPI) declined by 50.4% by the end of December 2008 compared with a decline of 11.3% in 2007. Market capitalisation declined by 40.4% to Rs. 488.8 Bn at the end of December 2008 from Rs. 821 Bn at end 2007.

Developments in Financial Institutions

The banking sector maintained its soundness and resilience amidst a challenging macroeconomic environment. Overall

Inflation
(Annual Average Change - CCPI)



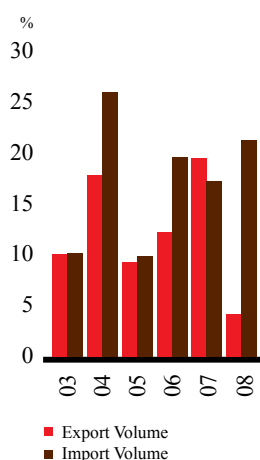
activities of Licensed Commercial Banks showed a decline in its growth rates in the year 2008. Total Loans and Advances recorded a growth of 11.2% in 2008 compared to a growth of 17% in year 2007 and total Deposits recorded a growth of 7.9% during 2008 compared to 16.6% in the year 2007.

Credit growth is slowing down as a result of declining credit demand due to high costs of borrowings as a consequence of the continued tight monetary policy stance. Lending activities in respect of all sectors have moderated during the first six months of 2008, from the high growth during the last two years.

Profitability of the banking sector measured in terms of the Return on Assets (ROA) and the Return on Equity (ROE), during the first half of the year was maintained at around the previous year's level. Although net interest margins narrowed somewhat, this was largely compensated for by higher earnings from investments in government securities.

Finance companies experienced a decline in profitability in the high interest rate environment, due to a narrowing of interest margins in the main lines of business, which are Leasing and Hire Purchase. The minimum capital requirement for Finance companies was increased from Rs. 100 Mn to Rs. 200 Mn from July 2008 and most of the Finance companies have already complied with the increased requirement.

Growth in External Sector



During the latter part of the year, adverse news of Sakvithi and the Golden Key Credit Card Company, created a panic situation in market.

Prospects for 2009

Sri Lanka's economy is projected to grow at a rate of about 6.5% - 7.0% in 2009. The implementation of several planned mega infrastructure projects such as expressways, highways, Ports and Airports, acceleration of development projects in the North and East and expansion in agricultural production supported by higher commodity prices are likely to boost aggregate demand and output. Economic growth is projected to be broad based with expected growth in all key sectors.

Following the declining growth rate in inflation observed in 2008, interest rates too are expected to decline.

The overall outlook for financial system stability remains positive despite a challenging external and domestic environment. The steady growth prospects of the domestic economy and the continuation of policies to address macroeconomic imbalances will further stabilise domestic financial markets and improve the performance of financial institutions.

(Main Sources: Central Bank of Sri Lanka and Department of Census and Statistics)

Management Review

Key Performance Indicators

	Earnings Per Share	Operating Profit	Net Interest Margin
Description	Net profits earned during a period attributable to ordinary shareholders divided by weighted average number of Ordinary Shares	The sum of Net Income less Non Interest Expenses and provision for loan losses	Net Interest Income shown as a percentage of Average Assets
Aim	To achieve a constant growth yearly	To achieve a constant growth yearly	To achieve a constant growth yearly
Analysis	During 2008, grown by 3.5% compared to 2007, to Rs. 2.02	During 2008, grown by 39% to Rs. 555 Mn compared to 2007	During 2008, grown by 17% compared to 2007 to 6.13%
Source	This measure is reported in the Bank's audited Financial Statements within note 35 in Page 116	This measure is reported in The Bank's audited Income statement in page 91	This measure is reported in Financial highlights in page 7
Trend	Rs 2.02 2007 - Rs. 1.95 2006 - Rs. 2.63 2005 - Rs. 1.95	Rs. 555 Mn 2007 - Rs. 400 Mn 2006 - Rs. 320 Mn 2005 - Rs. 191 Mn	6.13% 2007 - 5.23% 2006 - 4.72% 2005 - 4.27%

	Net Asset Value per Share	Capital Adequacy Ratio (Tier II)	Liquid Assets Ratio
Description	Average Shareholders' Funds divided by the number of ordinary shares in issue	The ratio of Tier II Capital to risk weighted assets and contingents	Ratio of Liquid Assets to Total liabilities excluding liabilities to shareholders and Central Bank
Aim	To achieve a constant growth yearly	To maintain above the regulatory requirement of 10%	To maintain above the regulatory requirement of 20%
Analysis	During 2008, grown by 10% compared to 2007 to Rs. 14.39	During 2008, maintained a strong Tier II capital ratio at 14.02%	During 2008, maintained a strong Liquidity ratio at 23.09%
Source	This measure is reported in the Bank's ten year statistical summary in page 130	This measure is reported in the Capital Adequacy computation in page 122	This measure is reported in Financial highlights in page 6
Trend	Rs. 14.39 2007 - Rs. 13.12 2006 - Rs. 11.16 2005 - Rs. 9.72	14.02% 2007 - 16.13% 2006 - 18.37% 2005 - 11.95%	23.09% 2007 - 23.11% 2006 - 21.98% 2005 - 24.34%

Management Review

centralised at Head Office to achieve economies of scale and to have better controls.

Plans for 2009 are to further look at expanding our reach to areas such as Hambantota, Vauniya, Matala, Peradeniya and Malabe. We will relocate and refurbish some of the existing branches to provide more convenience to our customers and serve them better in a modernised and friendly atmosphere. We will be shortly launching our online cheque clearing facility where customers could deposit cheques until 4.00 p.m at any of our branches and can be assured of cleared funds, subject to cheque returns the next working day. We believe this will be a unique service in the local market.

Leasing



The year 2008 was one of consolidation in the leasing business given the uncertain economic conditions we operated under. The Bank was very selective in granting new leases. We doubled our efforts on recovery and the disposing of seized assets in which we were successful. We are also working with a vendor to fully automate this process, which has been a big hurdle in growing the business and in monitoring timely repayment. We expect the new

system to be fully operational by the end of the second quarter 2009.

Pawning



The year 2008 was a good year for pawning. One of our flagship product was re-launched in an aggressive manner in June 2008 with a dedicated, experienced Senior Manager appointed to overlook the operations. We also carried out media campaigns and created awareness, through banners and distribution of leaflets in areas where our branches are located. This paid dividends with the portfolio increasing by 108% to Rs. 699 Mn. Since Pawning is considered one of the safest methods of creating advances, we plan to concentrate in the future on increasing the portfolio to Rs. 1,000 Mn by the 2nd quarter of 2009. We have also fully automated the pawning operations.

Consumer Banking

Consumer Banking handles Foreign Exchange Services (FES) and the Credit Card business of the Bank. During the year, the Bank's Foreign Exchange business continued to grow in terms of volumes and customers and is an important element of our fee based and Foreign Exchange income. The credit card business had a moderate year considering current economic conditions, which has resulted in an increase in non-payments. We believe it is not the right time to grow the credit card business. Subject to continuing to be an Amex partner, our plan for 2009 is to grow the FES business by marketing existing travel agents who are agents of Amex on a commission sharing basis and building volumes. We understand, this is in line with the strategy of Amex to consolidate their Travellers Cheques (TC) business in Sri Lanka among a few agents. As for the credit card business, the strategy would be to issue new credit cards on a selective basis to mainly existing high net worth clients, double our efforts in recoveries and introduce chip-based credit cards. We also plan to use more of our branch network to promote the FES and Credit Cards business than we have done in the past. As a first step we will be putting up Amex boards in key branches to create awareness that we are an authorised agents for Amex to sell and encash TCs.

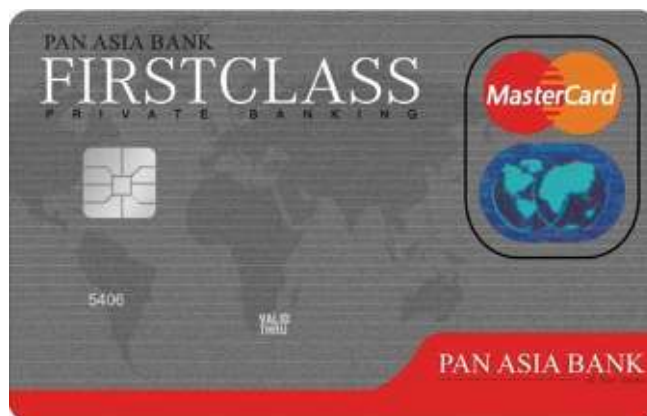
Foreign Exchange Services (FES)

The Foreign Exchange Services unit formed in 2003 is a dedicated travel counter to issue Foreign Exchange for travel purposes in the form of Visa Travellers Card (VCT), Travellers Cheques (TC) and Currency Notes (CN) which operates all day, every day of the year. Pan Asia Bank is one of the largest issuers of American Express TCs and one of the pioneers in introducing Visa accredited Travellers Cards in Sri Lanka. We have a dedicated team of professional and experienced staff with over 10 years of experience in the industry. TCs and CNs are available in six different currencies (USD,GBP,AUD,CAD,EUR & JPY)

We deliver the Foreign Exchange free of charge within Colombo city limits. Customers therefore don't need to be hassled with the requirement to come to the Bank to collect their Foreign Exchange and waste valuable time. The

volatile rate fluctuations gave FES the opportunity to work on good margins, resulting in a fair income to the Bank during the year under review.

Credit Cards



Pan Asia Bank is authorised to issue Master International Credit Cards. There was a 29% and 47% increase in number of new cards issued and Credit Card balances respectively, as at 31st December 2008 when compared with 31st December 2007.

Corporate Banking

Since the 2nd half of 2008 we have been successful in growing the Corporate Banking business by booking in new blue chip corporate clients to our portfolio. These names have supplemented for more risky retail names, which we have exited. Our Corporate Banking portfolio now accounts for approximately 21% of our loan portfolio in addition to the trade business it generates. We have also successfully booked in new collection accounts, which are risk free and utilise our expanding branch network. We have also set up a dedicated Corporate Banking Division and introduced a dedicated Relationship Management concept to serve our corporate customers better. Plans for 2009 for this segment include increasing fee based income, selectively growing on credit, securing ourselves wherever possible, growing the leasing business for corporates to take advantage of tax benefits, selectively diversifying our exposures to industries where we have limited or no exposure.

Management Review

Trade Finance

2008 was an active and encouraging year for the Trade Finance business despite unfavourable market conditions. Import volumes grew by 42% while export volumes grew by 52% during the year. Pan Asia Bank remains one of the main players in the Trade Finance business in the Pettah market, which is considered to be the main hub for the import trading business in Sri Lanka. Plans for 2009 include automation of the processes to provide a far more superior service to clientele.

Private Banking



Pan Asia Bank launched its 'First Class' Private Banking service in September 2008 by opening its ultra modern branch at Borella. The Governor of the Central Bank of Sri Lanka, Ajith Nivard Cabraal graced the occasion as the chief guest.

First Class Private Banking will provide enhanced customer convenience such as 24-hour issuance of Travellers Cheques, special rates and an array of free services keeping our Brand promise "At your service", the convenient banking solution that revolutionises the way you do your banking. It will also provide first class and efficient services through its dedicated Relationship Managers. First Class banking will be provided initially in Colombo with plans to expand to the provincial capitals. A Head of Private Banking with foreign bank experience was specifically recruited to grow this segment. Plans for 2009 include targeting of clientele from specific sectors who have specific requirements and to cater to these needs.

Treasury

Pan Asia Bank Treasury created its own objectives in line with the Bank's objective which states "managing and marketing our product portfolio effectively and efficiently to enhance the economic value of shareholder investment." To create the largest satisfied customer base we have to manage our portfolio in an efficient way to maximise stakeholders' returns.

Our Treasury division is equipped with the knowledge and tools to face the challenges ahead. With the right management of products we provide economic value addition to our stakeholders' investment. With the correct team in place we are progressing to achieve the Bank's goals.

Quick decisions on investments, state of the art services for our valuable customers, innovative on new products, forecasting future market movements and providing investment opportunities and foreign exchange solutions are the main pillars of our success.

During the year Treasury prudently invested in high yield government securities, which has resulted in capital gains in a declining interest rate scenario.

Innovative Products and Services

Some of the leading products and services introduced by Pan Asia Bank are Lahiru Childrens' Accounts, Star Saving Accounts, Sammanna Elders' Saving Accounts, mCredit, Travel Card, Gold loan, Internet banking, FES, First Class Banking and SMS Banking.



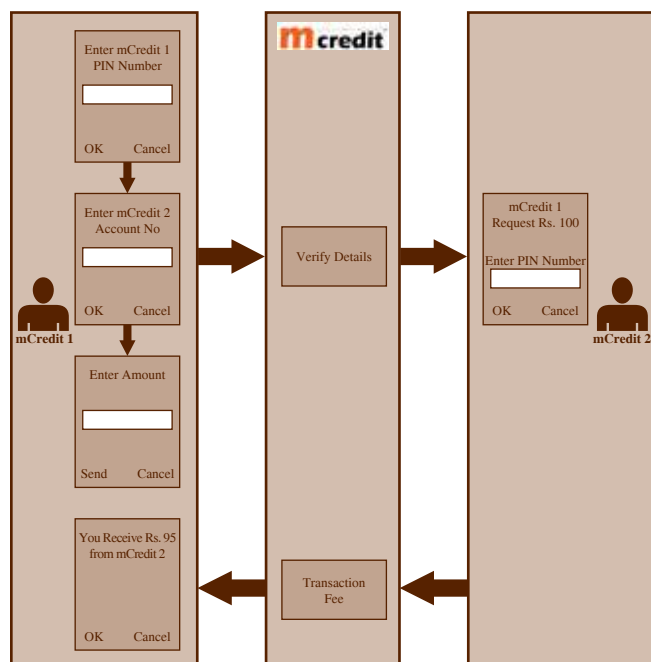
Management Review

mCredit

Our innovative new product mCredit allows customers to pay for goods and services via the phone. It is an efficient and safer alternative to a Credit or Debit Card.

How mCredit works in brief:

- Customers register with the Bank to get payment facilities through their mobile phone, either by accessing their savings / current account (similar to a Debit card / Debit facility) or to qualify for a credit limit (similar to a Credit card).
- Once registered, the mCredit customer will receive a customer PIN number which they could use to make payment through a registered merchant, who will initiate a transaction via the mobile phone, which the customer in turn has to authorise on his/her mobile using the PIN number. The merchant account is credited immediately and transaction is completed within a few seconds.



“We offer innovative products and services that are not just competitive but improve customer convenience.”

VISA Travellers Card

This is a prepaid visa accredited card, which can be reloaded any time. The customer can obtain this Travellers card over the counter at Foreign Exchange Services at the Pan Asia Bank. The Card can be used for ATM withdrawals at over 870,000 ATMs as well as to purchase goods and services from over 12 million Visa accredited merchants worldwide. The Travellers Card is safe, convenient and user friendly and is available in US Dollars, Euro's and

Sterling Pound denominations, with a validity period of 6 years. With the Visa Travellers Card maximum convenience and security, can be guaranteed.

New products and services in the pipeline include Mithuru & Siyadaru Childrens' Savings Account, Gift Tokens, International Debit Card and a full range of Islamic Banking products.



Improving the Way We Work

Pan Asia Bank has begun a process of change across several areas of its business in order to improve operations and ensure that we remain competitive in a challenging market.

Some of the key changes have been in the area of internal processes, policies and procedures. We are creating a culture of continuous improvement among staff at all levels, which in turn translates into superior service for our customers. Our aim is to have “World Class” operational standards so that customers are not just content but employees also have a sense of pride in working for Pan Asia Bank.

We have already centralised our processing functions so that the Bank can achieve faster turn around times. This has also resulted in significant cost savings. Our Internet Banking has also proven to be popular among our clients, giving them the convenience of banking whenever they choose.

A key change in our operations has been the increased focus on developing a more open working culture, not just in our interactions between colleagues, but also between our customers and in line with the values we consider important. We have begun transforming Pan Asia Bank to a more open and participatory environment, where employees are given more responsibility and empowered to take decisions.

Over the past year, we have successfully attracted highly skilled and experienced professionals from the industry as well as new graduate trainees to take up new positions within the Bank. We were also compelled to exit employees who did not fit in with our changed company culture.

The changes in the way we work will continue during the coming year and we will strive to uphold our values in every area of our operations and at all levels of the company.



Management Review

Building the Pan Asia Brand



We recognise that the way in which we build our brand will have an impact on shareholder value creation. We want to build our brand at the pace we are growing the business. A significant part of brand building is our commitment to live the brand and values in everything we do. We continue to uphold our brand promise to be “At your service”. We also re-launched our website with a new and modern look, which gives updated information about the Bank. (www.panasiabank.com)

We want to build a separate identity where the brand name ‘Pan Asia’ will stand out. To achieve this we have rebranded most of our branches and made our presence felt through the media, hoardings etc. We have also sponsored many important events across the country during the year, in areas we have a presence in, to make the Pan Asia brand a household name. We embarked on unconventional and unique advertising campaigns that we believe will be more effective than conventional advertisements. So, leveraging our brand, values, culture and the way we work remain among the top priorities for this year. These are the key drivers of shareholder value for the Bank.



Conclusion

We have begun 2009 on a good note and with strong momentum. While the global environment is undoubtedly more challenging and there are many uncertainties in the market we operate, our businesses are performing strongly and we have a clearly defined strategy and priorities. We are well positioned to meet future challenges.



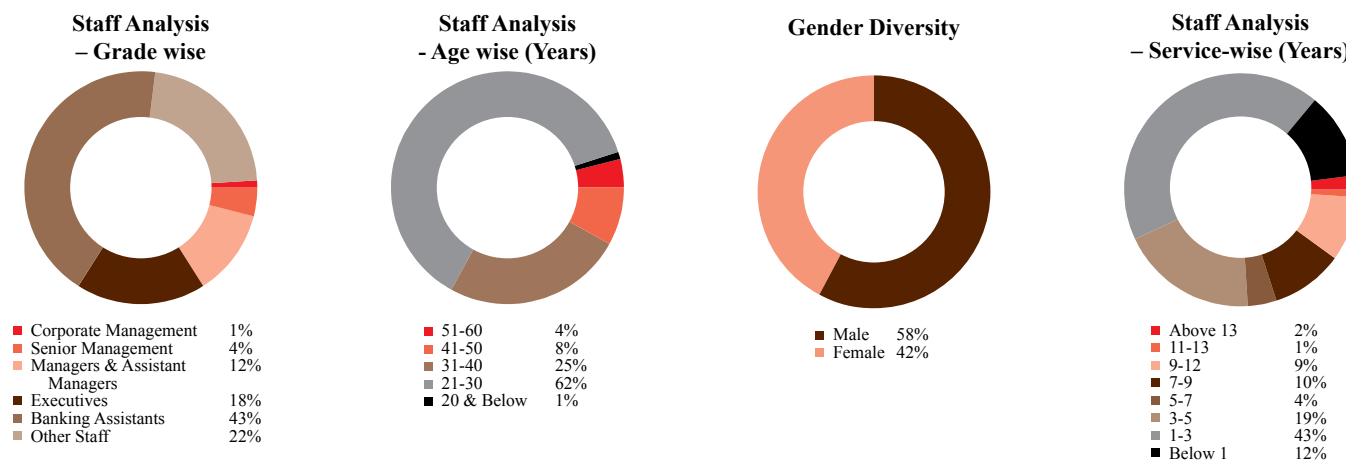
507

Employees

We have a team of dynamic, motivated employees who are committed to achieving the vision and mission of the Bank.

“Our people
are our biggest
asset and an
integral part
of Pan Asia
Bank’s
success.”

Human Resources Review



Developing our Human Resources

The year 2008 was a year of Change in key personnel. We have been successful in attracting talented staff from leading foreign and local banks as well as graduates from local and foreign universities.

We started the year with 546 staff and ended the year with 507 staff despite opening 3 new branches. This was possible due to the improvements in the way we work, improvements in efficiency and combining functions which were duplicated. We have recruited 90 new staff while 129 exited during the year.

Human Capital

The corporate goal of the Bank is to have dynamic and motivated professionals who are committed to achieving the vision and mission of the Bank. In the attainment of corporate success, we also focus on the values of our Human Resources. This has resulted in a strategy to develop a team that has the aptitude, aspiration and competencies to drive the Bank forward in line with our corporate goals and values.

During the year the Bank went through a major re-engineering process with special emphasis towards continuous improvement, where customer service is considered paramount to our existence. In view of the above, tangible and intangible needs were identified to meet high service standards and staff were given opportunities to enlarge their job functions and job rotation.

The Bank introduced a succession plan for the key positions in the Bank on a short term and long-term basis in order

to reduce any operational risks. In addition, the Bank also introduced a grievance handling process for employees helping to retain staff within the institution wherever possible.

Nurturing Talented and Diverse teams

Staff Analysis – Grade wise

Grade-wise	Number of Staff	
	2008	2007
Corporate Management	7	8
Senior Management	19	16
Managers & Assistant Managers	61	55
Executives	91	85
Banking Assistants	220	245
Other Staff (Management Trainees, Trainee Banking Assistants, Sales Executives, Contract & Minor Staff)	109	137
Total Staff	507	546

Staff Analysis - Age wise

Age (Years)	Number of Staff	
	2008	2007
Above 60	1	1
51-60	20	22
41-50	43	47
31-40	128	117
21-30	312	318
20 and Below	3	41
Total Staff	507	546

Management Review

Gender Diversity

The gender mix remained at 58 : 42 during the years 2007 and 2008. However this needs improvement at management level where the mix is 82:18 male to female ratio, which we plan to do by increasing the number of female Managers during 2009.

Employees - Gender & Category wise

Year	2008			2007		
Category	Male	Female	Total	Male	Female	Total
Corporate Management	5	2	7	5	3	8
Senior Management	16	3	19	14	2	16
Managers & Assistant Managers	50	11	61	43	12	55
Executives	45	46	91	40	45	85
Banking Assistants	105	115	220	123	122	245
Others (MGT, TBK, Sales Exo:, Contract & Minor)	71	38	109	90	47	137
Total	292	215	507	315	231	546

Staff Analysis - Service-wise

Number of years in service	Number of Staff	
	2008	2007
Above 13	8	0
11 - 13	5	9
9 - 12	45	46
7 - 9	51	60
5 - 7	19	24
3 - 5	95	78
1 - 3	221	154
Below 1	63	175
Total Staff	507	546

The Bank's HR Plan and related investments are aligned to the established corporate targets whereas staff strengths/ staff growth are considered to formulate the HR strategies.

HR Indicator

	2008	2007	2006
Staff Strengths	507	546	433
Staff Growth	-7%	26%	10%
Staff Retention	82%	85%	82%

HR Investment Ratio

	2008	2007	2006
Total HR Cost (Rs. Mn)	323.16	254.56	175.38
HR Cost per Employee (Rs. Mn)	0.64	0.47	0.41
HR Cost to Revenue	9.97%	10.99%	11.09%

Employee productivity and human capital investment indicators are established monitored and aligned to corporate objectives and goals in order to ensure improved shareholder value. The mechanism adopted by the Bank ensures that the level of investment in human capital is relative to the increase in business growth. The human capital budget is planned within 10% - 15% of the revenues.

Productivity levels achieved in building employee and organisational capability

Productivity Indicator	2008	2007	2006
Profit per Employee (Rs. Mn)	0.44	0.39	0.38
Revenue per Employee (Rs.Mn)	6.39	4.24	3.65

Keeping in mind the year 2008 being a year of change with many important areas being re-engineered in the Bank, the staff potentials were utilised to the maximum level to enhance productivity.

Building our management skills through training and development

Training programs were formulated to improve business performance and achieve targets taking into account the team's skills and aspirations, thereby minimising the prevalent gaps in the Bank. A total of 85% of our staff have been trained through various well-structured internal and external training programs. The Bank is also in possession of highly experienced internal resource personnel in various specialised areas of banking, who conduct a variety of in-house training programs.

We are currently conducting a series of training on **“Financial Aspects of Selling”/ “A Rewarding Career in Sales and Customer Service”** with the assistance of The Chartered Institute of Management Accountants (CIMA) and ProMinds (Pvt) Ltd to further improve the skill level of the staff. This training is mandatory to all front office staff in the Bank.

Number of Training Programs - 2008 (Internal & External)	75
Total Hours of Training	6,796
Total number of Participants	431
Averaging hours per staff	13.4 Hrs

(Total Staff as at 31 December 2008 is 507)

Selected Training Programmes in 2008

	Type of Training	Number of participants
1	Internal Controls and Auditing for Bankers	4
2	Managing Employee Incompetence	4
3	“Best Practices in banking” - Management Trainees Development Programme	50
4	Redhat Enterprise Linux Administration	2
5	UCP 600 in practice	4
6	Product Awareness & Service Marketing	40
7	Know your customer / Anti Money Laundering	365
8	Management Skills	65
9	Selling Skills	387
10	ATM Operations	30

Sports Achievements

Event	Achievement
Inter-Firm Badminton Team Championship 2008. -Women “E” Division	Champion Best Player - Ms.Indivari Welivitigoda
Mercantile Football Association	Runners Up

Management Review



Childrens' Christmas Party



Pan Asia Dinner Dance

Other Achievements

Event	Achievement
Inter Bank Quiz Program – 2008 Conducted by Association of Chartered Bankers of Sri Lanka	Winner – 1st Place

To foster employee relations, a number of social events were held during 2008. Some of these activities included the Sports Day, Pan Asia Bank Dinner Dance, which was held at the Galadari Hotel - Colombo, the kiddies' party etc.

Risk Management in HR

The mobility of experienced staff due to migration and the dearth of qualified and experienced professionals in the local market expose the Bank to the risk of losing key personnel which may have a short term impact on operations.

The Bank seeks to ensure the loyalty and long-term commitment of its employees through various Human Resources Practices such as training and development, counselling, key staff career advancement planning and performance based rewards. The Bank also focuses on succession planning to minimise the risk in key operational areas.

Future Plans

Web Based Performance Evaluation System - Our future plans include the possibility to develop Web Based Performance Evaluation System, which will simplify the employee evaluation process.

E-Leave System - The Bank is looking at the possibility of introducing an E-Leave system where employees could apply for leave online and approval will also be via the online system. Once the leave is approved, the system will be updated automatically and staff would be able to view the leave balances online.

“Our CSR efforts support families affected by the war, encourage children to save and helps disabled children become productive citizens.”



Launch of “Ranaviru Harasara” Savings Product

Sustainable Reporting

We are constantly challenging ourselves to contribute to the market and the community in a significant way. Building a sustainable business is an integral part of our long-term strategy to enhance shareholder value. Our main focus in this area has been on how we could contribute to the future of Sri Lanka and its people who are present and future customers. We have taken a threefold approach.

1. Assistance to families directly affected by the war through Ranaviru Harasara programme.
2. Encouraging and embedding the saving habit among school children from the time they enter school, to help in increasing the national savings ratio.
3. Assist disabled children to be productive citizens of Sri Lanka in the future and contribute to the economy.

Ranaviru Harasara

What is Ranaviru Harasara?

Pan Asia Bank, as a fully localised Bank and for the first time in Sri Lankan banking history, has come up with a specialised savings account to serve war heroes and their families. The Ranaviru Harasara Account - an account with 2.5% higher interest rate than a normal savings account together with a host of free services and dedicated counters to give personalised service, has been initiated for the families of approximately 45,000 personnel of the armed forces who have sacrificed their lives for the country.

Who are these war heroes?

Those who have sacrificed their lives to bring unity, sovereignty, independence, territorial integrity and peace for all citizens of Sri Lanka. The primary beneficiaries are the disabled soldiers and their wives, fathers, mothers, daughters, sons, unmarried sisters or brothers. This account can also be opened by soldiers who are presently in service with the national armed forces.

What is their present life style?

Sri Lankan soldiers can only serve for a maximum of 22 years. After 12 years they are entitled for pension benefits. If a soldier passes away within his/her first 12 years of service, the immediate family member receives the normal salary and the widow's pension until the soldier reaches 55 years of age. After that they will receive only the pension. Several of these families lack financial management skills and face hardship at the age soldier reaches 55 since they have not adequately saved.

What has Pan Asia Bank done?

We are educating the Ranaviru families about banking and the importance of savings, through the District Coordinating Officers. The Bank also opened a free savings account and contributed the initial deposit, while providing them with the convenient and friendly banking services of Pan Asia Bank. Our role is to educate and motivate them to save and gradually get them used to the habit of savings of at least one source of income. Train them to think about their future in advance and plan for the future. We also have plans to build houses and award scholarships to deserving Ranaviru families during this year.

Management Review



Sponsorship of the "Sunshine Games"



School Banking Unit

The objectives of this project is to upgrade the lifestyles of these families, provide them with a secure future by strengthening children's education and health in these families, encouraging the savings habit, and empower them. The project also gives due recognition to the families of disabled soldiers and boosts their morale.

Opening of School Banking Units

Sri Lanka's domestic savings ratio in 2007 was approximately 17.6% of the GDP, which is low when compared to countries such as India (32.3%), Bangladesh (19.5%) and other Asian countries such as Singapore, Malaysia and Thailand. It has further deteriorated to approximately 15.3% in 2008.

A higher savings ratio is important for a developing country like Sri Lanka as well the individual. Therefore, to encourage the habit of saving, the Bank has started a programme in which we have visited at least two schools close to where our branches are located and conducted awareness about the importance of savings among parents and students. To encourage the opening of saving accounts, we contribute the first initial deposit, offer attractive gifts and free hospitalisation insurance schemes etc. We aim to open about 50 such units and about a minimum of 10,000 such accounts, during the year 2009.

Helping Disabled Kids

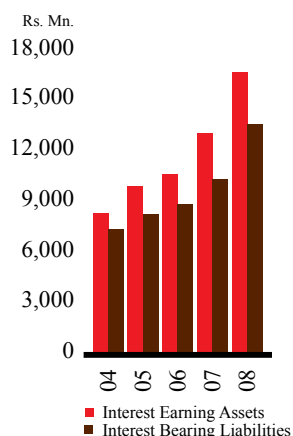
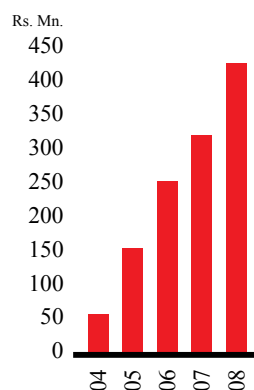
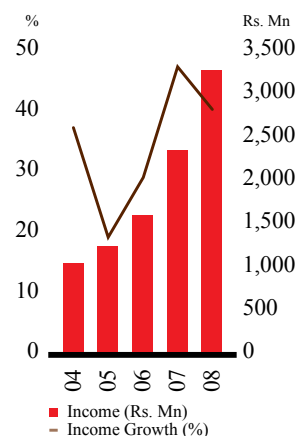
We have partnered with organisations such as the Rotary Club and Sunera Foundation to sponsor many of their annual events involving disabled children. One such event was the Sunshine Games. We hope to increase our contribution to such activities during this year.

Conducting Business Seminars

In addition to the above, the Bank sponsored and organised several seminars for Trade Chambers to educate their members on banking and on the economy. One example is the "Seminar on Banking" organised by Pan Asia Bank in collaboration with the Matara Chamber of Commerce where over 150 local entrepreneurs attended.



Sponsorship of the "Seminar on Banking"

Growth in Business volumes**Profit Before Taxation****Income & Income Growth**

Financial Review

The year 2008 was one of the most challenging years the country has had to face in the recent past. It presented many extraordinary difficulties in terms of policy and operations. During the first half of 2008, there had been phenomenal increases in the price of commodities, including oil, food and other essential items. In the second half year of 2008, the world economy was faced with a recession and this situation in turn had a crippling effect on financial markets the world over.

Despite the turmoil in global financial markets, our banking sector remained resilient. A key contributory factor to the current global financial crisis was the lack of liquidity and excessive risk taking. In this regard, Pan Asia Bank has taken pre-emptive measures well in advance and contributed to containing the bubble that was forming in the financial market in Sri Lanka.

The Bank recorded a commendable growth in all areas of its operations, in a highly competitive market where 22 Licensed Commercial Banks and 14 Licensed Specialised Banks are competing to grab market share.

The Bank provides a diverse range of financial and non-financial services through a wider network of branches, ATMs and other delivery channels in Sri Lanka. The Bank expanded into 3 new geographical locations locally during the year, establishing business relationships with the

members of these new distinct localities. Now, Pan Asia Bank delivers its services from 33 branches throughout the island.

Profit from Operations

Despite the above difficulties and challenges, the Bank managed to increase its Pre Tax profit by 33% to reach Rs. 422 Mn, compared to the Rs. 317 Mn achieved in 2007.

Interest Income

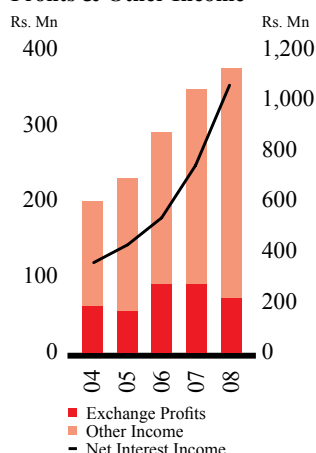
In 2008, the total interest income recorded a significant growth of 46% from Rs. 1,968 Mn in 2007 to Rs. 2,865 Mn in 2008, despite adverse economic conditions. This is complemented by the strong growth in interest earning assets by 28% during the year and the rise in interest rates. Continued maintenance of high asset quality levels and satisfactory collection ratio of the Bank, also contributed to the increase in the interest income.

Interest expenditure increased by 47% during the period, mainly due to the increase in interest rates and the shift in the deposit mix, reflecting a strong 66% and 58% growth in Savings Deposits and Certificate of Deposits.

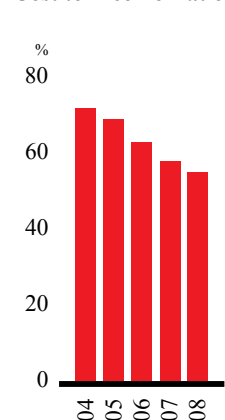
Net Interest Income reached the Rs. 1,066 Mn mark in 2008, which increased by 43% compared to 2007. This reflects continued solid growth in interest earning assets.

Management Review

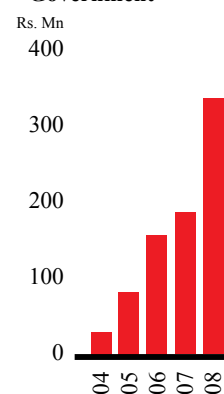
Net Interest Income, Exchange Profits & Other Income



Cost to Income Ratio



Revenue to Government



Non-interest Income was recorded at Rs. 376.5 Mn compared to Rs. 348.6 Mn in 2007, an increase of 8%.

Non-Interest Expenses

The Bank's Non-interest expenses (excluding Loan loss provisioning and Financial Services VAT) increased by 25% to reach Rs. 792 Mn compared to Rs. 633 Mn in 2007. However Cost to Income Ratio has improved from 58% to 55% due to Income growth out pacing Cost growth.

Cost increases were mainly due to inflationary pressures and the increased business volumes. The main factor which contributed to cost escalation was the increase in personnel costs by 27% due to the re-structuring and revision of employee salaries. Operating expenses increased by 26% during the year mainly due to escalation of advertising and business promotion over 120% to Rs. 27 Mn in order to create brand awareness and to market products. Premises, equipment and establishment expenses were up by 22% during the year due to growth in the branch network, high fuel expenses and increase in maintenance and depreciation costs.

During the latter parts of the year, the management has implemented effective cost control measures into working operations. A cost task force was formed to regularly monitor and further control the costs and report the significant variation in costs to the Board Audit Committee.

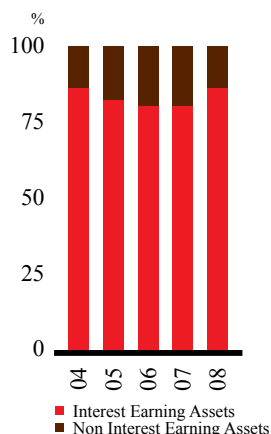
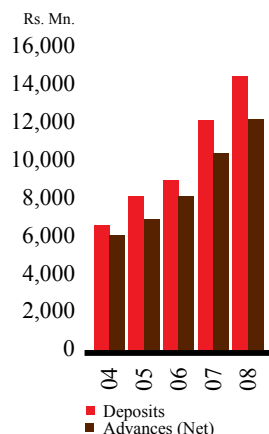
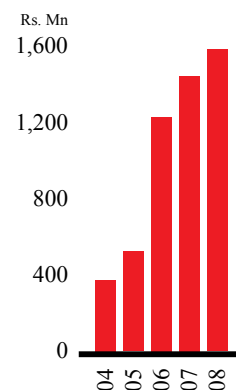
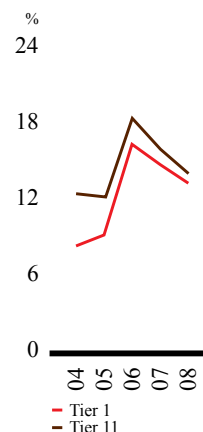
Provisions for Loan losses

Provision for Loan losses increased by 50% to reach Rs. 95.4 Mn during the year. The Bank's Non Performing Ratio (Net of interest in suspense) increased from 7.35%

in 2007 to 10.17% in 2008 mainly due to the high interest rates and higher inflationary situation that prevailed during the year and affected the repayment capacity of the borrowers. As precautionary measures, the Bank has taken steps to adapt better Risk Management techniques, tighten its recovery drive, intensively screen customers and ensure close follow up action. Overall banking industry NPA Ratios has also increased during the year under review.

Taxation

The higher taxation burden has put tremendous pressure on the performance of the entire banking industry. This year, the increase in Taxation and the Value Added Tax on Financial Services of the Bank was as high as 97% and 60% respectively compared to the year 2007. This has resulted in more than 60% of the pre-tax profit (before VAT on Financial Services) being taken off as Government revenue. The Bank has paid Rs.198 Mn as Income Tax and Rs. 134 Mn as VAT on Financial Services during the year 2008.

Asset Mix**Deposits & Net Advances****Share Holders' Funds****Capital Adequacy Ratio**

Balance Sheet

Total Assets Growth

After reaching Rs. 15,526 Mn as total asset value in 2007, an increase of 22% was registered in 2008, resulting in value of Total Assets of Rs. 18,984 Mn in the year under review. The mix of Interest Earning Assets, which remained at the same level during the last 3 years, showed an increase in 2008.

Deposit & Advance Growth

The total Portfolio of Deposits increased to Rs. 14,448 Mn at the end of 2008 when compared to Rs. 12,130 Mn in 2007, recording a growth of 19% during the year despite the challenges faced in deposit mobilisation during the year.

The local currency deposits showed an increase of 17% while the foreign currency deposits showed a healthy growth of 39%.

Demand and Margin deposits decreased marginally during the year and stood at Rs. 2,542 Mn while Savings Deposits recorded a significant growth of 66% and Time and Certificates of Deposits grew by 20% during the year 2008.

Net Advances of the Bank stood at Rs. 12,145 Mn as at the end of 2008 which marks a growth of 17% over the year 2007. The largest component of the Bank's Assets, is the Loans and Advances, which represents lending to individuals, corporates, SMEs and other entities. This mainly includes Overdrafts, Term Loans, Leasing, Pawning and Credit card lending.

The Bank has given quality facilities to good corporate clients during the year, while curtailing temporary overdraft

facilities. This has resulted in the gross loan portfolio of term loans showing a higher increase of 50% over the year 2007 and only 4% is reflected in the increase of overdraft during the year.

The Bank had been concentrating on and taking necessary steps to increase its pawning portfolio during the year 2008 which resulted in an increase of over 108%.

Share Holders' Funds

The total Share Holders' Funds increased from Rs. 1,451 Mn in 2007 to Rs. 1,592 Mn in 2008, resulting in a growth of 9.7%. The Bank retained its entire profits during 2008, with a view of expanding of its future business.

Capital Adequacy Ratio

The Bank's total Capital Adequacy Ratio stood at 14.02% (Minimum Requirement 10%) as at end 2008 compared to 16.13% as at end 2007, which showed a marginal decrease during the year. The decline is mainly due to the changing method of calculation with the introduction of Operational risk under Basel II in 2008, while in the year 2007, the ratio was computed according to Basel I, which did not take account of Operational risk. As a result additional risk weighted amount increased by Rs. 1,682 Mn during 2008.

However the Bank's core capital as at the end of 2008 stood at Rs. 1,574 Mn compared to Rs. 1,426 Mn in 2007.

The Bank is considering raising Rs. 150 Mn - Rs. 250 Mn through subordinated, unsecured redeemable debentures during the year 2009, which will have a maturity period of 5 years and is expected to further strengthen the ratio during this period.

Management Review

Risk and Capital Management

Risk Management

Risk management has been identified as a factor of critical importance in ensuring the continuous growth and sustainability of the business, especially in a volatile environment. All our Risk Management systems are comprehensive and in line with local standards and regulations. These are also constantly reviewed and updated to remain relevant to changing conditions.

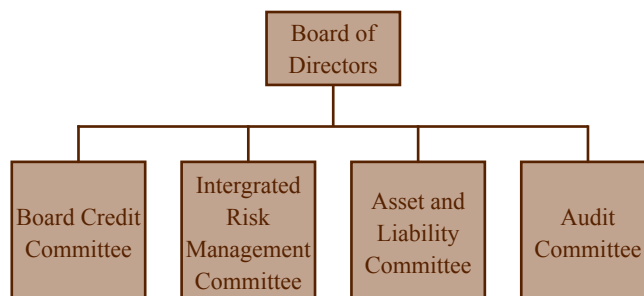
Through our Risk Management framework the Pan Asia Bank manages our credit, market, liquidity, operational, regulatory, legal and reputational risks which is vital for a banking operation.

As part of this framework, the Bank uses a set of policies that identify the risks the Bank wishes to manage. All risk decisions and Risk Management activities should be in line with and in the spirit of the risk policies of the Bank. The policies of Risk Management include:

- **Balancing risk and reward:** To ensure risk is adequately rewarded to ensure stakeholder returns are met and within bank's risk appetite.
- **Accountability:** Considering that the Bank is in the business of taking risks, it is everyone's responsibility to ensure that risk taking is disciplined and focused. The Bank takes into account the legal, regulatory, social, environmental and ethical issues in taking risks to ensure a return.
- **Knowledge:** Ensure the staff are fully aware of the risk and its impact to the Bank.

Ultimate responsibility for the effective management of risk rests with the Board of Pan Asia Bank.

Bank's Risk Committee structure



Board Credit Committee ('BCC')

All credit proposals exceeding the lending limits of the CEO are being referred to the Board Credit Committee for approvals. This committee consists of four Non Executive Independent Directors and the CEO. The other officers involved present at the discussions are by invitation. The facilities recommended by the Management for quality, feasibility and compliance with Bank's and regulatory requirements are approved by the committee. This committee meets every fortnight or on requirement basis.

Integrated Risk Management Committee ('IRMC')

Acting within an authority delegated by the Board, the Integrated Risk Management Committee comprises of 03 Non-Executive Independent Directors, the CEO, Head of Compliance (Secretary) and management by invitation. IRMC reviews specific risk areas such as credit, country, market, operational, legal regulatory and reputational risks etc, submits a risk assessment report to the Board. IRMC has been meeting every month.

The Committee is overall responsible for identifying and managing the risks relating to the Bank's operations to ensure the soundness of the Bank. All areas including portfolio analysis, approved delegated lending authority, operational losses, IT failures, regulatory compliance, key personnel risk, returns on large exposures etc. are identified and action is agreed to mitigate impact.

Asset and Liability Committee ('ALCO')

ALCO, through authority delegated by the Board, is responsible for the maintenance of capital ratios and the establishment of and compliance with, policies relating to Balance Sheet management including management of the Bank's liquidity, capital adequacy, structural foreign exchange rate risk and investments.

The ALCO provides direction to the Treasury and the Business Units on pricing of Assets and Liabilities and strategy regarding growth rates.

The ALCO evaluates the market conditions particularly relating to liquidity and interest rate scenarios, to enable the Bank to decide on short term strategy for customer relationships and investment decisions.

ALCO membership consists of Senior Deputy General Manager, Head of Treasury, Deputy General Manager Business Development and Head of Finance & Planning. The Committee is chaired by the Chief Executive Officer.

The above Committee governance structure seeks to ensure that Risk Management standards and policies are cascaded down through the organisation from the Board through the IRMC, the BCC and the ALCO to functional managers.

Audit Committee

The Audit Committee is responsible for overseeing the Financial Reporting, Internal Controls of the Bank and regulatory policies and regulations and for maintaining an appropriate relationship with the Internal and External Auditors. The main role of the committee is to encourage and safeguard the highest standard of integrity, financial reporting, Risk Management and internal controls. It comprises of three Non Executive Independent Directors and management by invitation. Committee meets at least every month and more often if the need arises.

Risk Management Framework

Pan Asia Bank has identified significant areas of risk, which include Credit, Interest Rate, Operational, Market, Country, Liquidity, Reputational and Legal Risks. All of these have

been dealt with comprehensively in the following sections and the systems in place within the Bank have been clearly outlined.

Our Risk Appetite

Our risk appetite reflects the level of risk that the Bank can or is willing to absorb in order to achieve its short or long-term goals and the Bank's capacity to withstand potential losses at varied probabilities and based on available capital resources. It also defines the acceptable level of earnings volatility of the Bank. At Pan Asia Bank, our risk appetite is defined considering our overall capacity to absorb risk, balancing the expectations of all our stakeholders and the Bank's credit rating. The Bank's risk appetite is continuously monitored to ensure it is appropriate, through regular processes of the Bank as well as the annual business planning process.

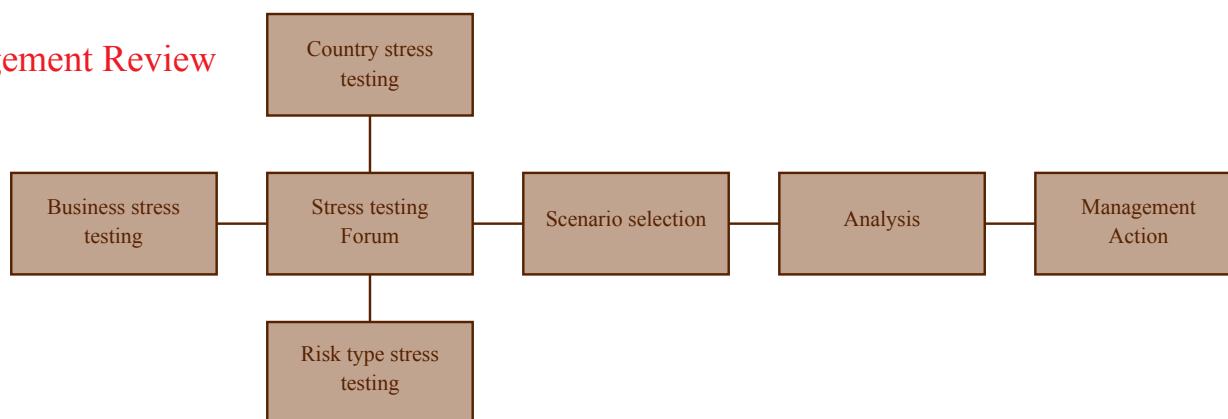
In order to monitor and control risk, the Bank uses several financial indicators, which include capital ratios, profitability, return on equity, portfolio credit risk profile and market risk in addition to concentration caps and suitable credit policies.

Stress Testing

Pan Asia Bank will introduce stress testing, which is a scenario analysis used to assess the capabilities of the Bank – both financial and management – to operate under extreme but possible conditions that may arise due to the social, political, legal, environmental and other factors in the operating environment.

This process of stress testing will help the Bank and Senior Management to identify potential risks in strategy, financial position and reputation, set and monitor the Bank's risk appetite, keep the Bank informed as to the nature and dynamics of the risk profile and assess the impact on the Bank's profitability and plans, identify the strength of the Bank's systems, controls and contingency plans and finally, the effectiveness of risk mitigation.

Management Review



The Bank's stress-testing framework has been designed to meet the criteria explained above and will be implemented shortly.

Stress Management Framework

With the implementation of stress testing, the Bank will initiate a stress testing forum with the participation of all relevant divisions of the Bank including Finance and Treasury. The primary function of this forum is to consider possible risk scenarios arising from prevailing market conditions that may affect the Bank adversely and ensure that the implications of identified stress scenarios, is clearly understood.

Types of Risk

Credit Risk

Credit risk is defined as the potential loss arising from defaults by borrowers or counter-parties through its lending, trading and investment activities. Credit exposure could arise from both individual borrowers and banks.

Credit Risk Management

At Pan Asia Bank, credit risk is managed via a framework that sets out all of the policies and procedures needed to measure and manage credit risk, with a clear separation of duties between the originators of a transaction and the approvers. All of the Bank's credit management policies, the regulations and standards followed are approved by the Board, which is also responsible for delegation of credit authority. Delegation of credit approval authority is based on the amount and security structure.

Risks associated with counterparties are clearly quantified using an alphanumeric system, which assigns grades to customers based on the probability of default, following analysis using a range of quantitative and qualitative measures. Those with lower grades are seen as less likely to default.

Several internal risk management reports are compiled with information on individual counterparty, counterparty bank and portfolio exposure information, credit grade migration information, the financial status of accounts and updates on credit markets. These regular reports assist managers in monitoring a given portfolio.

Credit Risk Mitigation

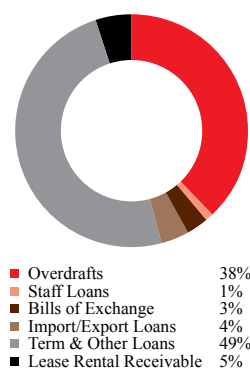
The Bank's credit risk mitigation policies control the approval and valuation of collateral types and also the frequency of valuation, which is in turn led by the level of price volatility for each collateral type. The valuation of collateral is monitored regularly.

Types of collateral that is available for risk mitigation include cash, residential, commercial and industrial property, fixed assets, bank and corporate guarantees, letters of credit and stock mortgages, etc.

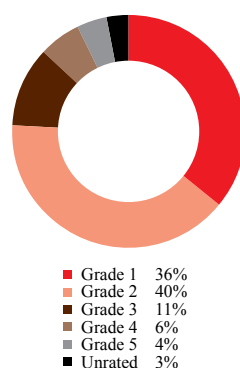
Credit Concentration Risk

The credit concentration risk is managed within exposure limits that are reviewed regularly and approved by the risk officer responsible for it. Various areas of concentration assessed include industry sector, credit rating, customer segment and exposure to single counterparties.

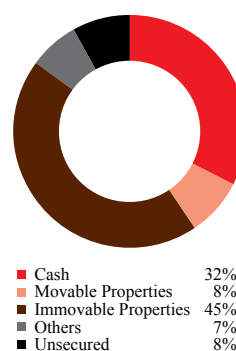
Composition of Loans and Advances



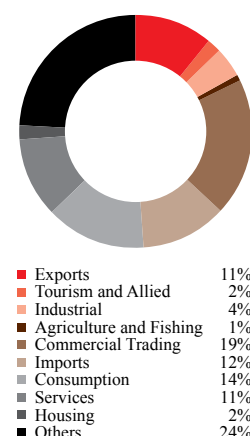
Rating wise



Security wise



Industry wise



Non Performing Advances (NPA) Management and Provisioning

Problem credits are managed by a dedicated Deputy General Manager who heads the Recoveries and Legal Department and is responsible for the control and recovery of NPA. Progress is monitored by the CEO and Board Credit Committee.

All provisioning is done as per CBSL guidelines. For more details on provision guidelines please refer accounting policies on pages 96 and 97.

Interest Rate Risk and Market Risk

Risk of declining value of bank's investments or its financial condition, over a given period of time due to changes in the market prices.

Market risk can arise from changes in prices of foreign exchange, interest rate, equity and commodity prices.

Risk Management

The Bank's ALCO which meets monthly has been assigned to manage the market risk and interest rate risk by monitoring market movements and to take necessary and appropriate actions to protect capital and shareholders' value. In a highly volatile interest rate environment both in the domestic and international currencies, ALCO need to take actions to re-price deposits and advances on a regular basis.

The Bank's trading policies, trading limits, market risk limits (value at risk, management action trigger) are discussed and reviewed at ALCO meetings as an ongoing basis to avoid any surprises.

Bank's trading activities are conducted by Treasury division subject to the guidelines approved by the Board of Directors. Treasury division is given the limits for trading in currencies, trading in fixed income securities and other approved financial instruments subject to limits which include cut loss positions, overall open exposure and maximum tenors and holding periods to ensure that they deal within the given risk control parameters. Independent market to market valuation is being carried out by the middle office and back office with special attention to trading portfolio of securities.

Liquidity Risk

Liquidity risk is the risk that the Bank either does not have sufficient financial resources available to meet all its obligations and commitments as they fall due, or can only access these financial resources at excessive cost.

In today's context the risk of liquidity is the most important risk factor the Bank needs to take into consideration when carry out their day to day operations. Properly addressed mismatch structure is the essential factor to manage liquidity.

Risk Management

It is the policy of the Bank to maintain adequate liquidity at all times, for all currencies, and hence to be in a position to meet all obligations as they fall due. The Bank manages liquidity risk both on a short term and medium term basis. In the short term, the focus is on ensuring that the cash flow demands can be met through asset maturities, supported by customer deposits and interbank sources.

Management Review

ALCO is the responsible governing body that approves the Bank's liquidity management policies. Bank's policies and procedures on liquidity are based on the mismatch in local currency and foreign currency behavioral cash flows, commitments, and determined with the objective of maintaining Advance to Deposit ratio below 85%.

All limits are reviewed at least every 3 months, and more frequently if required, to ensure that they are relevant given volatile market conditions and business strategy.

In addition, regular reports to the ALCO include the following:

- Information on the concentration and profile of debt maturities; and
- Depositor concentration report to monitor reliance on large individual depositors.

The Bank has significant levels of marketable securities, principally government securities, which can be realised in the event that there is a need for liquidity in a crisis. The liquidity crisis management plan lays out trigger points and actions in the event of a liquidity crisis to ensure that there is an effective response by Senior Management in case of such an event.

Primary Sources of Funding

A substantial portion of the Bank's assets are funded by customer deposits made up of current and savings accounts and other deposits. These customer deposits, which are diversified by type and maturity, represent a stable source of funds. ALCO monitors trends in the Balance Sheet and ensures that any concerns that might impact the stability of these deposits are addressed effectively. ALCO also reviews Balance Sheet plans to ensure that asset growth plans either in the client assets or government debt are matched by growth in the stable funding base.

Operational Risk

This is the risk to the Bank as a result of losses, either direct or indirect, due to the failure of internal processes, people and systems or due to external events. We have a system of policies and procedures in place to identify, assess, monitor,

control and report operational risks so that they can be managed effectively.

Operational risks as well as ensuring that there are adequate controls in place are the responsibility of the Bank's Head of Compliance. He is also responsible for establishing the Bank's operational risk policy as well as guidelines and standards for measurement. The Bank also has Operational Heads and Managers, independent from the business, to implement the operational policies and procedures.

Staff are regularly trained to ensure better management of operational losses. To enable better identification of risk, staff are also now required to take a mandatory ten days consecutive leave and more job rotations are actively pursued. The segmentation of duties and "Four eye principle" are followed, where the transactions are under the scrutiny of inputter and authoriser. We also have adequate insurance cover to mitigate Operational Risk.

Regulatory Risk

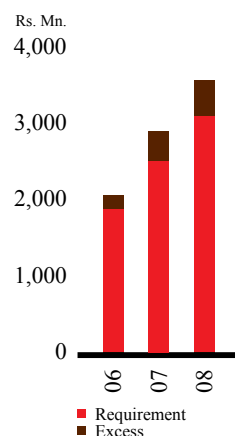
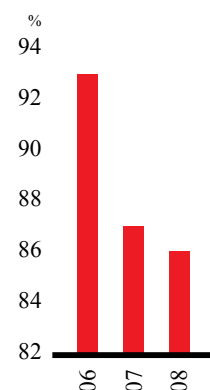
If there is non-compliance with the regulations of the country, the Bank faces regulatory risk. The Bank has a Compliance and Regulatory Risk function, which is responsible for developing guidelines for regulatory compliance, but implementation is the responsibility of all managers.

Outsourcing Risk

The Bank has begun a process of identifying all outsourced activities and developing a detailed risk strategy.

Reputational Risk

Maintaining the good reputation of the Bank is important in adding value to the business and enhancing our image in the minds of all our stakeholders. Our reputation is at risk if we fail to meet the standards and behaviour expected of us or if we fail to take action to effectively mitigate other risks. The policy at Pan Asia Bank is that protection of our reputation is more important than even revenue generation and should be protected. All staff are responsible to identify risks to our reputation that may arise in day to day operations and take action to manage and mitigate the risk.

Liquid Asset Ratio**Liquid Assets****Advance to Deposit Ratio**

Country Risk

This is the risk that as a result of conditions within a country or the action of foreign governments, the Bank will be unable to obtain payments from customers or third parties based on contractual obligations. This risk may be action in relation to convertibility and transferability of foreign currency.

The country risk exposure of Pan Asia is within manageable limits and is regularly monitored by the Head of Trade Services.

Monitoring of Risk

The Internal Audit function of the Bank independently confirms that the Bank has complied with all required standards, policies and processes and recommends action where necessary to mitigate risks. The Bank Internal Audit reports are submitted to the Board Audit Committee.

Capital Management

The Bank is committed to maintaining a strong capital base to develop its business and to meet regulatory capital requirements and maintain its strong credit rating. Pan Asia Bank develops business and capital management plans annually, which ensures that the Bank maintains adequate capital and an adequate mix of capital. These plans are then approved by the Board and integrated into the annual planning process of the Bank.

The capital plan takes into account regulatory capital requirements, increases in demand for capital due to business growth and market shocks, the available supply of capital and capital raising options and finally, internal controls and governance for managing the Bank's risk, performance and capital.

Total capital has increased by Rs.141 Mn during the year to Rs.1,592 Mn compared to 2007. The increase was primarily driven by increased retained earnings.

Central Bank of Sri Lanka (CBSL) also requires banks to maintain a minimum capital of Rs. 2,500 Mn by 31st December 2009. It is pertinent to mention that the CBSL capital requirement is based on an absolute figure of Rs. 2,500 Mn irrespective of the size of the Balance Sheet Assets. This has resulted in all banks, irrespective of size of assets book, being required to maintain an absolute figure which is not favourable to a bank like ours. It results in the Bank being overcapitalised in terms of Capital Adequacy Ratios and as the following table would reveal if we do a competitor analysis of selected banks vs our position.

Capital Adequacy Ratio as at 31/12/2008	Core Capital Adequacy Ratio - Tier 1	Total Risk Weighted Capital Adequacy Ratio - Tier 2	Asset base Rs. Bn	Share-holders' Funds Rs. Bn
Minimum requirement	5%	10%	-	-
Bank A	9.25%	11.40%	255	21
Bank B	8.10%	11.95%	139	10
Bank C	5.96%	8.32%	156	7
Bank D	10.31%	15.70%	65	4
Bank E	10.51%	13.09%	281	26
Pan Asia Bank	13.26%	14.02%	19	1.6

Current compliance with Basel II and the CBSL guidelines

The Bank's supervisor is the Central Bank of Sri Lanka (CBSL). The capital that the Bank is required to hold by the CBSL is determined by its Balance Sheet, Off-Balance

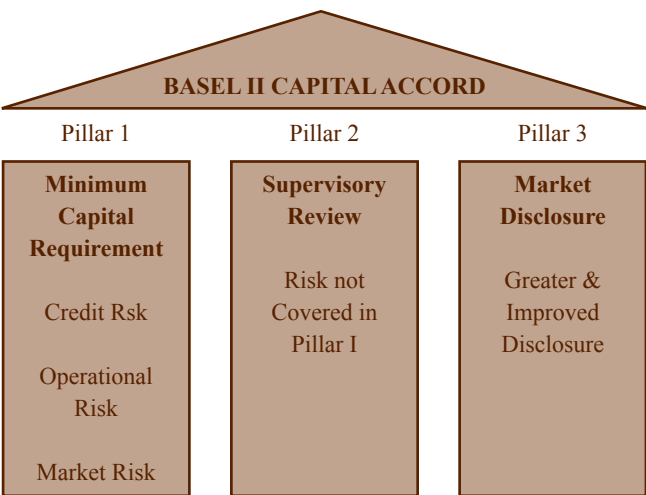
Management Review

Sheet, market risk positions and operational risk weighted according to the type of counterparty instrument and collateral held.

The Bank has put in place processes and controls to monitor and manage capital adequacy and no breaches were reported during the year.

Basel II

The Basel Committee on Banking Supervision published a framework for International Convergence of Capital Measurement and Capital Standards (‘Basel II’), which replaces the 1988 Basel Accord. Basel II is structured around three ‘pillars’:



Pillar 1 sets out the minimum regulatory capital requirements – the minimum amount of capital banks must hold against risks.

Credit Risk

Basel II provides three approaches of increasing sophistication to the calculation of credit risk capital:

- Standardised Approach
- Internal Ratings Based Foundation Approach
- Internal Ratings Based Advanced Approach

Market Risk

Basel II provides two measurement methodologies for Market risk:

- Standardised Measurement Approach
- Internal Model Approach

Operational Risk

Basel II also introduces capital requirements for operational risk for the first time under 3 measurements of methodologies.

- Basic Indicator Approach
- Standardised Approach
- Advanced Measurement Approach

From January 2008, as per the Central Bank requirement, the Bank adopted using Standardised Approach for Credit risk, Standardised Measurement Method for Market risk and Basic Indicator Approach for Operational risk in computing the capital requirement.

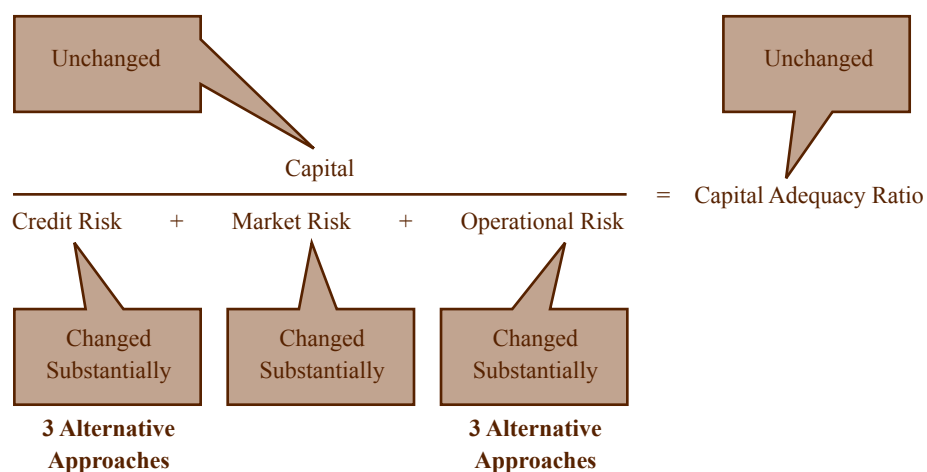
Pillar 2 sets out the key principles for supervisory review of an institution’s risk management framework and, ultimately, its capital adequacy. It sets out specific oversight responsibilities for the Board and Senior Management, thus reinforcing principles of internal control and other corporate governance practices.

Pillar 3 aims to bolster market discipline through enhanced disclosure by banks.

Pillar 1 - Selected Options

Credit Risk	Market Risk	Operational Risk
Standardised	Standardised	Basic Indicator Approach
Foundation - IRB	Internal Models	The Standardised Approach
Advanced - IRB		Advanced Measurement Approaches

Fundamental changes to the calculation of Regulatory Capital Ratio



Please refer calculation of Capital Adequacy for more details.

Management Review

Cautionary Statement Regarding Forward-Looking Statements

The Annual Report and Financial Statements 2008 contain certain forward-looking statements with respect to the financial condition, results of operations and business of Pan Asia Bank.

Statements that are not historical facts, including statements about Pan Asia Bank beliefs and expectations, are forward-looking statements. Words such as ‘expects’, ‘anticipates’, ‘intends’, ‘plans’, ‘believes’, ‘seeks’, ‘estimates’, ‘potential’ and ‘reasonably possible’, variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak only as of the date they are made, and it should not be assumed that they have been revised or updated in the light of new information or future events. Written and/or oral forward-looking statements may also be made in the periodic reports to the Colombo Stock Exchange, summary Financial Statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by Pan Asia Bank’s Directors, officers or employees to third parties, including financial analysts.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These factors include, among others: changes in general economic conditions in the market in which Pan Asia Bank operates, such as:

- Changes in Government policy and regulations, including the monetary, interest rate and other policies of the Central Bank
- The effects of competition in the market
- Economic Conditions
- Volatility in interest rates
- Lack of liquidity in funding markets

“Sound
regulation is
vital to improve
financial
stability and
transparency.”

Regulation and Supervision

Regulation and Supervision

Pan Asia Bank Corporation PLC is a Public Limited Liability Company incorporated in Sri Lanka on 6th March 1995 under the companies Act No. 17 of 1982 and re-registered under the Companies Act No.07 of 2007. It is listed in the Colombo Stock Exchange and is registered as a Licensed Commercial Bank under the Banking Act No.30 of 1988. It is regulated and supervised by the Central Bank of Sri Lanka (CBSL). As a listed company it is also subject to corporate governance rules of the Colombo Stock Exchange.

These authorities impose a variety of requirements and controls designed to improve financial stability and the transparency of financial markets and their contribution to economic growth. These regulations and controls cover capital adequacy, depositor protection, market liquidity, governance standards, customer protection (for example, fair lending practices, product design, and marketing and documentation standards), and social responsibility obligations (for example, anti-money laundering and anti-terrorist financing measures).

The regulatory framework of the Sri Lankan financial services system has traditionally been based on co-operation between the CBSL and authorised institutions. The CBSL monitors authorised institutions through ongoing supervision and the review of routine and ad hoc reports relating to financial and prudential matters. The CBSL may periodically obtain independent reports, usually from the auditors of the authorised institution, as to the adequacy of internal control procedures and systems as well as procedures and systems governing records and accounting.

Securing financial system stability is a key policy objective of the Central Bank, and is crucial in achieving macroeconomic stability and sustainable economic growth. Maintaining a sound and stable financial system is critically dependent on an efficient and resilient banking system, as the banking sector is the single most important segment of the financial system. Hence, the Central Bank adopts a comprehensive approach in preserving banking sector stability, encompassing both a carefully designed set of regulations, and surveillance at both individual institutions

and system levels, to ensure that prudent Risk Management practices are adopted by banking institutions.

In the context of a continuously evolving financial landscape and global integration of financial markets, Sri Lanka's banking sector has shown significant expansion. This is evident from a number of key financial performance and prudential indicators. Therefore, it is important that the system remains flexible and capable of managing the multitude of risks that arise in this new environment. The need to promote strong risk management practices in banks is underscored by the recent international financial market turmoil that originated from the sub-prime issue in the U.S. This has had far reaching effects on global financial markets causing significant losses in international banks requiring major Central Banks to inject funds to ease the liquidity crunch. The recent shortage in liquidity in major financial markets, combined with a risky business model has even required nationalisation of one UK bank. In view of these concerns, the Basel Committee on Banking Supervision has announced several steps to improve the resilience of the banking system, including further strengthening of bank's Risk Management practices, in particular, liquidity Risk Management and better market discipline through transparency.

During the past few years, there have been continuous efforts directed at further strengthening the regulatory framework, in view of the new developments and challenges in the banking sector and the changes in international regulatory standards. These measures will enhance the Central Bank's ability to detect and assess emerging vulnerabilities in the banking sector and take appropriate remedial measures in a timely manner. However, in the final analysis, the primary responsibility and accountability for the overall operations and Risk Management of banks lies with the Boards of Directors, Senior Management and other staff who run the banks. Therefore, the Central Bank expects such Directors, Senior Management and other staff to be fully conversant with the Directions, Circulars and Guidelines issued by the Monetary Board to ensure compliance with these.

Some recent selected regulations are given below:

Basel II

The Central Bank has continued to strengthen the supervisory and regulatory framework with the aim of promoting safety and soundness of the financial system. To strengthen Risk Management and promote the effective use of capital, the Basel II International Capital Adequacy Standard was introduced in January 2008 and banks have commenced the application of the Basel II standardised approach for managing credit risk, the standardised measurement method for managing market risk and the basic indicator approach for managing operational risk.

Corporate Governance

The implementation of the direction on Corporate Governance issued to banks also commenced in 2008, facilitating the conduct of the banking business in a responsible and accountable manner, thereby further strengthening the Risk Management framework. A road map for the full implementation of International Accounting Standards (IAS) 32 and 39 by 2011 was issued to banks and the parallel reporting by banks based on the corresponding Sri Lanka Accounting Standards (SLAS) 44 and 45, commenced in June 2008.

Opening of New Branches

A new policy for the establishment of bank branches was introduced to facilitate the enhancement of economic development in areas outside the western province in order to achieve balanced regional development. Promoting transparency, guidelines for opening new banks, the licensing procedure and the evaluation criteria were published in the public domain.

General Provision

A key contributory factor to the current global financial crisis was the significant amount of lack of liquidity and excessive risk taking. In this regard, CBSL introduced an additional 1% provision for all performing loans and applied increased risk weights in the computation of capital adequacy in banks on housing finance and other loans.

Know Your Customer

In 2008 CBSL took several initiatives to strengthen the anti money laundering and combating of terrorist financing and reporting activities. These included strengthening the existing regulations and issuing new rules on Know Your Customer and Customer Due Diligence (KYC/CDD) to the financial sector. The Financial Intelligence Unit (FIU) of the Central Bank intends to expand the KYC / CDD coverage during 2009. The FIU would also enhance its international cooperation in exchanging financial intelligence by entering into Memorandums of Understanding (MOU) with other countries to strengthen the anti money laundering and terrorist financing activities.

Enhancing Lending to the Agriculture Sector

The Central Bank of Sri Lanka has recognised the importance of enhancing food production and food security in the country. In meeting this requirement, it is required that the banks increase their lending to the agricultural sector to 10% of total advances as follows: 3% by end 2007, 6% by end 2008 and 10% by 31 December 2009.

Appointment of Compliance Officers

As per CBSL, banks should establish an independent compliance function to ensure compliance in respect of banking and other statutory requirements. As compliance failures affect integrity and reputation of banking institutions, it is imperative, that banks have in place adequate policies and procedures to ensure compliance with laws and regulations. Such a compliance function would be most appropriately addressed by appointing a Compliance Officer whose terms of reference, would broadly encompass the following:

1. Develop policies and procedures designed to eliminate or minimise the risk of breach of regulatory requirements and of damages to the bank's reputation and to ensure these policies and arrangements are adhered to in letter and spirit.

Regulation and Supervision

2. Promote throughout the business the belief that compliance is not a negative process but a positive contribution to the success of the Bank, so that the principles and importance of compliance is clearly understood by all.
3. Secure early involvement in the design and structuring of new products and systems, to ensure that they conform to local regulatory requirements and internal compliance and ethical standards.
4. Maintain regular contact and good working relationships with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives.
5. Ensure that reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards.
6. Promote, across the compliance network, best practices developed in the area of compliance.
7. Understand and apply all new legal and regulatory developments relevant to the business of the Bank.
8. Represent the compliance function on relevant internal and external committees.
9. Ensure that compliance policies and procedures are clearly communicated to management and members of staff.
10. Provide timely reports to management, including Senior Management, which will highlight regulatory developments, changes in the law, and other developments in so far as they give rise to compliance issues relevant to the bank's business.
11. Highlight serious or persistent compliance problems and where appropriate, work with the management to ensure that they are rectified within an acceptable time.
12. Liaise with the bank's audit function to ensure that:
 - (a) Auditors are familiar with local regulatory and ethical requirements, so that they are able to ensure that compliance issues are properly addressed.
 - (b) Compliance weaknesses identified as a result of audits are followed up.



24

24/7 banking access

With online banking, customers can do their
banking any time, all year round.

“Strong
leadership
has steered
the company
through the
many challenges
we faced this
year.”

Board of Directors



A. G. WEERASINGHE - *Chairman*

An experienced Senior Banker who joined the Board of Pan Asia Bank as a Director in June 2005 was appointed as Acting Chairman in December, 2007 and was appointed as the Chairman in March, 2008. Serves as a Director at George Steuarts Financial Services PLC and South Asia Financial Exel Investments PLC. Holds a B.A. (Econ) Degree, from University of Ceylon, Peradeniya. Served as an Assistant Lecturer in Economics, University of Ceylon, Peradeniya. A Fellow Member of the Institute of Bankers, Sri Lanka. He was the former Deputy General Manager, Corporate Banking at Bank of Ceylon. He has served as Country Manager BOC, London, Deputy General Manager, International at Seylan Bank. He was also a former President of Sri Lanka FOREX Association.

W. D. N. H. PERERA - *Deputy Chairman*

With over 26 years of experience in the fields of Finance, Capital Market Operations, Manufacturing, Marketing and Management services, Mr. Perera joined the Board of Pan Asia Bank as a Director in September, 2007 and appointed as the Deputy Chairman in March 2008. He serves as a Director in several Public Quoted Companies. He is the Managing Director of Royal Ceramics Lanka PLC and Fortress Resorts PLC. He also serves as the Group Finance Director, Amaya Leisure PLC, Director Finance of Hotel Reef Comber PLC and holds the position of Director at L.B. Finance PLC, Vallibel Finance Ltd, Vallibel Power Erathna PLC, Asian Alliance Insurance PLC, Vallibel Electric (Pvt) Ltd and Sathosa Motors PLC. He is a member of the Sri Lanka Institute of Marketing.



Board of Directors



H. V. AMARASEKERA - *Director*

An Attorney-at-Law by profession has experience in the legal and banking sectors in Sri Lanka and overseas, was appointed to the Board of Pan Asia Bank in June 2005. Holds a Masters Degree in International and Comparative Law (LLM Brussels), Masters Degree in Accountancy and Finance (M.A.F. Brussels - cum Laude). From 1990 – 1996 she has served as a Senior Manager, Bank of Tokyo (Luxembourg), specialized in Investment Banking and from 1987 to 1989 Directorate General for Financial Control of the European Communities (Commission of the EC). Presently she serves as a Director, Bensons Ltd, Managing Director COMCORP (Private) Ltd.



J. A. S. SUMITH ADHIHETTY - *Director*

Mr. Adhihetty who joined Pan Asia Bank in June 2005, is a well-known professional in the marketing field. Mr. Adhihetty has also gained over thirty years of experience in the Finance Sector. He was formerly the Deputy Managing Director of Mercantile Investments Ltd. and served as a Director of Nuwara Eliya Hotels Ltd., Grand Hotel (Pvt) Ltd., Royal Palm Beach Hotel Ltd., Tangerine Beach Hotels PLC, Nilaveli Beach Hotels Ltd., Mercantile Fortunes (Pvt) Ltd., Tangerine Tours Ltd. and Security Ceylon (Pvt) Ltd.

Presently he holds the position of Managing Director of LB Finance PLC and serves on the Board of Directors of Vallibel Finance Ltd. He is the 2nd Vice President of the Finance Houses Association of Sri Lanka.



KIMARLI FERNANDO - *Director/ Chief Executive Officer*

Counting 20 years of experience in the Banking Industry in Sri Lanka and in Germany, Mrs. Fernando joined the Bank as a Director in March 2008 and was appointed as the Chief Executive Officer of the Bank in May 2008. She also serves as a Director of L B Finance PLC, Lanka Clear (Pvt) Ltd. and as a Management Committee Member - Waters Edge. She is an Attorney-at-Law, and also a Barrister-at-Law, Lincoln's Inn, UK. She holds LL.B (Hons), from the London School of Economics and successfully completed the Post Graduate Certificate Course in Human Resources Management at the Post Graduate Institute of Management (PIM), Sri Lanka. She was awarded the "Professional Woman of the Year 2007" by Women's Chamber of Industry & Commerce.

L. WICKREMARACHCHI - *Director*

Mr. Wickremarachchi is the Managing Director / CEO of Vallibel Power Erathna PLC and also a Director of Vallibel Power Limited and its subsidiaries. He holds a Master of Science in Engineering (MSc) obtained from People's Friendship University, Moscow, Russia and MBA from the Post Graduate Institute of Management, University of Sri Jayawardenapura. He was appointed to the Board of Pan Asia Bank in July 2006.



J.D.C. COONGHE - *Director*

Mr. Coonghe joined the Board of Pan Asia Bank in December 2006 and is a Businessman. He is the Chairman of Ceylindo (Pvt) Ltd., and the Managing Partner of A.J.S. and St. Anthony's.



Board of Directors

A. A. PAGE - Director

Mr. Page is the Chairman of Ceylon Theatres Group of Companies and counts over 38 years of management experience in a diverse array of businesses. He is the Chairman of Lanka Ceramics PLC, Lanka Walltile PLC, Lanka Tiles PLC, Horana Plantations PLC, Parquet (Ceylon) PLC. He is also Director, Cargills (Ceylon) PLC, CT Land Development PLC, Ceylon Printers PLC, Kalamazoo Systems PLC, Office Equipment PLC and Paragon (Ceylon) PLC. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka. He was also previously on the Board of the Colombo Stock Exchange and a former Council Member of the Employers' Federation of Ceylon.



R. E. U. DE SILVA - Director

He joined the Board of Pan Asia Bank in July, 2008. He is the Chairman of Esna Holdings (Pvt) Ltd, Shermans Logistics (Pvt) Ltd, Shermans Transport (Pvt) Ltd, and Chamber of Young Entrepreneurs (CYE). He serves as the Deputy Chairman / Managing Director of Shermans International (Pvt) Ltd and as a Board Member of Board of Investment (BOI) and as a Director of Sherman De Silva & Co. Ltd, Sri Lanka Ports Authority, Mc Marine (Pvt) Ltd and Sherman Sons Ltd.

M. D. S. GOONATILLEKE - Director

He joined the Board of Pan Asia Bank in August 2008. He is a financial professional with over 25 years of post qualification experience and has held Senior Managerial positions in Financial Management, Credit Management, Treasury, Export & Import Trade, General Management & Operations in leading private sector organizations in Sri Lanka. He is a Group Director of Douglas & Sons Ltd., Group of Companies. In addition, he serves as a Director, L B Finance PLC and Vallibel Finance Ltd. Mr. Goonatilleke possess Post Graduate Diploma in Business Administration, PIM, University of Sri Jayawardenapura and an Associate Member of Institute of Chartered Management Accountants (UK) and a passed finalist of Institute of Chartered Accountants, Sri Lanka.



S.K. MALCOLM NANDASENA - Director (Resigned w.e.f. 20/12/2008) - Not Pictured

Joined Pan Asia Bank as a Director in September 2000, he has a Special (Honours) Degree from the University of Peradeniya. Further, he has a Certificate in Direct and Indirect Taxes from Japan in 1978 and a Certificate in International Taxation from Singapore in 1997. As a Senior Assessor, Deputy Commissioner and Commissioner of Inland Revenue in charge of Investigations, he has considerable experience in Accounts, Auditing and Finance.

“A team
focused on
performance
has been the
key to our
success this
year.”

Corporate Management

Corporate Management



Kimarli Fernando
Director / Chief Executive Officer



Claude Peiris
Senior Deputy General Manager



Kamoor Sourjah
Deputy General Manager - Business Development



S. Umakanthan
Deputy General Manager - Legal & Recoveries



Mewan Dissanayake
Head of Finance & Planning



Vinodini Jayawardena
Head of Human Resources Development



Shantha Balasuriya
Head of Treasury

“We have a team of highly skilled people who are the backbone of this company.”

Senior Management



Francis Holmes
Head of Compliance



Nayantha Fernando
Company Secretary/Head of Central Credit



Prasanna Fernando
Head of Liability Sales



Dinesh Perera
Head of Central Region



Naleen Edirisinghe
Head of Southern Region



S. Anandarajah
Senior Manager



Nimal Ratnayake
Senior Manager

Senior Management



Varuni Egodage
Senior Manager Legal



Ryan Perera
Head of Private Banking



Harsha Rajapakse
Head of Consumer Banking



Wijesena Gunawardena
Head of Leasing & Pawning



Roy Ranasinghe - *Acting Head of Internal Audit*



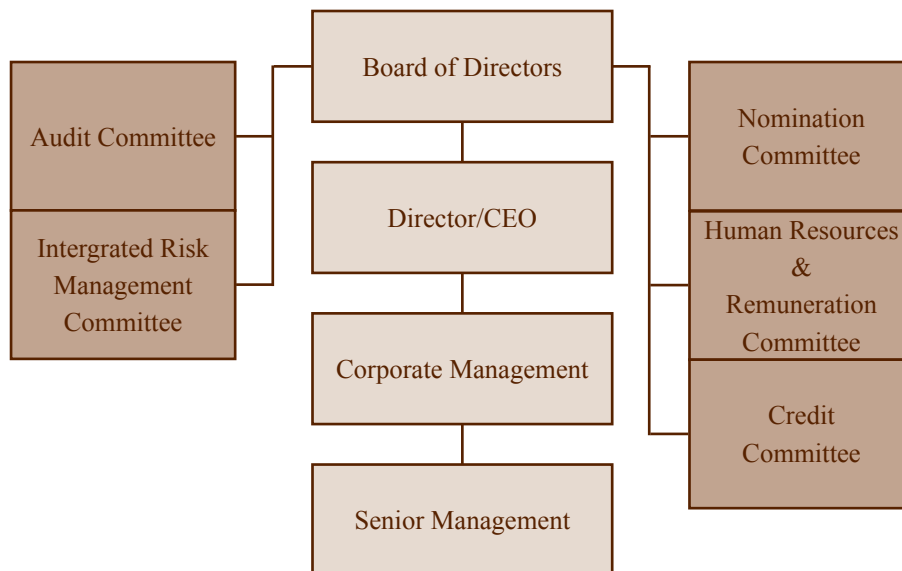
Meril Perera - *Acting Head of Information Technology*

“Good
governance
is an integral
part of Pan
Asia Bank’s
operations.”

Corporate Governance

Corporate Governance

Bank's Corporate Governance Framework



Board of Directors

The Board of Directors of Pan Asia Bank are skilled and highly experienced business leaders, whose vision and foresight have helped turn Pan Asia into a successful Bank. The Board of Pan Asia Bank is responsible for the overall management of the Bank and for ensuring that proper standards of corporate governance are maintained. The Board is also responsible for ensuring that the principles and provisions of the Code of Best Practice on Corporate Governance for Public companies issued jointly by the Securities and Exchange Commission of Sri Lanka (SEC) and the Institute of Chartered Accountants of Sri Lanka (ICASL) in 2008 and with the direction on Corporate Governance for Licensed Commercial Banks issued by the Central Bank of Sri Lanka (CBSL) and Colombo Stock Exchange (CSE) Governance rules have been implemented. The Directors confirm that throughout 2008 the Company complied with the provisions of the Code of SEC / ICASL / CSE and directions on Corporate Governance of CBSL.

The Company is a public company, listed on the Colombo Stock Exchange, and has sufficient share capital in public hands.

As at the date of this report, the Board is made up of the Chairman, who is an Independent Non Executive Director, one Non Executive Director, seven Independent Non-Executive Directors and the Chief Executive Officer (CEO) and is collectively responsible for the success of the Bank. In accordance with the Code, at all times during the year, at least one third of the Board comprised of Non-Executive Directors i.e. 9 out of 10 Directors are Non Executive Directors. All Directors are subject to re-election by shareholders at the first Annual General Meeting (AGM) after their appointment and thereafter to re-election on rotation. The Board meets monthly and has a formal schedule of matters specifically reserved for its decision. These matters include determining and reviewing the strategy of the Bank, overseeing the Bank's compliance with statutory and regulatory obligations and issues relating to the Bank's capital.

It is also responsible for the Bank's structure and areas of operation, financial reporting, ensuring there is a sound system of internal controls, risk management and appointments to the Board. The Bank has a policy on delegated authority which sets out how executive authority is delegated from the Board to the CEO and other Senior

Management. In addition, specific responsibilities have been delegated to Board Committees which have adopted terms of reference that govern their authority.

The Directors are given accurate, timely and clear information so that they can maintain full and effective control over strategic, financial, operational, compliance and governance issues. In addition, all Directors have access to the services and advice of the Bank Company Secretary and may take independent professional advice at the expense of the Bank in the furtherance of their duties. A Board approved procedure is in place, for seeking of professional advice.

The Directors have a diverse range of skills and experience and each brings an independent judgment and considerable knowledge to the Board's discussions. On appointment, each Director receives a comprehensive and tailored induction covering the Bank's business and operations and also the legal, regulatory and other obligations of a Director of a listed company.

The Bank has arranged appropriate insurance cover in respect of legal proceedings and other claims against its Directors.

Chairman and Chief Executive Officer

The separate roles and objectives of the Chairman and the Chief Executive Officer are clearly defined in written role descriptions which have been approved by the Board.

Independent Non-Executive Directors

The classification of Directors, in to Executive, Non Executive and Non Executive Independent Directors are stated in the Report of the Board of Directors and is as per Corporate Governance Rules.

All Non-Executive Directors have submitted a signed declaration in terms of Colombo Stock Exchange governance rules clarifying their position either as an Independent or Non Independent Director.

Fitness and Propriety of Directors

The provisions of section 42 of the Banking Act No 30 of 1988 and the criteria set out in the Direction No 11 of 2007, subsequently amended, are applied to determine the fitness and propriety of the Directors. Accordingly a declaration and an affidavit by each director is submitted to CBSL prior to each Annual General Meeting and at the time of appointment of a new Director. The Board when considering new appointments consider the fitness and propriety of each and every Director prior to appointing as a Director.

Board Committees

The Board has five committees with specific delegated authorities: the Audit Committee, the Nomination Committee, the Human Resources and Remuneration Committee, the Integrated Risk Management Committee and the Credit Committee. Details of these committees and their members are given below.

Audit Committee

The present members of the Audit Committee are:

Mr. M.D.S. Goonatilleke (Chairman)

Ms. H.V. Amarasekera (Member)

Mr. A.A. Page (Member)

All the members of the Committee are Independent Non-Executive Directors. The Board considers that each member brings a broad experience and knowledge of financial reporting to the Committee's deliberations. The Board is satisfied that the Committee's chairman who is a qualified Accountant has recent and relevant financial experience.

The Committee reviews and monitors the integrity of the Bank's annual and interim Financial Statements, including significant financial reporting judgments contained in them. It keeps under review the appropriateness of the Bank's accounting policies and considers changes to them. Ultimate responsibility for the approval of the annual and interim Financial Statements rests with the Board.

Corporate Governance

At least once a year, the Committee meets separately with the External Auditor and the Head of Internal Audit without the management being present, to discuss matters relating to the External Auditor's Management Letter.

In relation to the internal audit function, the Committee's responsibilities include:

- Monitoring and assessing the role and effectiveness of the Bank's internal audit function and receiving reports from the Head of Internal Audit on these matters.
- Considering the appointment, resignation or change of the Head of Internal Audit.

In relation to the External Auditor, the Committee's responsibilities include:

- Considering and making recommendations to the Board on the appointment, re-appointment, resignation or change of the External Auditor.
- Approving the terms of engagement, nature and scope of the audit.
- Reviewing the findings of the audit including any major issues that arose during the course of the audit.
- Reviewing and monitoring the cost effectiveness of the audit, taking into consideration relevant local professional and regulatory requirements and approving the audit fee.
- Monitoring the fees paid to the auditor for non-audit work and providing prior approval of substantial non-audit work, in accordance with the Bank's policy.

The Committee reviews and reports to the Board on the Bank's compliance with relevant regulatory and statutory requirements. It also reviews the Bank's overall principles for risk management and the processes by which each risk type is managed. It considers reports on the management of risk, including adherence to Bank standards and reports on compliance with policies in respect of liquidity, capital adequacy and interest rate management. The Committee reviews the Bank's internal financial controls and the Bank's internal control systems and reports on these to the Board.

During the year, the Committee had thirteen scheduled committee meetings where it covered all its responsibilities as set out in its Terms of Reference.

Nominations Committee

The present members of the Nominations Committee are:

Mr. A.G. Weerasinghe (Chairman)
Mr. L. Wickremarachchi (Member)
Mr. W.D.N.H. Perera (Member)

The Committee's responsibilities include:

- Reviewing the structure, size and composition of the Board and making recommendations with regard to any changes that the Committee deems necessary to ensure the Board has the optimum balance of skills, knowledge and experience.
- Where Board vacancies arise, evaluating the skill, knowledge and experience needed to fill the vacancy, and identifying and nominating suitable candidates to the Board.
- Keeping under review the succession plans for the Bank relating to both Directors and other Senior Executives to ensure the Bank continues to compete effectively in the market place and making consequential recommendations to the Board.

The Committee is also responsible for making recommendations to the Board for the appointment of the Chairman, Chief Executive Officer or any other Director.

In the selection process for new Directors, the Committee can consult external advisors. Before recommending the appointment of a Non-Executive Director, the Committee considers the suitability of a candidate against the skills, knowledge and experience required to produce a balanced Board. In addition, the Committee takes into account whether the candidate would have an appropriate amount of time to devote to their duties.

During the year, the Committee reviewed and was assured of the Bank's succession planning processes and the succession plans relating to Executive Directors and

other Senior Executives with continued focus on both the identification and development of a successor pool that meets the Bank's requirement.

Human Resources and Remuneration Committee

The present members of the above committee are:

Mr. A.G. Weerasinghe (Chairman)

Ms. H. V. Amarasekera (Member)

Mr. W.D.N.H. Perera (Member)

The Committee determines the pay and benefits of the Chairman, Directors and the Chief Executive Officer and all other Executive Directors if there is any. It also reviews and approves the remuneration of Key Management Personnel. The remuneration of all Directors and the Key Management Personnel are subject to regular monitoring to ensure that levels of remuneration and compensation are appropriate.

Integrated Risk Management Committee ('IRMC')

The present members of the Integrated Risk Management Committee are:

Mr. A.G. Weerasinghe (Chairman)

Mr. L. Wickremarachchi (Member)

Ms. H. V. Amarasekera (Member)

Ms. Kimarli Fernando (Member)

Mr. Francis Holmes (Secretary)

Mr. Claude Peiris (Member)

Mr. Shantha Balasuriya (Member)

IRMC reviews specific risk areas such as credit risk, country risk, market risk, operational risk, regulatory risk and reputational risk etc. The Committee also reviews the effectiveness of all management level committees, takes prompt corrective action to mitigate the effects of specific risks, takes appropriate action against officers responsible and appoints a compliance officer who will report compliance matters to the committee periodically. IRMC meets at least on a monthly basis and submits a risk assessment report to the Board.

Credit Committee ('CC')

The present members of the Credit Committee are:

Mr. L. Wickremarachchi (Chairman)

Mr. W.D.N.H. Perera (Member)

Mr. J.A.S.S. Adhihetty (Member)

Mr. A.G. Weerasinghe (Member)

Ms. Kimarli Fernando (Member)

The Board has appointed a Credit Committee consisting of five members, four Independent Non Executive Directors including the Chairman of the Board and Chief Executive Officer. The mandate of the Credit Committee is to deal with matters relating to lending operations that exceed the authority of the Chief Executive Officer of the Bank. The Committee meets at least twice a month and also as and when necessary. During the year under review the Credit Committee met 21 times.

While approving the credit proposals the Credit Committee assesses the risk profile of the counterparties in relation to their business operations and the emphasis has been on the ability of the borrowers to repay the debt obligations rather than on the strength of collateral offered. The borrowers are assessed on the basis of internal ratings and the credit is structured and priced according to the rating. The Credit Committee also advises the Corporate Management of the Bank to monitor the performance of the borrowers closely and to intensify the monitoring process with early warning signals as to the deterioration of the credit quality.

The Credit Committee also addresses the single borrower limits, group limits and sector limits with a view to complying with the statutory requirement as well as avoiding unmanageable risk in terms of the strength of the Bank. Any credit beyond the limit of the Credit Committee is referred to the full Board for approval.

Corporate Governance

Meetings

Number of meetings held for 2008 and the attendance register of Directors.

Name of Director	Board Meetings		Audit Committee		Integrated Risk Mgt. Committee		Credit Committee		Nomination Committee		HR & Remuneration Committee	
	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance	Eligibility	Attendance
Mr.A G Weerasinghe	14	14			3	3	4	4	2	2	2	2
Mr.W D N H Perera	14	13	8	7			21	15	2	2		
Ms.Kimarli Fernando	11	10	10	9	3	3	14	12	2	2	1	1
Ms.H V Amarasekera	14	12	13	12	3	2					2	1
Mr.J A S S Adhihetty	14	14					21	20				
Mr.L Wickremarachchi	14	13			3	2	21	21	2	2		
Mr.J D C Coonghe	14	7										
Mr.A A Page	9	5	8	5								
Mr.R E U De Silva	5	3										
Mr.M D S Goonatileke	5	5	5	5								
Mr.S K M Nandasena	14	10	13	10								
Mr.R Nadarajah	6	5					8	8			2	2
Mr.R Hewavitharana	4	3										
Mr.R Hathiramani	3	2										

Annual Report of the Board of Directors on the Affairs of the Company

Your Directors have pleasure in presenting their Report on the state of affairs of Pan Asia Banking Corporation PLC a Licensed Commercial Bank, listed on the Colombo Stock Exchange. Pan Asia Bank which was incorporated in Sri Lanka, as Pan Asia Bank Limited on 06th March, 1995 under the Companies Act No. 17 of 1982 and approved as a Licensed Commercial Bank under the Banking Act No. 30 of 1988 changed its name to Pan Asia Banking Corporation Limited on 23rd April, 2004 and has now been re-registered as per the requirement under the new Companies Act No. 07 of 2007 and changed its name to Pan Asia Banking Corporation PLC. This report is presented in compliance with the new Companies Act.

This report contains information in accordance with the statutory requirements and the relevant regulatory authorities, recommendations of best accounting practices and necessary disclosures in the best interest of stakeholders of the Bank.

This report has been approved by the Board of Directors, on the 19 March 2009.

PRINCIPAL ACTIVITIES

The Bank's principal business activities are commercial banking and related financial services.

PROFIT AND APPROPRIATION

The Bank's profits and appropriations were as follows:

	2008 Rs. 000	2007 Rs. 000
Profit Before Taxation	421,837	316,787
Taxation	(198,204)	(100,712)
Profit After Taxation	223,633	216,075
Retained Profit brought forward	287,929	76,163
Transfer to Reserve Fund	(11,181)	(10,804)
Dividends Paid	(82,980)	-
Transfer from Revaluation Reserve	7,735	6,495
Unappropriated Profit to be carried forward	425,136	287,929

FINANCIAL STATEMENTS

The Financial Statements of the Bank are given on page 90 to 121.

INCOME

The Bank's main income consist of interest on Loans & Advances, Investments and Fee based income. The summarised income could be shown between the years as:

Total income for 31.12.2008	Total Income for 31.12.2007
Rs. 3,241,156,951/-	Rs. 2,317,142,661/-
Details are given in Note 28 to the Financial Statements.	

PROFIT AND RESERVES

The Bank's Reserves as at 31 st December 2008 stood at Rs. 485,439,837/-. This comprises a Statutory Reserve Fund of Rs. 42,446,414/-, Revaluation Reserve of Rs. 17,857,208/- and Revenue Reserve of Rs. 425,136,215/-. The movement in Reserve Fund and Revaluation Reserve are shown in Note 25 & 26 to the Financial Statements respectively.

AUDITORS' REPORT

The auditors of the Company are M/s Ernst & Young, Chartered Accountants. Their report on the Financial Statements is given on page 89. They come up for re-election at the Annual General Meeting, with the approval of the Audit Committee and Board of Directors.

ACCOUNTING POLICIES

The accounting policies adopted in preparation of the Financial Statements are given on page 94 to 100.

DIRECTORS' INTEREST REGISTER

Under the provisions of Section 192 of the Companies Act No. 07 of 2007, the Interest Register is maintained by the Company in terms of the Companies Act. Directors have made the necessary declarations which are recorded in the Interest Register and this is available for inspection in terms of the Act. The entries in the register made during the accounting period is given as a foot note to this report on pages 80 to 83.

Annual Report of the Board of Directors on the Affairs of the Company

DIRECTORS' REMUNERATION

Directors' remuneration and other benefits of Directors in respect of the Company is given in Note 38.1 to the Financial Statements on page 120.

DONATIONS

During the year under review the Board of Directors have made the following donations/contributions:

Pan Asia Bank Sports Club Rs. 715,000/-

DIRECTORATE

The names of the Directors of the Bank during the period 01.01.2008 to 31.12.2008 are given below and changes occurred in the composition of the Board during the period under review. The classification of Directors into Executive, Non-Executive and Non-Executive Independent Directors are given against the names as per the Corporate Governance rules of the Colombo Stock Exchange listing rules and the Corporate Governance rules under the Banking Act Directions.

All the Non Executive Directors of the Bank have given a signed declaration in terms of Colombo Stock Exchange's continuing listing rules clarifying their position either as an Independent Director or Non-Independent Director.

Ms. H V Amarasekera	Non Executive Independent Director since 2005.
Mr. J A S S Adhihetty	Non Executive Independent Director since 2005.
Mr. L Wickremarachchi	Non Executive Independent Director since 2006.
Mr. J D C Coonghe	Non Executive Director since 2006.
Mr. A A Page	Non Executive Independent Director appointed in April, 2008.
Mr. R E U De Silva	Non Executive Independent Director appointed in July, 2008.
Mr. M D S Goonatilleke	Non Executive Independent Director appointed in August, 2008.
Mr. S K M Nandasena	Non Executive Independent Director since the year 2000. Resigned w.e.f. 20/12/2008, since he has reached 70 years of age and will be completing 9 years as a Director in September, 2009.
Mr. A G Weerasinghe	Non Executive Independent Director since 15/06/2005, Acting Chairman since 04/12/2007 and Chairman since March, 2008.
Mr. R Nadarajah	Managing Director/General Manager/Chief Executive Officer. Resigned in May, 2008.
Mr. W D N H Perera	Non Executive Independent Director since 01/09/2007 and appointed as Deputy Chairman in March, 2008.
Mr. A W Hathiramani	Non Executive Director since inception. Resigned in March, 2008 as he has completed 9 years as a Director.
Ms. Kimarli Fernando	Appointed as a Director in March, 2008 and as the CEO from May, 2008.
Mr. R Hewavitharana	Non Executive Independent Director Since 2005. Resigned in March, 2008.

RE-APPOINTMENTS

In terms of Article No. 93 and 94 of the Articles of Association of the Company, Mr.A.G.Weerasinghe and Mr. J.A.S.S. Adhihetty retire by rotation and being eligible offer themselves for re-election, on an unanimous recommendation by the Board of Directors.

Mr A.A. Page, Mr. R.E.U De Silva and Mr. M.D.S. Goonatileke who were appointed to the Board during the year are eligible for re-election by the shareholders in terms of Article 100 of the Articles of Association of the Company.

DIRECTORS' INTEREST

Related party transactions of the Company are disclosed in Note 38 to the Financial Statements on page 120. The Directors have no direct or indirect interest or proposed contract other than those disclosed.

The Directors have declared all material interests in contracts if any involving the company and have refrained in participating when decisions are taken.

DIRECTORS' INTEREST IN SHARES

Shareholding	No. of Shares As at 31.12.2008	No. of Shares As at 31.12.2007
Mr. A G Weerasinghe	5,000	-
Mr. W D N H Perera	1,601,875	1,776,875
Ms. Kimarli Fernando	306,700	-
Ms. H V Amarasekera	-	-
Mr. J A S S Adhihetty	35,000	35,000
Mr. L Wickremaratchi	20,000	20,000
Mr. J D C Coonghe	8,285,376	11,052,976
Mr. A A Page	40,000	-
Mr. R E U De Silva	-	-
Mr. M D S Goonatileke	-	-

AUDITORS

In accordance with the Companies Act No. 7 of 2007, a resolution for the re-appointment of M/s Ernst & Young, Chartered Accountants, to the Bank is being proposed at the Annual General Meeting.

AUDIT FEE

They will be paid a fee of Rs. 1,515,000/- plus 12% VAT as auditors' fee for the year 2008.

TAX CONSULTATION FEES

Professional Services fee for Taxation work Rs. 438,046/-

STATED CAPITAL

The Stated Capital of the Bank is Rs. 1,106,404,070/-.

The details are given in Note 24 to the Financial Statements.

INTERNAL CONTROLS

The Board of Directors have put in place an effective and comprehensive system of internal controls covering financial operations, compliance and risk management which are required to carry on the business of banking prudently and ensure as far as possible, accuracy and reliability of records.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and Companies Act No. 7 of 2007, Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995, the Banking Act No. 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange.

Annual Report of the Board of Directors on the Affairs of the Company

CORPORATE GOVERNANCE FOR LICENSED COMMERCIAL BANKS IN SRI LANKA

Banking Act, Direction No. 11 of 2007, and amendments thereto mandates that all Licensed Commercial Banks, to commence compliance with effect from 01st January 2008 and be fully compliant with provision of the Direction by 01st January 2009, except where extended compliance dates have been specially provided for in the Direction.

The Board of Directors wishes to state that, the Bank had commenced compliance with the Direction from 01st January 2008 as required by the Direction and with regard to requirements for which extended compliance dates have been provided, the Bank has taken steps to be compliant by such dates.

DIVIDEND

First and final dividend for the year 2008 has not been declared by the Board of Directors due to the following reasons:

- To maintain CBSL's minimum Capital requirement of Rs. 2,500 Mn.
- To strengthen the Shareholders' Funds of the Bank.

CAPITAL EXPENDITURE

Expenditure on Property, Plant & Equipment at cost amounted to Rs. 93,030,650/- during 2008, details of which are given in Note 18 to the Financial Statements.

Expenditure on Intangible Asset at cost amounted to Rs. 21,407,492/- during 2008, details of which are given in Note 19 to the Financial Statements.

STATUTORY PAYMENTS

The Directors are satisfied to the best of their knowledge and belief, that statutory payments to all authorities have been paid up to date, on a timely basis.

SHAREHOLDING

The number of registered shareholders of the Bank as at 31st December 2008 was 1,524 compared to 1,677 as at 31st

December 2007. The schedule indicating the shareholders' analysis is on page 132.

REGISTER OF DIRECTORS & SECRETARIES

The Bank maintains a Register of Directors and Secretaries which contain the name, surname, former name (if any), residential address and business occupation of each member.

BOARD COMMITTEES

In keeping with Corporate Governance, transparency and accountability, the Board has appointed the following Board Committees:-

Audit Committee Mr. M D S Goonatilleke (Chairman)
Ms. H V Amarasekera
Mr. A A Page
Mr. S K M Nandasena. Resigned
w.e.f.20/12/08

**Nominations
Committee** Mr. A G Weerasinghe (Chairman)
Mr. L Wickremarachchi
Mr. W D N H Perera

Credit Committee Mr. L Wickremarachchi (Chairman)
Mr. W D N H Perera
Mr. J A S S Adhihetty
Mr. A G Weerasinghe
Ms. Kimarli Fernando

**Human
Resources and
Remuneration
Committee** Mr. A G Weerasinghe (Chairman)
Ms. H V Amarasekera
Mr. W D N H Perera - Appointed
w.e.f. 25/02/09
Mr. S K M Nandasena - Resigned
w.e.f. 20/12/08

**Integrated Risk
Management
Committee** Mr. A G Weerasinghe (Chairman)
Mr. L Wickremarachchi
Ms. H V Amarasekera
Ms. Kimarli Fernando

NEW BRANCHES

Three new branches were opened during the year under review, bringing the total number of branches to 32 at the end of 2008.

PROVISION FOR TAXATION

Total taxable profit was charged at 33.33%. In accordance with Sri Lanka Accounting Standards, Deferred tax was calculated based on the Balance Sheet liability method.

ANNUAL GENERAL MEETING

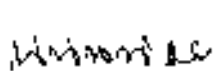
In complying with the good governance practices, the Annual Report of the Bank is dispatched to Colombo Stock Exchange and shareholders as soon as possible after the end of the financial year and completion of the audit.

The Annual General Meeting will be held at Waters Edge, No. 316, Ethulkotte Road, Battaramulla, Colombo on 30th April, 2009. The Notice of Meeting can be found on page 140.

GOING CONCERN

The Directors after making necessary inquiries and reviews including reviews of the Bank's ensuing year budget for capital expenditure requirements, future prospects and risks and cash flows have a reasonable expectation that the Bank has adequate resources to continue operations into the foreseeable future.

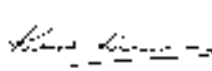
For and on behalf of the Board of Directors



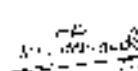
A G Weerasinghe
Chairman



W D N H Perera
Deputy Chairman



Kimarli Fernando
Director/CEO



N Fernando
Company Secretary

19 March 2009

Directors' Interest Register

Related party disclosures, as required by the Sri Lanka Accounting Standard No. 30 on Related Party Disclosures is detailed in Note 38 to the Financial Statements. In addition the Bank carries out transactions in the ordinary course of business at commercial rates with entities where the Chairman or a Director of the Bank is the Chairman or a Director of such entities, as detailed below.

DIRECTOR NAME / COMPANY NAME	RELATIONSHIP	ACCOMMODATION GRANTED / DEPOSITS	BALANCE OUTSTANDING AS AT 31.12.2008 Rs.
Mr. A G Weerasinghe	Chairman	Personal deposits	64,159
Mr. W D N H Perera	Deputy Chairman	Personal deposits	125,998
L B Finance PLC	Director	Loans & Advances	86,763,706
		Off balance sheet accommodations	-
		Deposits	157,285,585
Amaya Leisure PLC	Group Finance Director	Loans & Advances	91,316,492
		Off balance sheet accommodations	-
		Deposits	1,174,616
Hotel Reefcomber PLC	Director Finance	Loans & Advances	10,585,665
		Off balance sheet accommodations	-
		Deposits	-
Royal Ceramics Lanka PLC	Managing Director	Loans & Advances	1,799
		Off balance sheet accommodations	-
		Deposits	54,444,506
Asian Alliance Insurance PLC	Director	Loans & Advances	-
		Off balance sheet accommodations	-
		Deposits	24,433,292
Fortress Resorts PLC	Managing Director	Loans & Advances	-
		Off balance sheet accommodations	-
		Deposits	20,754
Vallibel Finance Ltd	Director	Loans & Advances	-
		Off balance sheet accommodations	-
		Deposits	40,300,915
Ms. Kimarli Fernando	Director/CEO	Personal Deposits	16,798,675
		Credit Card	228,000
L B Finance PLC	Director	Loans & Advances	86,763,706
		Off balance sheet accommodations	-
		Deposits	157,285,585

DIRECTOR NAME / COMPANY NAME	RELATIONSHIP	ACCOMMODATION GRANTED / DEPOSITS	BALANCE OUTSTANDING AS AT 31.12.2008 Rs.
Ms. H V Amarasekera	Director	Personal Deposits	496,467
Mr. J A S S Adhihetty	Director	Personal Deposits	220,782
L B Finance PLC	Managing Director	Loans & Advances	86,763,706
		Off balance sheet accommodations	-
		Deposits	157,285,585
Vallibel Finance Ltd	Director	Loans & Advances	-
		Off balance sheet accommodations	-
		Deposits	40,300,915
Mr. L Wickremarachchi	Director	Personal Deposits	197,526
Alternate Power Systems (Pvt) Ltd	Managing Director	Loans & Advances	-
		Off balance sheet accommodations	-
		Deposits	1,801,478
Mr. J D C Coonghe	Director	Personal Deposits (including USD deposits)	94,488,926
A J S	Managing Partner	Loans & Advances	16,049,583
		Off balance sheet accommodations	66,930,000
		Deposits	-
Ceylindo (Pvt) Ltd	Chairman	Loans & Advances	-
		Off balance sheet accommodations	-
		Deposits	450
Mr. A A Page	Director	Personal Deposits	133,893
Mr. R E U De Silva	Director	Personal Deposits	45,000
Mr. M D S Goonatilleke	Director	Personal Deposits	57,598
L B Finance PLC	Director	Loans & Advances	86,763,706
		Off balance sheet accommodations	-
		Deposits	157,285,585
Douglas & Sons Ltd	Group Director	Loans & Advances	-
		Off balance sheet accommodations	-
		Deposits	29,918
Vallibel Finance Ltd	Director	Loans & Advances	-
		Off balance sheet accommodations	-
		Deposits	40,300,915

Other Directorships

1. A.G Weerasinghe (Chairman)

Directorship/Officer/Trustee in Other Entities

<u>Bank/Company Name</u>	<u>Director</u>
George Steuarts Financial Services PLC	Director
South Asia Financial Exel Investments PLC	Director
Suncity Property Developers PLC	Director

2. W D N H Perera (Deputy Chairman)

Directorship/Officer/Trustee in Other Entities

<u>Bank/Company Name</u>	<u>Director</u>
Royal Ceramics Lanka PLC	Managing Director
Fortress Resorts PLC	Managing Director
Amaya Leisure PLC	Group Finance Director
Hotel Reefcomber PLC	Director Finance
LB Finance PLC	Director
Vallibel Finance Limited	Director
Vallibal Power Erathna PLC	Director
Asian Alliance Insurance PLC	Director
Vallibel Electric (Pvt) Ltd	Director
Sathosa Motors PLC	Director

3. Kimarli Fernando (Director / CEO)

Directorship/Officer/Trustee in Other Entities

<u>Bank/Company Name</u>	<u>Director</u>
LB Finance PLC	Director
Lanka Clear (Pvt) Ltd	Director
Waters Edge	Management Committee Member

4. H V Amarasekera (Director)

Directorship/Officer/Trustee in Other Entities

<u>Bank / Company Name</u>	<u>Director</u>
Bensons Ltd	Director
COMCORP (Pvt) Ltd	Managing Director

5. J A S S Adhihetty (Director)

Directorship/Officer/Trustee in Other Entities

<u>Bank / Company Name</u>	<u>Director</u>
L.B Finance PLC	Managing Director
Vallibel Finance Ltd	Director

6. L Wickremaratchi (Director)

Directorship/Officer/Trustee in Other Entities

<u>Bank / Company Name</u>	<u>Director</u>
Vallibel Power Erathna PLC	MD/CEO
Vallibel Power Ltd	Director
Alternate Power Systems (Pvt) Ltd	Managing Director
Country Energy (Pvt) Ltd	Director

7. J D C Coonghe (Director)

Directorship/Officer/Trustee in Other Entities

<u>Bank / Company Name</u>	<u>Director</u>
Ceylindo (Pvt) Ltd	Chairman
A.J.S	Managing Partner
St Anthony's	Managing Partner

8. A A Page (Director)

Directorship/Officer/Trustee in Other Entities

Bank / Company Name	Director
Ceylon Theatres Group	Chairman
Lanka Ceramics PLC	Chairman
Lanka Walltile PLC	Chairman
Lanka Tiles PLC	Chairman
Horana Plantations PLC	Chairman
Parquet (Ceylon) PLC	Chairman
Cargills (Ceylon) PLC	Director
C T Land Development PLC	Director
Ceylon Printers PLC	Director
Kalamazoo Systems PLC	Director
Office Equipment PLC	Director
Paragon (Ceylon) PLC	Director

9. R E U De Silva (Director)

Directorship/Officer/Trustee in Other Entities

Bank / Company Name	Director
Esna Holdings (Pvt) Ltd	Chairman
Shermans Logistics (Pvt) Ltd	Chairman
Shermans Transport (Pvt) Ltd	Chairman
Chamber of Young Entrepreneurs	Chairman
Shermans International (Pvt) Ltd	Deputy Chairman / Managing Director
Board of Investment (BOI)	Board Member
Sherman De Silva & Co. Ltd	Director
Sri Lanka Ports Authority	Director
Mc Marine (Pvt) Ltd	Director
(A member of the McLarens Group)	
Sherman Sons (Pvt) Ltd	Director

10. M D S Goonatileke (Director)

Directorship/Officer/Trustee in Other Entities

Bank / Company Name	Director
Douglas & Sons Ltd	Group Director
LB Finance PLC	Director
Vallibel Finance Ltd	Director

Audit Committee Report

Composition of the Audit Committee

The Audit Committee, appointed by the Board of Directors of Pan Asia Bank, comprises of three Independent Non Executive Directors. Mr. Nimal Perera, who functioned as the Chairman of the Audit Committee, relinquished his position on being appointed as the Deputy Chairman of the Bank. During the year under review Mr. M.D.S. Goonatilleke, Chartered Management Accountant and Mr. A.A. Page, Chartered Accountant joined your Board and was appointed to the committee. The former was appointed as the Chairman of the Audit Committee as well. Mr. S.K.M. Nandasena resigned from the Board/Committee having reached 70 years of age and having completed 9 years of service as a Director of the Bank, in compliance with Corporate Governance guidelines. I wish to take this opportunity to place on record Committee's appreciation of the services rendered by Mr. Nimal Perera and Mr. Nandasena as members of the Audit committee.

Role of the Committee

The Audit Committee charter, which was approved by your Board of Directors in 2008, clearly defines the role and responsibility of the Audit committee.

The key purpose of the Audit Committee of Pan Asia Bank is to assist the Board of Directors in fulfilling its oversight responsibilities for;

1. The integrity of Financial Statements in accordance with Sri Lanka Accounting Standards.
2. The Bank's compliance with legal and regulatory requirements.
3. The external auditor's independence.
4. The performance of the Bank's internal audit functions to ensure that Bank's internal controls and risk management are adequate.

The Audit Committee has authority to authorise investigations into any matters within its scope and responsibility as defined in the Audit Committee charter. The Committee provides a communication link between Internal Audit, External Audit and Board of Directors of the Bank.

Compliance

The Committee is pleased to elaborate on the Bank's compliance with legal and regulatory requirements as follows :

- The Bank's compliance with Anti- Money Laundering Act, Financial Transaction Reporting Act,
- Suppression of Terrorist Financing Act,
- Enforcement of the Know Your Customer (KYC) regulations within the entire Bank,
- The reporting of the compliance officer to the Audit Committee and the Board of Directors on the status of the Bank's compliance with the Central Bank directions/regulations,
- The control environment prevalent within the Bank being satisfactory,
- Providing a reasonable assurance of the financial position of the Bank, being well monitored and the assets being safeguarded.

Meetings

The Committee met on 13 occasions during the year. Head-Internal Audit Department functions as the secretary to the Committee. CEO, Senior Deputy General Manager, Head of Finance attend the meetings on invitation. Members of Senior Management of the Bank were invited to participate at meetings as and when required. The minutes of the Audit Committee were tabled at the monthly Board Meetings.

The Committee carried out the following activities.

Financial Statements

The Committee reviewed the financial information of the Bank in order to monitor the integrity of the Financial Statements of the Bank, its Annual Report, accounts and quality of reports prepared for disclosure.

Internal Audit

During the year under review, the Committee reviewed the audit reports presented by the Internal Audit Department together with the management responses. Risk based audit approach was adopted with a view to rationalise usage of

audit resources. Further, a training program was conducted by the Audit Committee to equip audit staff with the knowledge required to conduct risk based audits.

External Audit

The Audit Committee met with M/s Ernst & Young prior to the commencement of the audit to discuss and approve the audit approach and the audit plan. Further, at the conclusion of the audit the committee met with the External Auditors to discuss the audit findings. The meetings were held without the presence of the management and auditors have assured that they have no cause to compromise their independence. The Management Letter of the External Auditors and response of the management thereto were discussed at the Audit Committee.

The Audit Committee has recommended to the Board of Directors that M/s. Ernst & Young, Chartered Accountants, be reappointed as the auditors of the Bank for the financial year ending 31st December 2009, subject to the approval of the Shareholders at the Annual General Meeting.

Conclusion

The Audit Committee is of the view that adequate controls are in place to safeguard Bank's assets and to ensure that the financial position and the results disclosed in the audited accounts are free from any material misstatements.



M.D.S. Goonatilleke

Chairman

Audit Committee

19 March 2009

Directors' Responsibility for Financial Reporting

The responsibility of the Directors' in relation to the Financial Statements with the provisions of the Companies Act No.7 of 2007, is set out in the following statement. The responsibilities of the External Auditors, in relation to the Financial Statements are set out in the report of the Auditors' given on page 89 of the Annual Report.

As per the provisions of the Companies Act No.7 of 2007 the Directors are required to prepare Financial Statements comprising a Balance Sheet as at 31st December 2008 and the Income Statement, Statement of Changes in Equity and Cash Flow for the year then ended and notes thereto for each financial year and place before a general meeting.

The Financial Statements of the Bank give a true and fair view of the state of affairs of the Bank as at Balance Sheet date and profit or loss of the Bank for the year ended on the Balance Sheet date. In preparing these Financial Statements Directors are required to:

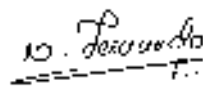
- a. Select suitable accounting policies and apply them consistently and material departures if any have been disclosed and explained
- b. Make judgments and estimates that are reasonable and prudent
- c. Follow all relevant Accounting Standards

The Directors are responsible for keeping proper accounting records that are disclosed with reasonable accuracy at any time the financial position of the Company and enable them to ensure that its Financial Statements comply with the Companies Act, the Banking Act and the Listing Rules of the Colombo Stock Exchange. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

Directors are required to prepare Financial Statements and to provide the External Auditors, M/s Ernst & Young, with every opportunity to carry out whatever reviews and sample checks they consider to be appropriate for the purpose of enabling them to give their audit report.

The Directors are satisfied that all statutory payments in relation to all regulatory and statutory authorities which were due and payable by the Bank have been paid or where relevant provided for. Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board



N. Fernando
Company Secretary

Colombo
19 March 2009

“We have made significant gains this year and we’re optimistic about the future.”

Financial Information

Financial Reports and Accounts

89	Report of the Auditors'
90	Balance Sheet
91	Income Statement
92	Statement of Changes in Equity
93	Cash Flow Statement
94	Notes to the Financial Statements

Financial Calendar

Financial Calendar - 2008

1st Quarter Results 2008	May 2008
2nd Quarter Results 2008	August 2008
3rd Quarter Results 2008	November 2008
Annual Report for 2008	March 2009
14th Annual General Meeting	April 2009

Financial Calendar - 2009

1st Quarter Results 2009	May 2009
2nd Quarter Results 2009	August 2009
3rd Quarter Results 2009	November 2009
Annual Report for 2009	March 2010
15th Annual General Meeting	April 2010

Report of the Auditors'



Chartered Accountants

201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
myl@k.yr.com

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF PAN ASIA BANKING CORPORATION PLC

Report on the Financial Statements

We have audited the accompanying Financial Statements of Pan Asia Banking Corporation PLC ("Bank"), which comprise the Balance Sheet as at December 31, 2008 and the 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 notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these Financial Statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of Financial Statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these Financial Statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the Financial Statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall Financial Statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended December 31, 2008 and the Financial Statements give a true and fair view of the Bank's state of affairs as at December 31, 2008 and its profit and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

In our opinion, these Financial Statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.

Colombo
February 25, 2009

Partners: A D B Talwatt FCA FCMA, T K Bandara Nayake FCA, M P D Cecray FCA FCMA, Ms. Y A De Silva ACA, W R H Fernando FCA FCMA, W K B S D Fernando FCA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA, L R (I and S) A S M Ismail FCA FCMA, H W A Jayasinghe FCA FCMA, Ms. G G S Mendelunge ACA, Ms. L C G Nanayakkara FCA FCMA, B E Wijesuriya ACA ACMA

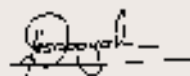
Balance Sheet

As at 31 December 2008

	Note	2008 Rs.	2007 Rs.
ASSETS			
Cash and Short Term Funds	8	903,089,777	1,030,631,310
Statutory Deposit with Central Bank of Sri Lanka	9	704,589,138	856,275,821
Government Treasury Bills / Bonds	10	3,424,114,574	1,409,580,989
Commercial Paper		50,000,000	170,000,000
Bills of Exchange	11	331,589,018	363,926,992
Loans and Advances	12	11,167,980,378	9,170,670,928
Interest Receivable	13	181,891,106	73,042,514
Lease Rentals Receivable	14	645,758,242	822,708,152
Investment Securities	16	494,260,000	573,552,500
Other Assets	17	462,181,312	486,362,935
Property, Plant and Equipment	18	587,167,850	552,384,348
Intangible Assets	19	31,718,920	16,563,092
TOTAL ASSETS		18,984,340,315	15,525,699,581
LIABILITIES			
Deposits	20	14,448,367,028	12,130,213,383
Borrowings	21	1,345,085,632	431,086,877
Due to Foreign Banks		54,516,988	74,161,701
Other Liabilities	22	1,256,546,182	1,034,616,902
Debentures	23	110,810,000	303,789,000
Taxation Payable		121,563,903	58,809,289
Deferred Tax Liability	34	55,606,675	41,831,637
TOTAL LIABILITIES		17,392,496,408	14,074,508,789
SHAREHOLDERS' FUNDS			
Stated Capital	24	1,106,404,070	1,106,404,070
Statutory Reserve Fund	25	42,446,414	31,264,743
Revaluation Reserve	26	17,857,208	25,592,497
Accumulated Profit		425,136,215	287,929,482
		1,591,843,907	1,451,190,792
TOTAL LIABILITIES AND SHAREHOLDERS' FUNDS		18,984,340,315	15,525,699,581
Commitments and Contingencies	36	2,772,802,673	2,296,655,919

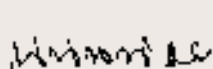
Certification

These Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



Mewan Dissanayake
Head of Finance

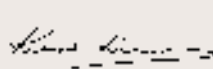
The Board of Directors are responsible for the preparation and presentation of these Financial Statements
Signed for and on behalf of the Board by



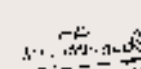
A G Weerasinghe
Chairman



W D N H Perera
Deputy Chairman



Kimarli Fernando
Director/CEO



N Fernando
Company Secretary

The accounting policies and notes on pages 94 through 121 form an integral part of the Financial Statements.

Colombo
25 February 2009

Income Statement

Year ended 31 December 2008

	Note	2008 Rs.	2007 Rs.
GROSS INCOME	28	3,241,156,951	2,317,142,661
Interest Income	29	2,864,603,074	1,968,545,297
Interest Expense	30	(1,798,442,416)	(1,223,533,890)
NET INTEREST INCOME		1,066,160,658	745,011,407
Other Income	31	376,553,877	348,597,364
Net Income		1,442,714,535	1,093,608,771
LESS : NON INTEREST EXPENSES			
Operating Expenses		226,211,027	180,034,620
Personnel Costs		312,493,798	246,365,067
Premises, Equipment and Establishment Expenses		237,395,843	194,978,000
Provision for Staff Retirement Benefits		10,665,750	8,200,250
Other Overhead Expenses		5,155,418	3,161,093
TOTAL NON INTEREST EXPENSES		791,921,836	632,739,030
PROFIT BEFORE PROVISIONING FOR LOSSES		650,792,699	460,869,741
Add / (Less) :			
Loan Loss (Provision) /Reversals/Recoveries	15	(95,450,521)	(63,687,385)
(Provision) / Write back for Other Losses		-	3,306,658
PROFIT BEFORE VALUE ADDED TAX		555,342,178	400,489,014
Less : Value Added Tax on Financial Services		133,504,910	83,701,770
PROFIT BEFORE INCOME TAX		421,837,268	316,787,244
Less : Tax Expense	33	198,203,848	100,712,382
PROFIT FOR THE YEAR		223,633,420	216,074,862
Earnings Per Share - Basic	35	2.02	1.95
Dividends Per Share	27	0.75	-

The accounting policies and notes on pages 94 through 121 form an integral part of the Financial Statements.

Statement of Changes in Equity

Year ended 31 December 2008

	Note	Stated Capital Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Accumulated Profit Rs.	Total Rs.
Balance as at 1 January 2007		1,106,404,070	20,461,000	32,087,700	76,163,160	1,235,115,930
Profit for the Year		-	-	-	216,074,862	216,074,862
Transfer to Reserve Fund	25	-	10,803,743	-	(10,803,743)	-
Realisation of Revaluation Reserve	26	-	-	(6,495,203)	6,495,203	-
Balance as at 31 December 2007		<u>1,106,404,070</u>	<u>31,264,743</u>	<u>25,592,497</u>	<u>287,929,482</u>	<u>1,451,190,792</u>
Profit for the Year		-	-	-	223,633,420	223,633,420
Transfer to Reserve Fund	25	-	11,181,671	-	(11,181,671)	-
Final Dividends Paid for 2007	27	-	-	-	(82,980,305)	(82,980,305)
Realisation of Revaluation Reserve	26	-	-	(7,735,289)	7,735,289	-
Balance as at 31 December 2008		<u>1,106,404,070</u>	<u>42,446,414</u>	<u>17,857,208</u>	<u>425,136,215</u>	<u>1,591,843,907</u>

The accounting policies and notes on pages 94 through 121 form an integral part of the Financial Statements.

Cash Flow Statement

Year ended 31 December 2008

	Note	2008 Rs.	2007 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest Received		2,713,178,784	1,954,128,839
Fees and Commission Received	31	284,651,199	249,695,313
Interest Payments		(1,684,690,584)	(1,082,157,061)
Exchange Income	31	71,865,516	90,245,637
Receipts from Other Operating Activities		9,015,496	8,656,414
Cash Payments to Employees and Suppliers		(496,207,752)	(396,612,362)
Payments on Other Operating Activities		(369,852,748)	(266,897,483)
Operating Profit before changes in Operating Assets		527,959,911	557,059,297
(Increase)/Decrease in Operating Assets			
Bills of Exchange		22,142,563	110,102,661
Loans and Advances		(2,023,314,942)	(2,278,298,057)
Other Assets		25,181,622	(81,298,172)
Lease Rentals Receivable		160,275,990	(136,694,806)
Money at Call and Short Notice		359,144,945	21,231,885
Treasury Bills / Bonds / Reverse Repos		(2,003,511,919)	(29,580,579)
		(2,932,121,830)	(1,837,477,771)
Increase/(Decrease) in Operating Liabilities			
Deposits		2,318,153,645	3,167,320,547
Other Liabilities		113,158,840	129,915,881
Borrowings		913,998,755	(731,943,538)
Net Cash from Operating Activities before Income Tax		413,189,410	727,815,119
Taxation Paid		(121,674,196)	(78,909,822)
Net Cash from Operating Activities		291,515,214	648,905,297
CASH FLOWS FROM INVESTING ACTIVITIES			
Investment in Commercial Papers		120,000,000	(170,000,000)
Investment in Securities		78,292,500	(2,000,000)
Purchase of Property, Plant and Equipment	18	(93,030,650)	(87,522,496)
Acquisition of Intangible Assets	19	(21,407,492)	(5,315,765)
Proceeds from Sale of Property Plant and Equipment		151,175	886,932
Net Cash Flows Used in Investing Activities		84,005,533	(263,951,329)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Proposed Debentures	23	60,810,000	-
Redemption of Debentures	23	(253,789,000)	-
Dividend Paid	27	(82,980,305)	-
Net Cash Used in Financing Activities		(275,959,305)	-
Net Increase/(Decrease) in Cash and Cash Equivalents		99,561,442	384,953,968
Cash and Cash Equivalents at the beginning of the year		1,394,443,905	1,009,489,937
Cash and Cash Equivalents at the end of the year		1,494,005,347	1,394,443,905
Reconciliation of Cash and Cash Equivalents			
		2008 Rs.	2007 Rs.
Cash and Short Term Funds		843,933,197	612,329,785
Balances with Central Bank of Sri Lanka		704,589,138	856,275,821
Due to Foreign Banks		(54,516,988)	(74,161,701)
		1,494,005,347	1,394,443,905

The accounting policies and notes on pages 94 through 121 form an integral part of the Financial Statements.

Notes to the Financial Statements

Year ended 31 December 2008

1. CORPORATE INFORMATION

Pan Asia Banking Corporation PLC (“The Bank”) is a public quoted company incorporated on March 6, 1995 with limited liability and domiciled in Sri Lanka. The registered office of the Bank is situated at No.450, Galle Road, Colombo 03. The staff strength of the Bank as at December 31, 2008 is 507 (2007 – 546). The shares of the Bank have a primary listing on the Colombo Stock Exchange.

Pan Asia Banking Corporation PLC does not have an identifiable parent of its own.

The Financial Statements for the year ended December 31, 2008 were authorised for issue on February 25, 2009 in accordance with a resolution of the Board of Directors passed on February 25, 2009.

2. PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, personal banking, trade financing, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, pawning, issuing of local and international credit cards, telebanking facilities, internet banking, SMS banking etc.

3. ACCOUNTING POLICIES

3.1 Basis of Preparation

The Financial Statements of the Bank are prepared under the historical cost convention, except that Government Treasury Bills and Bonds held for trading and certain classes of Property, Plant and Equipment are stated at valuation as explained in note 18.4 to the Financial Statements. Assets & Liabilities are grouped by the nature and listed in an order that reflects their relative liquidity. These Financial Statements are prepared in Sri Lankan Rupees unless otherwise stated. Where appropriate the Significant Accounting Policies are disclosed in the succeeding notes.

3.2 Statement of Compliance

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka, Companies Act No. 7 of 2007 and Banking Act No. 30 of 1988 and amendments thereto.

3.3 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows :

The Bank has adopted the following new SLAS during the year

Sri Lanka Accounting Standard 16 (Revised) – Employee Benefits

A revised SLAS 16 was issued in 2007, and became effective for financial years beginning or after 1 July 2007. The Financial Statements for year ended 31 December 2008 has been adopted with the revised SLAS 16.

As a result of the revision all short term employee benefits of the Bank were required to be recognised when an employee has rendered service in exchange for those benefits. For post-employment benefits, the Bank was required to involve a qualified actuary in their measurement.

3.4 Significant Accounting Judgments, Estimates and Assumptions

In the process of applying the Bank’s Accounting Policies, management is required to make judgments, 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 concerning the future and other key resources of estimation uncertainty at the Balance Sheet date, that have an significant risk of causing material adjustments to the carrying amount of Assets and Liabilities. These respective carrying amounts of Assets and Liabilities are given in the related notes to the Financial Statements.

The Bank assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

3.5 Going Concern

The Directors have made an assessment of the Bank ability to continue as a going concern and they do not intend either to liquidate or to cease trading.

3.6 Comparative Information

The accounting policies have been consistently applied by the Bank and are consistent with those used in the previous year except for the adoption of the change in accounting policy described in 3.3 above. Comparative information is re-classified wherever necessary to comply with the current presentation which is fully described in Note 40 to these Financial Statements.

4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of these Financial Statements are set out below.

4.1 Foreign Currency Translation

The Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency.

(a) Transactions and Balances

Transactions in foreign currencies are initially recorded using the closing exchange rate of the functional currency ruling at the date of the translation. Monetary Assets and Liabilities denominated in foreign currencies are re translated at the middle exchange rate of the functional currency ruling at the Balance Sheet date. All differences are

taken to Income Statement. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of initial translations.

- (b) Forward exchange contracts are valued at the forward market rate ruling on the date of the Balance Sheet. Unrealised gains and losses are dealt with through the Income Statement.

4.2 Taxation

(a) Current Taxation

Current tax Assets and Liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially 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 purposes in accordance with the provisions of the Inland Revenue Act No.10 of 2006 and the amendments thereto, at the rates specified in Note 33 to the Financial Statements.

(b) 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 purposes.

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.

The carrying amount of deferred tax assets is reviewed at each Balance Sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilised. Unrecognised deferred tax assets are re-assessed at each Balance Sheet date and are recognised to the extent that it has

Notes to the Financial Statements

Year ended 31 December 2008

become probable that future taxable profits 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 substantially enacted at the Balance Sheet date.

Deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement. The transitional liability arising due to the change in the standard from these items has been recognised in full in the equity statement.

(c) Value Added Tax

During the year, the Bank's total value addition was subjected to a 20% Value Added Tax on Financial Services as per Section 25 A of the Value Added Tax Act No. 14 of 2002 and amendments thereto.

(d) Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No 13 of 2006, ESC is payable on the liable income 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 for a further four years.

4.3 Events after the Balance Sheet Date

All the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in Note 39 to the Financial Statements.

4.4 Assets and Bases of their Valuation

(a) Loans and Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

(b) Specific provisions for possible loan losses are made on the basis of a continuous review of all advances to

customers. This provision relates to identified bad and doubtful advances as stipulated by the Central Bank of Sri Lanka based on a classification of advances as given below;

Classification	Type of Facility	Period Outstanding	Provision made net of realisable value of Security
Sub-Standard	Overdrafts, Other Credit Facilities	6 – 12 months	20%
	Credit facilities, repayable in monthly installments	6 – 12 installments, principal and/or interest are due and unpaid.	
Doubtful	Overdrafts, Other Credit Facilities	12 – 18 months	50%
	Credit facilities, repayable in monthly installments	12 – 18 installments, principal and/or interest are due and unpaid.	
Loss	Overdrafts, Other Credit Facilities	Over 18 months	100%
	Credit facilities, repayable in monthly installments	Over 18 installments, principal and/or interest are due and unpaid.	

Where necessary provisions are made over and above the minimum percentage on a case by case basis.

In addition a general provision is made at the rate of 0.1% per quarter on performing and overdue loans and advances portfolio commencing the fourth quarter 2006, as per a direction from the Central Bank of Sri Lanka, which requires that a general provision up to 1% on total performing and overdue loans and advances portfolio be made on or before the end of the first quarter 2009.

4.5 Finance Leases

(a) Lease Receivable

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Amounts receivable under finance leases are included under 'Lease Rentals Receivable'. Leasing balances are stated in the Balance Sheet after deduction of initial rentals received, unearned lease income and the provisions for rentals doubtful of recovery.

(b) Provision for Lease Rental Receivable

The provision for Lease Rental Receivable relates to identified bad and doubtful lease advances as stipulated by the Central Bank of Sri Lanka based on a classification of advances as given below;

Classification	Period Outstanding	Provision made net of realisable value of Security
Sub-Standard	5 – 12 installments, principal and/or interest are due and unpaid.	20%
Doubtful	12 – 18 installments, principal and/or interest are due and unpaid.	50%
Loss	Over 18 installments, principal and/or interest are due and unpaid.	100%

4.6 Credit Card receivable

(a) Amounts receivable on Credit Cards are included in advances to customers at the amounts expected to be recovered.

(b) Provision for Credit Card Receivable

Period Outstanding	Classification	Provision made net of realisable value of Security
4 - 5 months	Sub-standard	25%
6 - 7 months	Doubtful	50%
8 months and above	Loss	100%

4.7 Investments

(a) Treasury Bills/Bonds held for Trading

Investments in Treasury Bills/Bonds in the Trading portfolio are mark to market & carried at the market value in the Balance Sheet. Gains and losses on mark to market valuation are dealt with through the Income Statement.

(b) Investment in Treasury Bills/Bonds held for Maturity

Investments in Treasury Bills/Bonds held to maturity are reflected at the value of the Bills/Bonds purchased and the discount or premium accrued thereon. Discount received/ Premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

(c) Securities purchased under Resale Agreement

These are advances collateralised by purchase of Treasury Bills and Treasury Bonds from the public subject to a commitment to resell them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid and interest accrued thereon.

Notes to the Financial Statements

Year ended 31 December 2008

Securities sold under repurchase agreements are included Government Treasury Bills/Bonds.

4.8 *Property, Plant and Equipment*

(a) *Cost and Valuation*

All items of Property, Plant & Equipment are initially recorded at cost. Where items of Property, Plant and Equipment are subsequently revalued, the entire class of such assets is revalued. Revaluations are made with sufficient regularity to ensure that their carrying amounts do not differ materially from their fair values at the Balance Sheet date. Subsequent to the initial recognition as an asset at cost, revalued Property, Plant and Equipment are carried at revalued amounts less any subsequent depreciation thereon. All other Property, Plant and Equipment are stated at historical cost less depreciation.

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an expense. In these circumstances the increase is recognised as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increase relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to Accumulated Profits on retirement, disposal of the asset and the difference between the depreciation based on revalued carrying amount of the assets and the depreciation based on the asset's original cost.

(b) *Restoration Cost*

Expenditure incurred on repairs or maintenance of Property, Plant and Equipment in order to restore or maintain the future economic benefits expected from

the originally assessed standard of performance, is recognised as an expense when incurred.

4.9 *Intangible Assets*

(a) *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 the Sri Lanka Accounting Standard No. 37 on Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses.

(b) *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 as incurred.

(c) *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. The amortisation period and the amortisation method for an Intangible Asset with a finite useful life are 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 are treated as changes in accounting estimates. The amortisation expense on Intangible Assets with finite lives is recognised in the Income Statement.

(d) *Impairment*

The unamortised balances of Intangible Assets are reviewed at each Balance Sheet date for impairment and recognised as expenses in the Income Statement to the extent that they are no longer probable of being recovered from the expected future benefits.

4.10 Other Assets

All other assets are valued net of specific provision, where necessary, so as to reduce the carrying value of such assets to their estimated realisable value.

5. LIABILITIES & PROVISIONS

5.1 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

5.2 Proposed Dividends

Dividend proposed/declared by the Board of Directors, after the Balance Sheet date is not recognised as a liability and is only disclosed as a note to the Financial Statements.

5.3 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities.

5.4 Retirement Benefit Obligations

(a) Defined Benefit Plan – Gratuity

The liability recognised in the Balance Sheet is the present value of the defined benefit obligation at the Balance Sheet date using the projected unit credit method.

(b) Defined Contribution Plan – Employees’ Provident Fund & Employees’ Trust Fund

Employees are eligible for Employees’ Provident Fund Contributions and Employees’ Trust Fund Contributions in line with the respective Statutes and Regulations. The Bank contributes 15% and 3% of gross emoluments of employees to Employees’

Provident Fund and Employees’ Trust Fund respectively.

5.5 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 them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received and interest accrued thereon.

Securities sold under Repurchase agreements are included under borrowings.

6. INCOME STATEMENT

6.1 Revenue Recognition

(a) Interest Income

In terms of the Sri Lanka Accounting Standards No.23 on Revenue Recognition and Disclosures in the Financial Statements of banks, the interest receivable is recognised on accrual basis. Interest ceases to be taken into revenue when the recovery of interest and/or principal is in arrears for three months/three installments or more. Interest receivable on advances classified as non-performing is accounted for on cash basis. Interest falling due on Non Performing Advances is credited to Interest in Suspense Account. In addition interest accrued up to three months on such Non Performing Advances is also reversed from the Interest Income and transferred to Interest in Suspense.

(b) Lease Income

In terms of the provisions of Sri Lanka Accounting Standard No. 19 on Leases, the recognition of finance income on leasing is accounted based on pattern reflecting a constant periodic rate of return on capital outstanding. The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of lease. The unearned finance income

Notes to the Financial Statements

Year ended 31 December 2008

included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed in proportion of the capital outstanding.

Finance income in respect of lease rentals due ceases to be taken to revenue when they are in arrears for three rentals. Thereafter such income is recognised on cash basis. Interest accrued up to three rentals on such non performing leases is also reversed from the interest income and transferred to Interest in Suspense.

(c) *Income on Discounting of Bills of Exchange*

Income on the endorsement of Bills of Exchange is recognised only when the Bills are received and either issued or endorsed and the payment under the particular instrument has been effected.

(d) *Fees and Commission Income*

Fees and Commission Income comprise mainly of fees received from customers for guarantees and other services provided by the Bank together with foreign and domestic tariffs. Such income is recognised as revenue as the services are provided.

(e) *Interest Income on Investments in Commercial Papers and Trust Certificates*

Interest income on investment in Commercial Papers and Trust Certificates is recognised on accrual basis.

(f) *Interest and Fees receivable on Credit Cards*

Interest and fees receivable on Credit Cards are recognised on accrual basis. Interest recognised is reversed when accounts if any become Non Performing (3 months arrears). Thereafter, interest and fees are accounted for on cash basis.

(g) *Interest & Other Expenses*

In terms of Sri Lanka Accounting Standard No.23 on Revenue Recognition and Disclosures in the Financial

Statements of banks, the interest and other expenses payable are recognised on accrual basis in the Income Statement.

(h) *Off-Balance Sheet Transactions*

The Bank enters into Off Balance Sheet transactions such as forward exchange contracts and currency swaps. At the year-end, the recognised losses are dealt with through the Income Statement; where as recognised gains are deferred in other liabilities.

7. CASH FLOW STATEMENT

The Cash Flow Statement has been prepared by using the “Direct Method” of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard No.9 on Cash Flow Statements. Cash and cash equivalents comprise mainly of cash balances, balances with the Central Bank of Sri Lanka and balances with Foreign Banks.

8. CASH AND SHORT TERM FUNDS

	2008 Rs.	2007 Rs.
Local Currency in Hand	382,044,087	471,541,549
Foreign Currency in Hand	38,675,523	34,742,728
Balances with Foreign Banks	423,213,587	106,045,508
Money at Call and Short Notice	59,156,580	418,301,525
	<u>903,089,777</u>	<u>1,030,631,310</u>

9. STATUTORY DEPOSIT WITH CENTRAL BANK OF SRI LANKA

As required by the provision of section 93 of Monetary Law Act, a cash balance is required to be maintained with the Central Bank of Sri Lanka according to the statutory requirements. At present, the minimum cash reserve requirement is 7.75% of the local currency deposit liabilities of the Domestic Banking Unit.

10. GOVERNMENT TREASURY BILLS / BONDS

	2008 Rs.	2007 Rs.
Treasury Bills / Bonds held for Maturity	543,612,802	1,108,060,034
Treasury Bills / Bonds held for Trading	2,830,501,772	-
Treasury Bills under Reverse Repurchase Agreements	50,000,000	301,520,955
	<u>3,424,114,574</u>	<u>1,409,580,989</u>

11. BILLS OF EXCHANGE

	2008 Rs.	2007 Rs.
Export Bills	158,114,093	82,193,969
Import Bills	168,678,137	236,030,048
Local Bills	55,774,566	79,284,147
	<u>382,566,796</u>	<u>397,508,164</u>
Less : Specific Provision (Note: 15.2)	(14,202,000)	(5,701,000)
General Provision (Note: 15.2)	(2,824,356)	(1,129,946)
Interest in Suspense (Note: 15.2)	(33,951,422)	(26,750,226)
	<u>331,589,018</u>	<u>363,926,992</u>

Notes to the Financial Statements

Year ended 31 December 2008

12. LOANS AND ADVANCES

	2008 Rs.	2007 Rs.
Sri Lanka Rupees Overdrafts	5,036,469,162	4,864,673,385
Import Loans	404,187,072	493,202,365
Foreign Currency Overdrafts	30,028,995	21,467,437
Export Loans	169,061,576	222,302,073
Term Loans, Pledge Loans	5,383,894,644	3,583,103,673
Pawning Loans	698,777,598	336,074,854
Other Foreign Currency Loans	23,483,389	11,504,726
Staff Loans	183,304,818	154,013,864
Credit Card Advances	389,464,158	264,845,844
	<u>12,318,671,412</u>	<u>9,951,188,221</u>
Less : Specific Provision for Non-Performing Loans and Advances (Note: 15.2)	(294,063,564)	(240,454,861)
General Provision (Note: 15.2)	(56,543,865)	(27,420,529)
Interest In Suspense (Note: 15.2)	(800,083,605)	(512,641,903)
	<u>11,167,980,378</u>	<u>9,170,670,928</u>

13. INTEREST RECEIVABLE

	2008 Rs.	2007 Rs.
Money Market Placements	22,252	3,873,376
Treasury Bills and Bonds	162,134,297	65,484,672
Commercial Paper	7,974,878	3,684,466
Trust Certificates	11,574,182	-
Debentures	185,497	-
	<u>181,891,106</u>	<u>73,042,514</u>

14. LEASE RENTALS RECEIVABLE

	2008 Rs.	2007 Rs.
Gross Investment in Finance Leases	896,199,057	1,112,807,330
Less : Unearned Income	(207,574,048)	(264,411,814)
	688,625,009	848,395,516
Less : Specific Provision for Non- Performing Leases (Note: 15.2)	(31,819,361)	(16,079,332)
General Provision (Note: 15.2)	(4,822,568)	(3,888,677)
Interest in Suspense (Note: 15.2)	(6,224,838)	(5,719,355)
	645,758,242	822,708,152
14.1 Lease Rentals Receivable within One Year		
Total Lease Rentals Receivable	896,199,057	1,112,807,330
Lease Rentals Receivable after One Year from Balance Sheet Date	(478,938,401)	(537,706,402)
Lease Rentals Receivable within One Year from Balance Sheet Date	417,260,656	575,100,928
Unearned Lease Income	(115,573,481)	(133,461,740)
	301,687,175	441,639,188
14.2 Lease Rentals Receivable after One Year		
Lease Rentals Receivable after One Year from Balance Sheet Date	478,938,401	537,706,402
Unearned Lease Income	(92,000,567)	(130,950,074)
	386,937,834	406,756,328

15. MOVEMENT IN THE PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE

Provision and Interest Suspended against Loans and Advances, Bills of Exchange and Lease Rentals Receivables

	General Rs.	Specific Rs.	Total Rs.	Suspended Interest Rs.
As at 01.01.2008	32,439,152	262,235,193	294,674,345	545,111,484
Provision during the year (Note 15.1)	31,751,637	78,161,732	109,913,369	-
Amounts written off	-	(312,000)	(312,000)	(3,202,000)
Interest in Suspense Net of Recoveries	-	-	-	298,350,381
As at 31.12.2008 (Note 15.2)	64,190,789	340,084,925	404,275,714	840,259,865

Notes to the Financial Statements

Year ended 31 December 2008

15.1 Provision for loan losses during the year

	2008 Rs.	2007 Rs.
Total provision during the year	141,889,369	109,376,229
Recoveries/Reversals/Transfers during the year	(31,976,000)	(41,939,047)
	109,913,369	67,437,182
Recovery of Loan losses written off previously	(14,967,323)	(3,965,626)
Amounts Directly written off	504,475	215,829
Net Provision/(Reversal) for the year	95,450,521	63,687,385

15.2 Analysis of provision for loan losses and interest in suspense

	Loan Loss Provision		Suspended Interest
	General Rs.	Specific Rs.	Rs.
Bills of Exchange (Note 11)	2,824,356	14,202,000	33,951,422
Loans and Advances (Note 12)	56,543,865	294,063,564	800,083,605
Lease Rentals Receivable (Note 14)	4,822,568	31,819,361	6,224,838
	64,190,789	340,084,925	840,259,865

15.3 Non Performing Advances included in the Bills of Exchange, Loans and Advances and Lease Rentals Receivable on which interest is not accrued are as follows;

	2008 Rs. '000	2007 Rs. '000
Bills of Exchange	58,347	46,529
Loans and Advances	1,949,779	1,215,930
Lease Rentals Receivable	107,877	65,629
	2,116,003	1,328,088
Less: Provision for Loan Loss (Note 15.2)	(404,276)	(294,674)
Interest in Suspense (Note 15.2)	(840,260)	(545,111)
	871,467	488,303

15.4 Concentration of Credit Risk

Sectorwise analysis of Bank's credit portfolio given below reflects the Bank's exposure to Credit Risk in the various sectors of the economy, relating to Gross Loans and Advances, Bills of Exchange and Lease Rentals Receivables.

	2008 Rs.	2007 Rs.
Exports	1,471,716,685	1,509,741,255
Tourism and Allied	275,775,373	158,618,510
Industrial	584,553,005	539,561,255
Agriculture and Fishing	168,324,754	139,933,416
Commercial Trading	2,543,586,719	1,949,575,269
Imports	1,548,106,008	2,142,234,914
Consumption	1,830,205,832	2,631,923,136
Services	1,461,150,555	320,527,669
Housing	323,787,558	91,052,017
Others	3,182,656,728	1,713,924,460
	<u>13,389,863,217</u>	<u>11,197,091,901</u>
Loan and Advances (Note 12)	12,318,671,412	9,951,188,221
Bills of Exchange (Note 11)	382,566,796	397,508,164
Lease Rentals Receivable (Note 14)	688,625,009	848,395,516
	<u>13,389,863,217</u>	<u>11,197,091,901</u>

16. INVESTMENT SECURITIES

	2008 Rs.	2007 Rs.
16.1 Summary		
Shares- Unquoted (Note 16.2)	2,140,000	3,140,000
Debentures - Unquoted (Note 16.3)	11,320,000	-
Bonds - Unquoted (Note 16.4)	367,900,000	570,412,500
Trust Certificates (Note 16.5)	112,900,000	-
	<u>494,260,000</u>	<u>573,552,500</u>

Notes to the Financial Statements

Year ended 31 December 2008

16.2 Shares- Unquoted

	2008 Rs.	2007 Rs.
Credit Information Bureau of Sri Lanka (300 Ordinary shares of Rs.100/- each)	30,000	30,000
Society for Worldwide Interbank Financial Telecommunications - SWIFT	110,000	110,000
Lanka Clear (Private) Ltd (100,000 Ordinary Shares of Rs.10/- each)	1,000,000	1,000,000
Lanka Financial Services Bureau Ltd (100,000 Ordinary Shares of Rs. 10/- each)	1,000,000	2,000,000
	<u>2,140,000</u>	<u>3,140,000</u>

16.3 Debentures - Unquoted

Bank of Ceylon (100 Debentures of USD1,000/- each redeemable on 09.04.2009)	11,320,000	-
	<u>11,320,000</u>	<u>-</u>

16.4 Bonds - Unquoted

Sri Lanka Development Bonds	367,900,000	570,412,500
	<u>367,900,000</u>	<u>570,412,500</u>

The above Development Bonds amounts to USD 3,250,000/- and matures in the year 2009. (2007 - USD 5,250,000/- matured in 2008)

16.5 Trust Certificates

Alliance Finance Company PLC	60,300,000	-
Mercantile Investments Ltd	52,600,000	-
	<u>112,900,000</u>	<u>-</u>

The above Trust Certificates mature in the financial years of 2009,2010 and 2011.

16.6 The Directors' valuation of unquoted investments of the Bank amounts to Rs. 494,260,000/- (2007- Rs. 573,552,500/-)

17. OTHER ASSETS

	2008 Rs.	2007 Rs.
Deposits and Prepayments	75,884,584	71,146,900
Other Debtors	387,123,218	416,990,905
	<u>463,007,802</u>	<u>488,137,805</u>
Less : Provision in respect of Other Debtors	(826,490)	(1,774,870)
	<u>462,181,312</u>	<u>486,362,935</u>

18. PROPERTY, PLANT AND EQUIPMENT

18.1 Gross Carrying Amounts

	Balance As at 01.01.2008 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2008 Rs.
At Cost				
Land	183,969,895	-	-	183,969,895
Building	154,029,105	-	-	154,029,105
Office Equipments	44,546,007	23,222,257	-	67,768,264
Computer Hardware	63,611,013	45,435,875	(220,685)	108,826,203
Furniture and Fittings	44,721,525	24,372,518	-	69,094,043
Motor Vehicles	16,044,122	-	-	16,044,122
	<u>506,921,667</u>	<u>93,030,650</u>	<u>(220,685)</u>	<u>599,731,632</u>
At Valuation				
Office Equipments	28,030,726	-	(75,000)	27,955,726
Computer Hardware	86,957,100	-	-	86,957,100
Furniture and Fittings	35,724,842	-	-	35,724,842
	<u>150,712,668</u>	<u>-</u>	<u>(75,000)</u>	<u>150,637,668</u>
Total Value of Depreciable Assets	<u>657,634,335</u>	<u>93,030,650</u>	<u>(295,685)</u>	<u>750,369,300</u>

18.2 Depreciation

	Balance As at 01.01.2008 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2008 Rs.
At Cost				
Building	4,169,604	3,855,041	-	8,024,645
Office Equipments	10,241,029	9,268,575	-	19,509,604
Computer Hardware	12,356,506	13,592,922	(18,394)	25,931,034
Furniture and Fittings	7,376,336	5,311,483	-	12,687,819
Motor Vehicles	2,945,132	3,208,824	-	6,153,956
	<u>37,088,607</u>	<u>35,236,845</u>	<u>(18,394)</u>	<u>72,307,058</u>
At Valuation				
Office Equipments	14,034,628	4,699,288	(50,010)	18,683,906
Computer Hardware	43,472,983	14,492,850	-	57,965,833
Furniture and Fittings	10,653,769	3,590,884	-	14,244,653
	<u>68,161,380</u>	<u>22,783,022</u>	<u>(50,010)</u>	<u>90,894,392</u>
	<u>105,249,987</u>	<u>58,019,867</u>	<u>(68,404)</u>	<u>163,201,450</u>

Notes to the Financial Statements

Year ended 31 December 2008

18.3 Net Book Values

	2008 Rs.	2007 Rs.
At Cost		
Land	183,969,895	183,969,895
Building	146,004,460	149,859,501
Office Equipments	48,258,660	34,304,978
Computer Hardware	82,895,169	51,254,507
Furniture and Fittings	56,406,224	37,345,189
Motor Vehicles	9,890,166	13,098,990
	<u>527,424,574</u>	<u>469,833,060</u>
At Valuation		
Office Equipments	9,271,820	13,996,098
Computer Hardware	28,991,267	43,484,117
Furniture and Fittings	21,480,189	25,071,073
	<u>59,743,276</u>	<u>82,551,288</u>
Total Net Book Value	<u>587,167,850</u>	<u>552,384,348</u>

18.4 Office Equipment, Computer Hardware and Furniture and Fittings were revalued during the year 2004 by Messrs. Ariyatilake & Co. (Pvt) Ltd independent valuers. The results of such revaluation were incorporated in these Financial Statements from its effective date. Such assets were valued on an open market value for existing use basis. The surplus arising from the revaluation was transferred to a Revaluation Reserve.

The carrying amount of revalued assets that would have been included in the Financial Statements had the assets been carried at cost less depreciation are as follows:

Class of Asset	Cost Rs.	Cumulative Depreciation If assets were carried at cost Rs.	Net Carrying Amount 2008 Rs.	Net Carrying Amount 2007 Rs.
Office Equipment	43,354,385	43,354,385	-	3,067,565
Computer Hardware	131,850,696	131,850,696	-	18,573,696
Furniture and Fittings	91,520,227	90,502,004	1,018,223	14,746,257
	<u>266,725,308</u>	<u>265,707,085</u>	<u>1,018,223</u>	<u>36,387,518</u>

18.5 Property, Plant and Equipment does not include any fully depreciated assets. (2007 - Nil).

18.6 During the financial year, the Bank acquired Property, Plant & Equipment to the aggregate value of Rs. 93,030,650/- (2007 - Rs. 87,522,496/-) was acquired by means of cash payments were made during the year for purchase of Property, Plant & Equipment.

18.7 *The useful lives of the assets is estimated as follows*

	2008	2007
Building	40 Years	40 Years
Office Equipments	06 Years	06 Years
Computer Hardware	06 Years	06 Years
Furniture and Fittings	10 Years	10 Years
Motor Vehicles	05 Years	05 Years

18.8 Property, Plant and Equipment acquired prior to 01 January 2006 were fully depreciated in the year of disposal but none in the year of purchase. Property, Plant and Equipment acquired after 01 January 2006 are depreciated from the month the assets are available for use over their estimated useful lives.

19. INTANGIBLE ASSETS

	2008 Rs.	2007 Rs.
Computer Software (Note 19.1)	31,718,920	16,563,092
19.1 Summary		
Cost		
As at the beginning of the year	111,765,876	106,450,111
Incurred during the year	21,407,492	5,315,765
As at the end of the year	133,173,368	111,765,876
Amortisation		
As at the beginning of the year	95,202,784	87,620,459
Amortised during the year	6,251,664	7,582,325
Impairment Loss Recognised	-	-
As at the end of the year	101,454,448	95,202,784
Net Book Value		
As at the beginning of the year	16,563,092	18,829,652
As at the end of the year	31,718,920	16,563,092

Notes to the Financial Statements

Year ended 31 December 2008

19.2 Amortisation Method

Computer Software is amortised over 8 years on a straight line basis.

The amortisation of Intangible Assets are included under the Operating Expenses in the Income Statement.

20. DEPOSITS

	2008 Rs.	2007 Rs.
Local Currency Deposits		
Current Accounts Deposits	2,180,472,540	2,248,071,673
Savings Deposits	1,377,185,436	1,011,678,998
Time Deposits	7,255,138,779	6,266,932,600
Certificates of Deposits	1,844,604,202	1,166,660,199
Margin Deposits	243,100,484	323,060,269
	<u>12,900,501,441</u>	<u>11,016,403,739</u>
Foreign Currency Deposits		
Current Accounts Deposits	118,514,413	119,000,918
Savings Deposits	850,770,646	332,649,951
Time Deposits	578,577,698	661,664,286
Margin Deposits	2,830	494,489
	<u>1,547,865,587</u>	<u>1,113,809,644</u>
	<u>14,448,367,028</u>	<u>12,130,213,383</u>

21. BORROWINGS

	2008 Rs.	2007 Rs.
Call Money Borrowings	-	43,460,000
Borrowings under Repurchase Agreement	1,280,504,476	296,602,248
Other Borrowings From Banks	20,475,375	32,103,075
Borrowing under Commercial Paper	44,105,781	58,921,554
	<u>1,345,085,632</u>	<u>431,086,877</u>

22. OTHER LIABILITIES

	2008 Rs.	2007 Rs.
Cheques Pending Realisation	340,003,497	331,590,398
Accrued Expenditure and Interest	502,723,329	393,262,001
Claims Payable	289,457,096	202,599,928
Other Deferred Liability - Gratuity (Note 22.1)	28,261,498	25,388,150
Other Creditors	96,100,762	81,776,425
	<u>1,256,546,182</u>	<u>1,034,616,902</u>

22.1 An actuarial valuation of the employee benefit liability scheme was carried out as at 31st December 2008 by Messrs. Actuarial & Management Consultants (Pvt) Ltd. The valuation has been carried out based on the projected unit credit method as per the Sri Lanka Accounting Standard No.16 on Employee Benefits.

Principal Actuarial Assumptions

The principal financial assumptions used in the valuation are as follows,

Long Term Rate of Interest 12% per annum

Future Salary Increases 10% per annum

The demographic assumptions underlying the valuation are retirement age (55 years), early withdrawal from service, retirement on medical grounds, death before and after retirement, etc.

23. DEBENTURES

	2008 Rs.	2007 Rs.
Unsecured Redeemable Subordinated Unlisted Debentures	-	253,789,000
Unsecured Redeemable Subordinated Unlisted Debentures (Note 23.1)	50,000,000	50,000,000
Advance Received on Proposed Debentures (Note 23.2)	60,810,000	-
	<u>110,810,000</u>	<u>303,789,000</u>

23.1 Terms of Debentures

Par Value : Rs. 1,000/-

Tenure : 5 Years (2006 to 2011)

Interest Rate : 3% per annum above the weighted average of one year Treasury Bill rate

Interest Payment : Quarterly

Notes to the Financial Statements

Year ended 31 December 2008

23.2 At the Board Meeting held on 17th December 2008, the Board of Directors approved a 5 year Debenture Issue in order to raise up to Rs. 250Mn. Advances received in respect of the proposed debenture issue amounting to Rs. 60,810,000/- has been offered an interest rate of 20% per annum.

24. STATED CAPITAL

	2008		2007	
	Number	Rs.	Number	Rs.
Fully Paid Ordinary Shares	110,640,407	1,106,404,070	110,640,407	1,106,404,070
	<u>110,640,407</u>	<u>1,106,404,070</u>	<u>110,640,407</u>	<u>1,106,404,070</u>

25. STATUTORY RESERVE FUND

	2008 Rs.	2007 Rs.
Balance as at the beginning of the year	31,264,743	20,461,000
Transferred during the year		
5% of Net Profit after Taxation	11,181,671	10,803,743
Balance as at the end of the year	<u>42,446,414</u>	<u>31,264,743</u>

Five per cent of profits after tax is transferred to the Reserve Fund as required by Section 20 (1) of the Banking Act No. 30 of 1988. This Reserve Fund will be used only for the purposes specified in Section 20 (2) of the Banking Act No. 30 of 1988.

26. REVALUATION RESERVE

	2008 Rs.	2007 Rs.
On: Property, Plant and Equipment		
Balance as at the beginning of the year	25,592,497	32,087,700
Disposal/Excess depreciation transferred to Retained Earnings	(7,735,289)	(6,495,203)
Balance as at the end of the year	<u>17,857,208</u>	<u>25,592,497</u>

27. DIVIDENDS

	2008 Rs.	2007 Rs.
Declared and paid during the year		
Equity dividends on Ordinary shares :		
Final dividend for 2007 : Rs. 0.75 per share	82,980,305	-
	<u>82,980,305</u>	<u>-</u>

28. GROSS INCOME

	2008 Rs.	2007 Rs.
Gross Income	3,241,156,951	2,317,142,661
Interest Income (Note 29)	2,864,603,074	1,968,545,297
Other Income (Note 31)	376,553,877	348,597,364
	<u>3,241,156,951</u>	<u>2,317,142,661</u>

29. INTEREST INCOME

	2008 Rs.	2007 Rs.
Loans and Advances	2,148,535,244	1,592,396,351
Treasury Bills/Bonds and Placements with Other Banks	564,689,485	238,137,206
Interest from Leases	143,606,182	126,846,489
Other Interest Income	7,772,163	11,165,251
	<u>2,864,603,074</u>	<u>1,968,545,297</u>

30. INTEREST EXPENSE

	2008 Rs.	2007 Rs.
Customer Deposits	1,471,146,333	987,022,705
Borrowings - Banks	76,038,287	56,212,810
- Others	192,820,829	127,062,453
Debentures	58,436,967	53,235,922
	<u>1,798,442,416</u>	<u>1,223,533,890</u>

Notes to the Financial Statements

Year ended 31 December 2008

31. OTHER INCOME

	2008 Rs.	2007 Rs.
Fee and Commission Income	284,651,199	249,695,313
Net Foreign Exchange Gain	71,865,516	90,245,637
Other Operating Income	9,015,496	8,656,414
Gain from Treasury Bills/Bonds held for Trading	11,021,666	-
	<u>376,553,877</u>	<u>348,597,364</u>

32. PROFIT BEFORE VALUE ADDED TAX

	2008 Rs.	2007 Rs.
Stated after charging/(crediting)		
Directors' Emoluments	10,456,594	12,788,652
Auditors' Fees and Expenses - Current Year	1,515,000	1,425,000
- Under/(Over) Provision in respect of Previous Year	220,116	23,625
Depreciation	58,019,867	46,130,808
Amortisation of Intangible Assets	6,251,664	7,582,325
Expenses on Litigation	1,687,464	1,518,743
Defined Contribution Costs - EPF & ETF	35,886,008	26,044,370
Defined Benefit Plans - Gratuity	10,665,750	8,200,250
Advertising and Business Promotion	<u>27,422,322</u>	<u>12,442,254</u>

33. TAX EXPENSE

	2008 Rs.	2007 Rs.
Tax based on Profits for the year (Note 33.1)	184,428,810	92,960,745
Charge in respect of Deferred Taxation (Note 34.1)	<u>13,775,038</u>	<u>7,751,637</u>
	<u>198,203,848</u>	<u>100,712,382</u>

33.1 Reconciliation between Current Tax Expense and the product of Accounting Profit

	2008 Rs.	2007 Rs.
Accounting Profit (Profit before Tax)	421,837,268	316,787,244
Aggregate Disallowed items	656,076,019	573,515,913
Aggregate Allowable Expenses	(476,153,621)	(434,438,175)
Income not subject to Tax	(23,652,236)	(31,063,406)
Taxable Profit	578,107,430	424,801,576
Tax Losses Brought Forward and Utilised	(32,997,645)	(148,680,552)
	545,109,785	276,121,024
Statutory Tax Rate %	33.33%	20% - 33.33%
Current Income Tax Expense (Provisional)	184,428,810	92,960,745
(Includes Social Responsibility Levy of 1.5% on the Income Tax Expense.) (2007 - 1%)		
Carried forward tax losses (Provisional)	-	(32,997,645)

34. DEFERRED TAX LIABILITY

	2008 Rs.	2007 Rs.
34.1 Movement in Deferred Taxation		
Balance as at the beginning of the year	41,831,637	34,080,000
Charge for the year (Note 33)	13,775,038	7,751,637
Balance as at the end of the year	55,606,675	41,831,637
34.2 Deferred Tax Liability		
Accelerated depreciation allowances for tax purposes		
- Lease Rentals Receivable	19,086,211	19,665,137
Accelerated depreciation allowances for tax purposes		
- Property, Plant and Equipment	41,804,870	41,506,006
Accelerated depreciation allowances for tax purposes		
- Intangible Assets	4,135,151	5,520,479
General Provision for Loans and Advances, Bills of Exchange and Lease Receivables	-	(5,400,000)
Defined Benefit Plan Liability	(9,419,557)	(8,461,870)
	55,606,675	52,829,752
Effect from Carried Forward Tax Losses	-	(10,998,115)
Net Deferred Tax Liability	55,606,675	41,831,637

Notes to the Financial Statements

Year ended 31 December 2008

35. EARNINGS PER SHARE

35.1 Basic Earnings Per Share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

35.2 The following reflects the income and share data used in the basic Earnings Per Share computation.

	2008 Rs.	2007 Rs.
Amount Used as the Numerator:		
Net Profit attributable to Ordinary Shareholders for basic Earnings Per Share	223,633,420	216,074,862
Number of Ordinary Shares Used as Denominator:		
Weighted Average number of Ordinary Shares in issue applicable to basic Earnings Per Share	110,640,407	110,640,407

36. COMMITMENTS AND CONTINGENCIES

36.1 Contingencies

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	2008 Rs.	2007 Rs.
Guarantees	1,655,546,946	1,411,802,775
Documentary Credit	1,118,897,399	883,028,528
Forward Exchange Contracts (Net)	(1,641,672)	1,824,616
	<u>2,772,802,673</u>	<u>2,296,655,919</u>

36.2 Capital Expenditure Commitments

The Bank does not have significant capital commitments as at the Balance Sheet date.

36.3 Material Litigation Against the Bank

1. Cases regarding Nipuna Telecommunication (Pvt) Ltd

Case No. High Court of Colombo -H C (Civil) 42/2002 (1)

Supreme Court - S C CHC Appeal 36/2006

The Bank has issued a guarantee to Telecommunication Consultants India Ltd,(TCIL) on behalf of the Nipuna Telecommunication (Pvt) Ltd on which a claim of Rs. 8,964,428/- was made to the Bank. Nipuna filed a case and obtained an enjoining order enjoining the Bank from paying. The trial took many years and finally Nipuna and TCIL by joint motion withdrew the case.

The Bank had a suspicion of collusion between the parties to defraud the Bank, hence the payment was not made. Against that TCIL filed the above case. On 02/06/2006 the High Court pronounced the judgment as prayed for by TCIL.

The Bank has already filed papers in the Supreme Court appealing against the said Order. A calling date has not yet been given by the Court and the Bank is of the opinion that the High Court judgment can be reversed due to collusion on the part of TCIL and Nipuna to defraud the Bank.

2. *Cases relating to Partners of Sanila Marketing*

The Bank has granted credit facilities to the Partners of Sanila Marketing, secured by Bank Guarantees and lien over fixed deposits. When the Bank claimed on the said Bank Guarantees, several Multipurpose Co-operative societies and individuals claiming to be the Agents of the said Partners of Sanila Marketing, obtained enjoining orders against the Bank from claiming and receiving monies on the said Bank Guarantees.

The Bank filed papers against the said cases and after the vacation of the enjoining orders, received an aggregate sum of Rs 10Mn on the respective Bank Guarantees relating to District Court Trincomalee Case No. 1401/03 (filed by Kantalai Multi Purpose Co-operative Society Ltd), District Court of Colombo Case No 6843/Spl (filed by N H V S R Nanayakkara), District Court of Nugegoda Case No.343/08 (filed by Maharagama Multi Purpose Co-operative Society Ltd), District Court of Nuwara-Eliya case No M/2340 (new case) District Court of Colombo Case No.47107/MR (filed by New Thalawakele Multi Purpose Co-operative Society Ltd), District Court of Mt. Lavinia case No 766/03/Spl (filed by H P C K Jayaratne), District Court of Homagama case No 7066/Spl (filed by M S Mazerdon and others), District Court Kandy Case No. X12785 (filed by Kandy Multi Purpose Co-operative Society Ltd), District Court of Mt Lavinia case No 762/03/Spl (new case No D.C. Nugegoda 66/08) (filed by Bentota Multi Purpose Co-operative Society Ltd).

However the Bank is yet to receive an aggregate sum of Rs.2.5 Mn due on two Bank Guarantees relating to the following cases :

- (i) District Court of Matara Case No.510/Spl (filed by Dickwella Multi Purpose Co-operative Society Ltd). The Court has issued an Interim Injunction restraining the Bank from receiving monies on the Bank Guarantee. The case is fixed for trial on 02/03/2009.
- (ii) District Court of Colombo 7172/ Spl (filed by Galle Multi Purpose Co-operative Society Ltd). The Court has issued an Interim Injunction restraining the Bank from claiming and receiving monies on the Bank Guarantee. The Bank has appealed against the said Order (Court of Appeal Case No. CALA 455/2005). The said appeal is fixed for oral submissions on 13/03/2009.

3. *Cases regarding Transwater Engineering (Pvt) Ltd.*

The Bank has issued an Advance Payment Guarantee in favour of the Provincial Road Development Authority – Western Province (PRDA) in a sum of Rs 34,803,247/-. The PRDA claimed on the said Guarantee and the customer obtained an enjoining order (H C (Civil) 266/2006 (1)), enjoining the Bank from honouring the claim. Subsequently the said enjoining order was vacated. However the payment was not made by the Bank on the basis that the claim on the said Guarantee is invalid as per the terms of the said Guarantee and of no force in Law. The said case is due to be called on 29/05/2009, since the customer and the PRDA have initiated Arbitration proceedings to resolve the issue.

Notes to the Financial Statements

Year ended 31 December 2008

At the same time the customer has filed a case bearing No H C (Civil) Case No. 78/2007 /MR, seeking a declaration from the High Court that the said claim on the Guarantee is invalid. The case is fixed for trial on 12/02/2009.

The PRDA has also filed an action bearing No H C (Civil) Case No. 220/2008/MR, seeking a mandatory Injunction against the Bank, directing the Bank to make the payment on the Guarantee. The said application has been dismissed and the case is to be called on 27/04/2009 due to the appeal lodged by the PRDA against the said order.(SC (CHC) 26/2008). The leave to proceed has been granted in the said leave to appeal application and the case is fixed for Argument on 01/04/2009 in the Supreme Court.

4. *Oveseas Reality Case No. H C (Civil) 118/99 (1)*

This case was filed by the Bank to recover the security deposit of Rs. 4,767,552/- and pro-rata rent in advance of Rs.1,068,030/98 for the 9th floor of the World Trade Centre. Leading of evidence of both parties concluded. The case is now fixed for 27/02/2009 for written Submissions.

37. MATURITY ANALYSIS

An analysis of the total Assets and Liabilities based on the remaining period as at the Balance Sheet date to the respective contractual maturity dates are as follows:

	Upto 3 months	3 to 12 months	1 to 3 Years	3 to 5 Years	Over 5 Years	Total	
	Rs.	Rs.	Rs.	Rs.	Rs.	2008	2007
						Rs.	Rs.
Interest Bearing Assets							
Bills of Exchange	317,954,879	5,144,821	4,763,621	3,066,050	659,647	331,589,018	363,926,992
Loans and Advances	5,905,510,220	1,558,916,592	1,418,476,454	1,856,045,686	429,031,426	11,167,980,378	9,117,970,059
Lease Receivable	44,900,300	213,920,108	348,591,866	38,345,968	-	645,758,242	822,708,152
Balances with Foreign Banks	423,213,587	-	-	-	-	423,213,587	106,045,508
Short Term Funds (Placements)	59,156,580	-	-	-	-	59,156,580	418,301,525
Treasury Bills/Bonds/Com Paper	682,634,713	1,343,669,591	1,263,641,648	184,168,622	-	3,474,114,574	2,149,993,489
Investment Securities	374,300,000	57,520,000	60,300,000	-	2,140,000	494,260,000	-
	<u>7,807,670,279</u>	<u>3,179,171,112</u>	<u>3,095,773,589</u>	<u>2,081,626,326</u>	<u>431,831,073</u>	<u>16,596,072,379</u>	<u>12,978,945,725</u>
Non-Interest Bearing Assets							
Cash in Hand	420,719,610	-	-	-	-	420,719,610	506,284,277
Statutory Deposit with CBSL	704,589,138	-	-	-	-	704,589,138	856,275,821
Investment Securities	-	-	-	-	-	-	3,140,000
Property, Plant and Equipment	-	-	-	-	587,167,850	587,167,850	552,384,348
Intangible Assets	-	-	-	-	31,718,920	31,718,920	16,563,092
Other Assets and Interest Receivables	589,549,644	27,563,927	-	-	26,958,847	644,072,418	612,106,318
	<u>1,714,858,392</u>	<u>27,563,927</u>	<u>-</u>	<u>-</u>	<u>645,845,617</u>	<u>2,388,267,936</u>	<u>2,546,753,856</u>
TOTAL ASSETS	<u>9,522,528,671</u>	<u>3,206,735,039</u>	<u>3,095,773,589</u>	<u>2,081,626,326</u>	<u>1,077,676,690</u>	<u>18,984,340,315</u>	<u>15,525,699,581</u>
Interest Bearing Liabilities							
Deposits	7,774,409,050	2,907,770,130	625,648,950	442,266,519	238,075,172	11,988,169,821	9,441,947,851
Borrowings including due to Foreign Banks	1,267,533,864	117,580,100	12,148,656	2,340,000	-	1,399,602,620	505,248,578
Debentures	-	-	50,000,000	60,810,000	-	110,810,000	303,789,000
	<u>9,041,942,914</u>	<u>3,025,350,230</u>	<u>687,797,606</u>	<u>505,416,519</u>	<u>238,075,172</u>	<u>13,498,582,441</u>	<u>10,250,985,429</u>
Non-Interest Bearing Liabilities							
Deposits	970,464,240	492,039,442	221,709,672	221,709,672	554,274,181	2,460,197,207	2,688,265,532
Other Liabilities and Tax Payable	1,007,880,574	335,506,950	19,223,065	15,204,757	55,901,414	1,433,716,760	1,135,257,828
Shareholders' Funds	-	-	-	-	1,591,843,907	1,591,843,907	1,451,190,792
	<u>1,978,344,814</u>	<u>827,546,392</u>	<u>240,932,737</u>	<u>236,914,429</u>	<u>2,202,019,502</u>	<u>5,485,757,874</u>	<u>5,274,714,152</u>
TOTAL LIABILITIES	<u>11,020,287,728</u>	<u>3,852,896,622</u>	<u>928,730,343</u>	<u>742,330,948</u>	<u>2,440,094,674</u>	<u>18,984,340,315</u>	<u>15,525,699,581</u>

Notes to the Financial Statements

Year ended 31 December 2008

38. RELATED PARTY TRANSACTIONS

	2008 Rs.	2007 Rs.
38.1 Compensation to Key Management Personnel (*)		
Emoluments / Fees / Salaries	10,456,594	12,788,652
Ex-Gratia Payments	4,179,100	775,000
Post employment benefits	2,116,000	723,600
Total compensation paid to key management personnel	16,751,694	14,287,252

(*) Key management personnel include the Board of Directors of the Bank and Chief Executive Officer of the Bank.

38.2. Transactions, arrangements and agreements involving Key Management Personnel

	Key Management Personnel and Close Family Members		Personnel have control/ joint control or Significant Influence	
	2008 Rs.	2007 Rs.	2008 Rs.	2007 Rs.
Balance Sheet				
Assets				
Loans and Advances	12,000,000	2,087,164	204,717,244	95,654,598
Credit Cards	228,000	595,530	-	-
Interest Income	242,248	108,066	28,716,506	15,359,060
Liabilities				
Deposits	102,244,797	76,315,160	279,491,514	153,857,645
Interest Expenditure	10,384,227	6,267,637	3,104,607	12,300,716
Off Balance Sheet Items				
Guarantees, Letter of Credit and Others	-	-	66,930,000	215,461,772

39. POST BALANCE SHEET EVENTS

There are no material events subsequent to Balance Sheet date that warrant adjustment or disclosure to the Financial Statements.

40. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements in respect of 2007 are amended for comparability with the current year.

	As reported previously 2007 Rs.	Increase Rs.	Decrease Rs.	Current Presentation 2007 Rs.
Balance Sheet				
Government Treasury				
Bills / Bonds (a)	1,979,993,489	-	(570,412,500)	1,409,580,989
Loans and Advances (b)	9,117,970,059	52,700,869	-	9,170,670,928
Interest Receivable (b)	125,743,383	-	(52,700,869)	73,042,514
Investment Securities (a)	3,140,000	570,412,500	-	573,552,500
Income Statement				
Operating Expenses (c)	199,339,052	-	(19,304,432)	180,034,620
Personnel Costs (c)	217,161,714	29,203,353	-	246,365,067
Premises, Equipment and Establishment Expenses (c)	204,876,921	-	(9,898,921)	194,978,000
Cash Flow Statement				
Cash Payments to				
Employees and Suppliers (d)	377,307,930	19,304,432	-	396,612,362
Payments on				
Other Operating Activities (d)	286,201,915	-	(19,304,432)	266,897,483
	<u>12,511,734,463</u>	<u>671,621,154</u>	<u>(671,621,154)</u>	<u>12,511,734,463</u>

Reasons for the Change in Presentation and Classification

- a) Investment Securities - Sri Lanka Development Bonds have been reclassified under Investment securities for fair presentation.
- b) Interest receivable for Loans and Advances previously presented separately have been reclassified and included under respective account balances.
- c) Expenses where necessary have been reclassified in order to fairly present to the expense category.
- d) Due to effects mentioned above, the comparatives of the Cash Flow Statement have also been adjusted.

Capital Adequacy Computation

Capital Base as at 31st December	2008 (Basel II) (Rs' 000)	2007 (Basel I) (Rs' 000)
TIER 1		
Paid up Ordinary Shares	1,106,404	1,106,404
Share Premium	-	-
Statutory Reserve Fund	42,446	31,265
Published Retained Profits	425,136	287,929
General & Other Reserves	-	-
Total Tier 1 Capital	1,573,986	1,425,598
TIER 2		
Revaluation Reserves	-	-
General Provisions	64,191	32,439
Debentures	26,667	83,195
Total Tier 2 Capital	90,858	115,634
Total Tier 1 & Tier 2 Capital	1,664,844	1,541,232
Capital Base	1,664,844	1,541,232
COMPUTATION OF RATIOS		
Core Capital (Tier 1)	1,573,986	1,425,598
Total Capital Base	1,664,844	1,541,232
Risk Weighted Assets		
Risk Weighted amount for Credit Risk	9,745,687	9,347,396
Risk Weighted amount for Market Risk	444,230	207,810
Risk Weighted amount for Operational Risk	1,681,583	-
Total Risk Weighted amount	11,871,500	9,555,206
Core Capital Ratio (Minimum Requirement 5%)		
Total Tier - 1 Capital	1,573,986	1,425,598
Total Risk Weighted amount	11,871,500	9,555,206
	13.26%	14.92%
Total Capital Ratio (Minimum Requirement 10%)		
Total Capital	1,664,844	1,541,232
Total Risk Weighted amount	11,871,500	9,555,206
	14.02%	16.13%

**COMPUTATION OF RISK WEIGHTED ASSETS - 2008 (BASEL II)
ON BALANCE SHEET EXPOSURE**

CREDIT RISK

	Balance	Risk	Risk Adjusted
As at 31st December	(Rs' 000)	Weights	Balance
		%	(Rs' 000)
ASSETS - exposures			
- To Central Government and CBSL	4,658,738	-	-
- To Banks	482,370	20 - 150	140,273
- To Financial Institutions	384,727	20 - 150	219,775
- To Corporates	3,108,826	20 - 150	3,108,826
- To Retail Sector	3,487,772	75 - 100	3,076,874
- Secured on Residential property mortgages	124,210	50 - 100	62,105
- Classified as Non Performing Advances	935,658	50 - 150	1,319,285
- Claims Secured by Commercial real Estate	168,639	100	168,639
- Cash Items	476,494	0 - 20	11,155
- Other Assets	755,053	100	755,053
Total Assets	14,582,487		8,861,985

OFF BALANCE SHEET EXPOSURE

	Amount of	Credit	Credit	Risk	Risk
As at 31st December	Off - Balance	Conversion	Equivalent	Weights	Adjusted
	sheet items	Factor	Amount	%	Balance
	(Rs' 000)	%	(Rs' 000)		(Rs' 000)
Financial guarantees, Bank acceptances and other guarantees	483,571	100	483,571	0 - 100	483,571
Performance related guarantees and warranties, stand by credit lines	145,323	50	72,662	0 - 100	72,662
Shipping guarantees, Documentary Letter of Credit	1,637,347	20	327,469	0 - 100	327,469
Undrawn term and overdraft facilities < 1 year	1,856,426	0	-	0 - 100	-
>1 year	-	-	-	0 - 100	-
Foreign Exchange Contracts	-	2	-	0 - 100	-
Interest Rate Contracts	-	2	-	0 - 100	-
Total Off-Balance Sheet exposures	4,122,667		883,702		883,702

Capital Adequacy Computation

MARKET RISK

	Capital charge	Risk Adjusted Balance
As at 31st December	(Rs' 000)	(Rs' 000)
Interest rate	41,846	418,460
Equity	-	-
Foreign Exchange & Gold	2,577	25,770
Total risk adjusted balance for market risk	44,423	444,230

OPERATIONAL RISK

	Capital charge	Risk Adjusted Balance
As at 31st December	(Rs' 000)	(Rs' 000)
Average Gross income	1,121,056	
15% of Average Gross income	168,158	
Total risk adjusted balance for operational risk	168,158	1,681,583

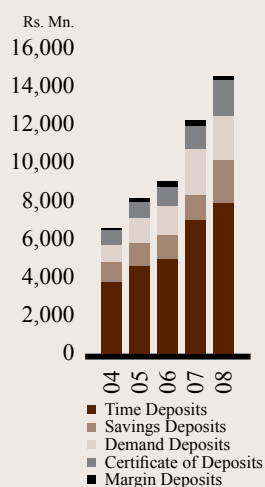
Quarterly Statistics

<i>For the Quarter ended</i>	2008				2007
	March 31,	June 30,	September 30,	December 31,	December 31,
BALANCE SHEET DATA					
Total Assets	17,031,576,405	17,378,492,988	17,569,488,123	18,984,340,315	15,525,699,581
Loans, Bills & Leases	10,425,760,198	10,522,590,897	11,201,006,517	12,145,327,638	10,357,306,072
Deposits	11,659,624,856	12,388,406,176	12,801,057,938	14,448,367,028	12,130,213,383
Debentures	303,789,000	303,789,000	303,789,000	110,810,000	303,789,000
Shareholders' Funds	1,517,559,359	1,480,915,588	1,527,129,585	1,591,843,907	1,451,190,792
Average Assets	16,429,992,841	16,907,422,726	17,324,508,964	18,855,727,334	15,128,570,057
OPERATING RESULTS					
Net Interest Income	232,386,977	242,649,267	274,429,442	316,694,972	237,409,282
Foreign Exchange Income	23,570,578	21,913,053	17,760,131	8,621,754	10,549,117
Fee based Income	70,942,100	72,256,144	73,995,432	87,494,685	71,719,054
Total Revenue	326,899,655	336,818,464	366,185,005	412,811,411	319,677,453
Provision for Credit and Other Losses	(14,640,950)	(14,067,761)	(31,889,635)	(34,852,175)	(32,436,876)
Non-Interest Expenses	(199,930,507)	(232,284,995)	(246,282,787)	(246,928,457)	(194,590,206)
Provision for Income Tax	(45,959,632)	(44,129,173)	(41,798,586)	(66,316,457)	(6,999,812)
Net Profit after Tax	66,368,566	46,336,535	46,213,997	64,714,322	85,650,559

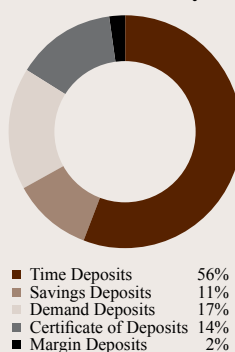
Analysis of Deposits

	2008 Rs.	2007 Rs.	2006 Rs.	2005 Rs.	2004 Rs.
LOCAL CURRENCY DEPOSITS					
Demand Deposits	2,180,472,540	2,248,071,673	1,407,646,138	1,140,216,133	706,757,941
Savings Deposits	1,377,185,436	1,011,678,998	805,864,669	697,340,643	607,961,639
Time Deposits	7,255,138,779	6,266,932,600	4,381,463,205	4,139,001,485	3,280,222,413
Certificate of Deposits	1,844,604,202	1,166,660,199	1,003,051,323	785,427,533	819,584,200
Savings Certificates	-	-	-	11,682	71,863
Margin Deposits	243,100,484	323,060,269	297,095,581	244,572,375	99,417,576
	12,900,501,441	11,016,403,739	7,895,120,916	7,006,569,851	5,514,015,632
FOREIGN CURRENCY DEPOSITS					
Demand Deposits	118,514,413	119,000,918	74,078,388	177,647,272	181,739,717
Savings Deposits	850,770,646	332,649,951	439,995,991	489,722,339	430,984,673
Time Deposits	578,577,698	661,664,286	548,905,346	422,412,723	426,807,942
Margin Deposits	2,830	494,489	4,792,195	4,364,306	3,638,130
	1,547,865,587	1,113,809,644	1,067,771,920	1,094,146,640	1,043,170,462
Total Deposits	14,448,367,028	12,130,213,383	8,962,892,836	8,100,716,491	6,557,186,094

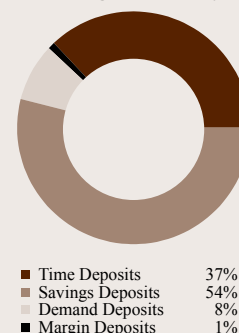
Composition of Deposits



Local Currency



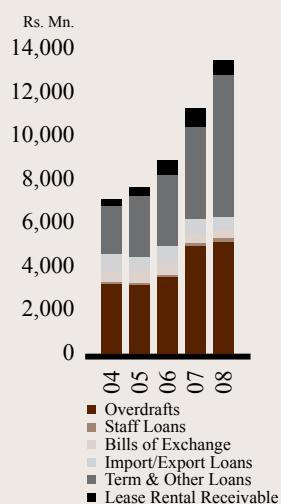
Foreign Currency



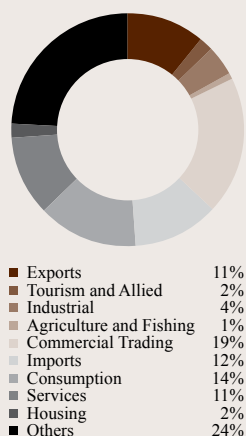
Analysis of Advances

	2008 Rs.	2007 Rs.	2006 Rs.	2005 Rs.	2004 Rs.
LOANS AND ADVANCES					
Overdrafts	5,066,498,157	4,886,140,822	3,470,244,549	3,116,597,987	3,188,892,786
Import Loans	404,187,072	493,202,365	460,177,352	346,301,847	482,179,502
Export Loans	169,061,576	222,302,073	291,992,815	316,297,187	291,604,542
Term Loans	5,407,378,033	3,594,608,399	2,735,403,778	2,422,876,467	2,024,591,456
Pawning	698,777,598	336,074,854	327,644,668	236,212,088	125,974,435
Staff Loans	183,304,818	154,013,864	125,270,568	92,448,603	90,432,584
Credit Card Advances	389,464,158	264,845,844	175,910,060	114,332,391	72,190,886
	<u>12,318,671,412</u>	<u>9,951,188,221</u>	<u>7,586,643,790</u>	<u>6,645,066,570</u>	<u>6,275,866,191</u>
Bills of Exchange	382,566,796	397,508,164	540,293,745	546,166,223	472,954,212
Lease Rental Receivable	688,625,009	848,395,516	709,616,707	387,641,440	281,409,748
Total Loans and Advances	<u>13,389,863,217</u>	<u>11,197,091,901</u>	<u>8,836,554,242</u>	<u>7,578,874,233</u>	<u>7,030,230,151</u>

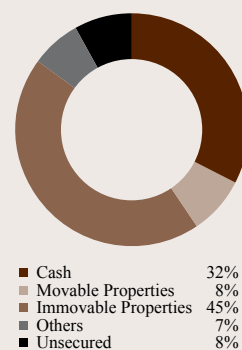
Analysis of Advances



Advances by Sector

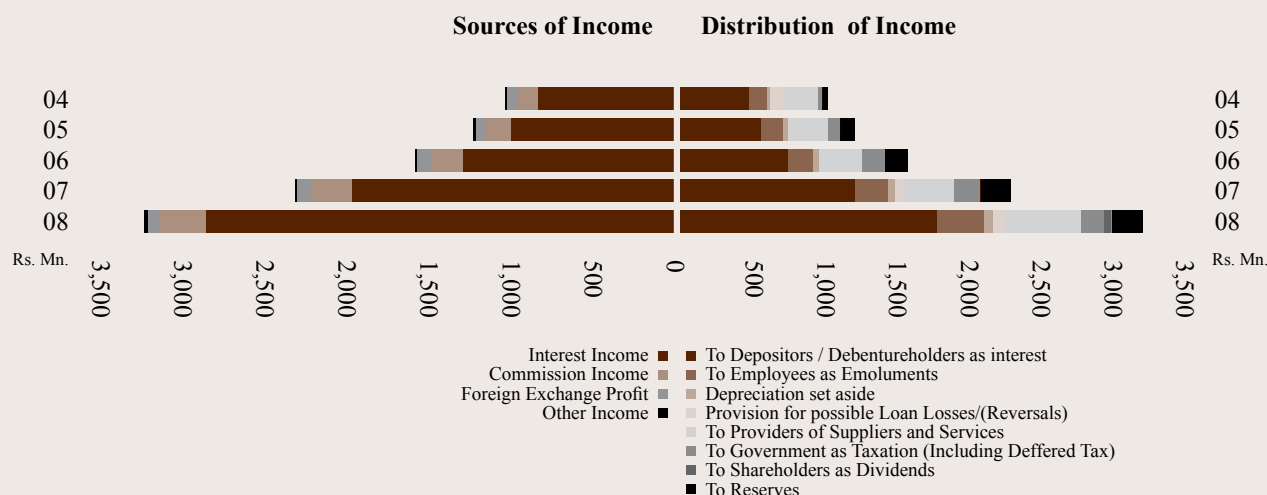


Advances by Security



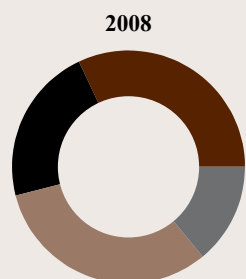
Sources & Distribution of Income

	2008 Rs. Mn	2007 Rs. Mn	2006 Rs. Mn	2005 Rs. Mn	2004 Rs. Mn
SOURCES OF INCOME					
Interest Income	2,865	1,969	1,289	993	832
Commission	285	250	193	158	126
Foreign Exchange	72	90	91	59	61
Other Income	20	9	8	15	13
	<u>3,242</u>	<u>2,318</u>	<u>1,581</u>	<u>1,225</u>	<u>1,032</u>
DISTRIBUTION OF INCOME					
To Depositors / Debentureholders as interest	1,798	1,224	754	566	477
To Employees as Emoluments	323	255	175	153	128
Depreciation set aside	64	54	38	35	25
Provision for possible loan losses/(Reversals)	95	60	(12)	16	89
To Providers of Suppliers and Services	401	321	305	264	243
To Government as Taxation (Including Deffered Tax)	337	188	157	83	29
Income Tax	198	101	86	44	14
Value Added Tax	133	84	70	39	15
Debit Tax	6	3	1	-	-
To Shareholders as Dividends	83	-	-	-	-
To Reserves	141	216	164	108	41
	<u>3,242</u>	<u>2,318</u>	<u>1,581</u>	<u>1,225</u>	<u>1,032</u>

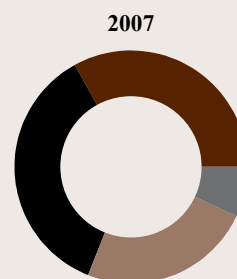


Value Added Statement

	2008 Rs. '000	%	2007 Rs. '000	%
VALUE ADDED				
Income from Banking Services	3,241,157		2,317,143	
Cost of Services	(2,138,976)		(1,491,858)	
Value added by Banking Services	1,102,181		825,285	
Loan Losses and Provisions	(95,451)		(63,687)	
Provision for other Losses	-		3,307	
	<u>1,006,730</u>		<u>764,905</u>	
DISTRIBUTION OF VALUE ADDED				
To Employees				
Salaries & Other Benefits	323,160	32.10%	254,565	33.28%
To Providers of Capital				
Dividends to Shareholders	82,980		-	
Interest to Debentureholders	58,437		53,236	
	<u>141,417</u>	14.05%	<u>53,236</u>	6.96%
To Government				
Income Tax	184,429		92,961	
Financial Value Added Tax	133,505		83,702	
Debit Tax	5,519		2,901	
	<u>323,453</u>	32.13%	<u>179,564</u>	23.48%
To Expansion & Growth				
Retained Profit	140,653		216,075	
Depreciation & Amortisation	64,272		53,713	
Deferred Taxation	13,775		7,752	
	<u>218,700</u>	21.72%	<u>277,540</u>	36.28%
	<u>1,006,730</u>	100.00%	<u>764,905</u>	100.00%



■ To Employees 32%
 ■ To Providers of Capital 14%
 ■ To Government 32%
 ■ To Expansion & Growth 22%



■ To Employees 33%
 ■ To Providers of Capital 7%
 ■ To Government 24%
 ■ To Expansion & Growth 36%

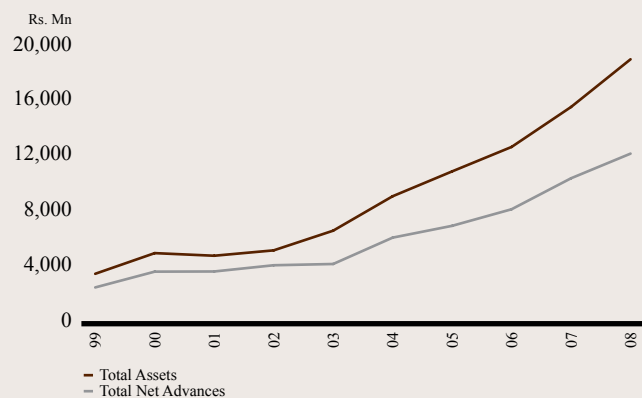
Ten Year Statistical Summary

Rs Million

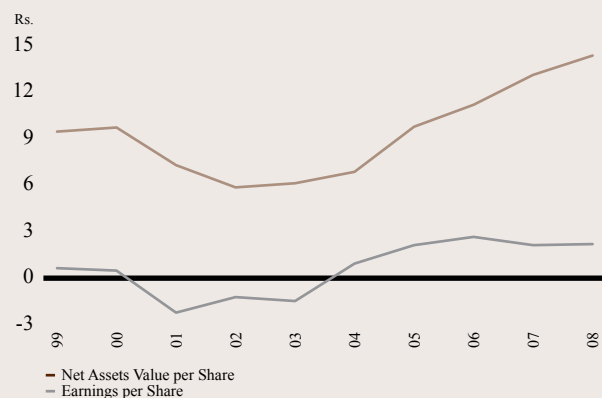
For the year ended December 31,	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
OPERATING RESULTS										
Income	477.42	669.04	846.12	750.36	752.53	1,033.03	1,224.66	1,580.84	2,317.15	3,241.16
Interest Income	395.26	552.75	720.22	650.71	631.83	832.41	993.03	1,289.08	1,968.55	2,864.60
Interest Expense	205.83	333.47	567.82	410.24	360.59	476.85	565.95	754.00	1,223.53	1,798.44
Net Interest Income	189.43	219.28	152.40	240.47	271.24	355.56	427.08	535.08	745.02	1,066.16
Exchange Income	25.90	42.56	42.50	27.36	32.57	61.49	58.70	90.88	90.25	71.87
Fee based Income	56.26	73.73	83.40	72.29	88.13	139.13	172.93	200.88	258.35	304.69
Operating Expenses & Provisions	231.43	321.90	445.16	421.26	487.29	501.32	506.48	576.67	776.83	1,020.88
Profit/(Loss) before Income Tax	40.16	13.67	(166.86)	(81.14)	(95.35)	54.86	152.23	250.17	316.79	421.84
Income tax on Profits	16.00	*1.80	*29.15	-	-	13.69	43.90	86.43	100.71	198.21
Net Profit for the Year	24.16	15.47	(137.71)	(81.14)	(95.35)	41.17	108.33	163.74	216.08	223.63
* Reversal of Timing Differences										
As at December 31,										
ASSETS										
Cash and Short Term Funds	319.12	501.71	276.46	307.91	310.91	663.78	780.64	863.85	1,030.63	903.09
Statutory Deposit with										
Central Bank of Sri Lanka	219.09	190.08	233.37	277.12	290.02	446.35	609.08	704.06	856.28	704.59
Government Treasury Bills / Bonds	109.86	204.08	229.40	120.66	1,424.75	1,426.72	1,865.81	1,679.06	1,409.58	3,424.11
Commercial Paper	-	-	-	-	14.88	-	-	-	170.00	50.00
Bills of Exchange	150.58	250.08	317.58	290.63	344.69	379.05	485.16	467.30	363.93	331.59
Loans and Advances	2,261.74	3,192.67	3,136.57	3,578.01	3,648.27	5,398.96	6,042.27	6,942.05	9,170.67	11,167.98
Lease Receivable	22.02	137.77	138.08	176.34	142.10	270.11	377.80	699.42	822.71	645.76
Investment Securities	0.14	0.14	15.14	16.14	1.14	1.14	1.14	269.77	573.55	494.26
Other Assets	141.00	230.12	208.39	206.66	260.25	303.01	486.76	470.44	559.41	644.07
Property Plant & Equipment	200.02	216.31	177.16	149.40	113.22	159.81	202.68	511.10	552.38	587.17
Intangible Assets	-	-	-	-	-	-	-	18.83	16.56	31.72
TOTAL ASSETS	3,423.57	4,922.96	4,732.15	5,122.87	6,550.23	9,048.93	10,851.34	12,625.88	15,525.70	18,984.34
LIABILITIES										
Customer Deposits	2,488.01	2,995.61	3,487.67	3,963.30	4,460.19	6,557.19	8,100.72	8,962.89	12,130.21	14,448.37
Borrowings & Due to Foreign Banks	103.72	314.56	486.86	359.55	1,041.06	1,370.29	1,142.51	1,281.92	505.25	1,399.60
Debentures	-	690.00	100.00	202.00	388.79	253.79	253.79	303.79	303.79	110.81
Other Liabilities	280.65	355.93	257.62	279.16	325.93	492.23	789.13	763.32	1,034.62	1,256.55
Taxation Payable	-	-	-	-	-	-	25.22	44.76	58.81	121.56
Deferred Taxation	30.95	29.15	-	-	-	-	-	34.08	41.83	55.61
Total	2,903.33	4,385.25	4,332.15	4,804.01	6,215.97	8,673.50	10,311.37	11,390.76	14,074.51	17,392.50
SHAREHOLDERS' FUNDS										
Stated Capital	442.97	444.97	444.97	444.98	555.72	555.72	555.72	1,106.40	1,106.40	1,106.40
Reserves	77.27	92.74	(44.97)	(126.12)	(221.46)	(180.29)	(15.75)	128.72	344.79	485.44
Total	520.24	537.71	400.00	318.86	334.26	375.43	539.97	1,235.12	1,451.19	1,591.84
TOTAL LIABILITIES & SHAREHOLDER'S FUNDS	3,423.57	4,922.96	4,732.15	5,122.87	6,550.23	9,048.93	10,851.34	12,625.88	15,525.70	18,984.34
COMMITMENTS & CONTINGENCIES	491.98	757.37	719.35	834.57	1,138.66	1,778.67	1,769.47	1,733.70	2,296.66	2,772.80
SHARE INFORMATION										
Earnings per Share	0.44	0.28	(2.48)	(1.46)	(1.72)	0.74	1.95	2.63	1.95	2.02
Net Assets Value per Share	9.40	9.67	7.20	5.74	6.01	6.76	9.72	11.16	13.12	14.39
OTHER INFORMATION										
No of Employees	200	295	306	283	289	371	394	433	546	507
No of Branches	7	12	12	13	16	18	18	19	27	32
Customer Service Centres	-	-	-	-	-	1	2	2	2	-

Graphical Review of Ten Year Statistical Summary

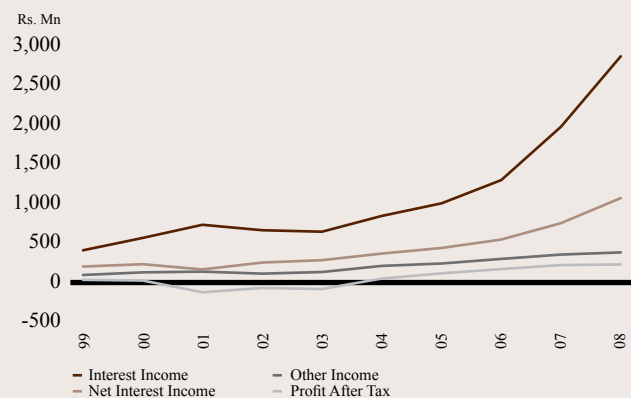
Asset Growth



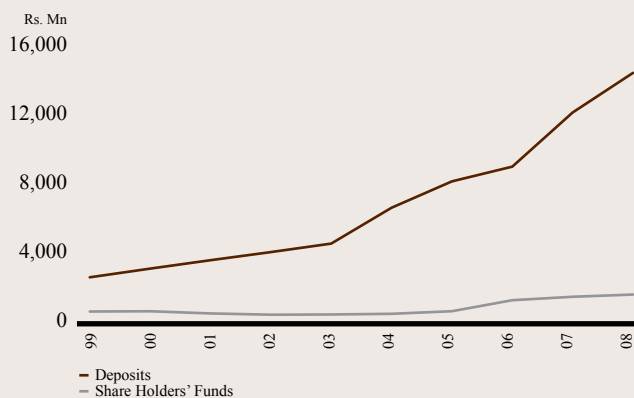
Information Per Share



Income and Profit



Deposits & Share Holders' Funds



Information of Shareholders

As at 31st December, 2008

Analysis 1		Resident			Non- Resident			Totals	
Range of Shareholding	No. of Share-Holders	No. of Shares	% .of Share-Holding	No. of Shares	No. of Shares	% of Share-Holding	No. of Share Holders	No. of Shares	% of Share-Holding
1 - 100	293	22,793	0.02%	0	0	0.00%	293	22,793	0.02%
101 - 1,000	569	355,097	0.32%	0	0	0.00%	569	355,097	0.32%
1,001 - 5,000	383	999,790	0.90%	4	10,201	0.01%	387	1,009,991	0.91%
5,001 - 10,000	98	794,900	0.72%	1	10,000	0.01%	99	804,900	0.73%
10,001 - 50,000	103	2,447,005	2.21%	4	82,825	0.07%	107	2,529,830	2.29%
50,001 - 100,000	16	1,285,100	1.16%	0	0	0.00%	16	1,285,100	1.16%
100,001 - 500,000	23	5,375,300	4.86%	1	261,700	0.24%	24	5,637,000	5.10%
500,001 - 1,000,000	9	6,628,200	5.99%	2	1,460,000	1.32%	11	8,088,200	7.31%
1,000,001 & Above	13	73,600,097	66.52%	5	17,307,399	15.64%	18	90,907,496	82.16%
TOTAL	<u>1,507</u>	<u>91,508,282</u>	<u>82.71%</u>	<u>17</u>	<u>19,132,125</u>	<u>17.29%</u>	<u>1,524</u>	<u>110,640,407</u>	<u>100.00%</u>

Analysis 2		Individual			Company			Totals	
Range of Shareholding	No. of Share-Holders	No. of Shares	% .of Share-Holding	No. of Shares	No. of Shares	% of Share-Holding	No. of Share Holders	No. of Shares	% of Share-Holding
1 - 100	289	22,393	0.02%	4	400	0.00%	293	22,793	0.02%
101 - 1,000	559	349,684	0.32%	10	5,413	0.00%	569	355,097	0.32%
1,001 - 5,000	376	972,791	0.88%	11	37,200	0.03%	387	1,009,991	0.91%
5,001 - 10,000	95	773,000	0.70%	4	31,900	0.03%	99	804,900	0.73%
10,001 - 50,000	92	2,187,030	1.98%	15	342,800	0.31%	107	2,529,830	2.29%
50,001 - 100,000	13	1,064,600	0.96%	3	220,500	0.20%	16	1,285,100	1.16%
100,001 - 500,000	17	4,015,000	3.63%	7	1,622,000	1.47%	24	5,637,000	5.10%
500,001 - 1,000,000	2	1,573,500	1.42%	9	6,514,700	5.89%	11	8,088,200	7.31%
1,000,001 & Above	9	66,478,533	60.09%	9	24,428,963	22.08%	18	90,907,496	82.16%
TOTAL	<u>1,452</u>	<u>77,436,531</u>	<u>69.99%</u>	<u>72</u>	<u>33,203,876</u>	<u>30.01%</u>	<u>1,524</u>	<u>110,640,407</u>	<u>100.00%</u>

As per the Rule No.8.7(h) of the Colombo Stock Exchange, percentage of public holding as at 31.12.2008 was 60.71%

	Resident/ Non Resident As At 31.12.2008			Resident/ Non Resident As At 31.12.2007		
	No. of Share-Holders	No. of Shares	% .of Share-Holding	No. of Share-Holders	No. of Shares	% .of Share-Holding
Resident Share Holders	1,507	91,508,282	82.71%	1,656	97,502,382	87.55%
Non Resident Share Holders	17	19,132,125	17.29%	21	13,138,025	12.45%
Total	<u>1,524</u>	<u>110,640,407</u>	<u>100.00%</u>	<u>1,677</u>	<u>110,640,407</u>	<u>100.00%</u>

	Individuals / Institutions As At 31.12.2008			Individuals / Institutions As At 31.12.2007		
	No. of Share-Holders	No. of Shares	% .of Share-Holding	No. of Share-Holders	No. of Shares	% .of Share-Holding
Individuals	1,452	77,436,531	69.99%	1,598	81,483,631	73.65%
Company	72	33,203,876	30.01%	79	29,156,776	26.35%
Total	<u>1,524</u>	<u>110,640,407</u>	<u>100.00%</u>	<u>1,677</u>	<u>110,640,407</u>	<u>100.00%</u>

Share Trading Market Prices

	Rs.
Highest price	15.25
Lowest price	9.50
Last traded price as at 31.12.2008	10.25

Top Twenty Shareholders

Year Ended 31 December, 2008

Name of Shareholder		No. of Shares	Holding as a %
1	Mr. K D D Perera	33,181,058	29.99
2	Mr. J D C Coonghe	8,285,376	7.49
3	HSBC Int'l NOM Ltd – UBS AG SINGAPORE Branch (EXSBC)	7,322,300	6.62
4	Mr. K D H Perera	5,826,500	5.27
5	Mr. P J Tay	5,479,499	4.95
6	Mr. K D A Perera	4,800,000	4.34
7	Mr. T Senthilverl	4,291,300	3.88
8	Michelangelo Footwear Limited	3,640,000	3.29
9	Sri Lanka Savings Bank	2,782,000	2.51
10	Samurdhi Authority of Sri Lanka	2,557,188	2.31
11	Jayes Trading Co (Pvt) Ltd	2,267,500	2.05
12	Mr. M. Sritharan	2,083,000	1.88
13	First Capital Markets Ltd/ Mr. W D N H Perera	1,601,875	1.45
14	Elgin Investments Ltd	1,575,600	1.42
15	Lizzola Holdings Limited	1,500,000	1.36
16	Mr. A M A R A Zalzalal	1,430,000	1.29
17	Bank of Ceylon A/C Ceybank Unit Trust	1,182,500	1.07
18	Mr. C T Maliduwapathirana	1,101,800	1.00
19	Favourite Garments Ltd	1,000,000	0.90
20	Alfred Edirisinghe Pvt Limited	850,000	0.77
Balance held by 1,504 shareholders		92,757,496	83.84
Total No. of shares		17,882,911	16.16
		<u>110,640,407</u>	<u>100.00</u>

Year Ended 31 December, 2007

Name of Shareholder		No. of Shares	Holding as a %
1	Mr. K D D Perera	33,181,058	29.99
2	Mr. J D C Coonghe	11,052,976	9.99
3	Mr. K D H Perera	5,826,500	5.27
4	Mr. P J Tay	5,479,499	4.95
5	Mr. K D A Perera	4,800,000	4.34
6	Mr. T Senthilverl	3,358,200	3.04
7	Pramuka Savings & Development Bank Ltd	2,782,000	2.51
8	Samurdhi Authority of Sri Lanka	2,557,188	2.31
9	Michelangelo Footwear Limited	2,480,000	2.24
10	Jayes Trading Co (Pvt) Ltd	2,267,500	2.05
11	Sandwave Limited	2,181,400	1.97
12	Mr. M. Sritharan	2,179,100	1.97
13	Elgin Investments Ltd	1,803,400	1.63
14	First Capital Markets Ltd/ Mr. W D N H Perera	1,776,875	1.61
15	Waldock Mackenzie Ltd/ Mr.L.T Samarawickrema	1,725,000	1.56
16	Mr. M P Jayasinghe	1,600,000	1.45
17	Lizzola Holdings Limited	1,500,000	1.36
18	Mr. A M A R A Zalzalal	1,430,000	1.29
19	Michelangelo Footwear (Private) Limited	1,160,000	1.05
20	Favourite Garments Ltd	1,000,000	0.90
Balance held by 1,657 shareholders		90,140,696	81.48
Total No. of shares		20,499,711	18.52
		<u>110,640,407</u>	<u>100.00</u>

Branch Network

ANURADHAPURA

49 Main Street, Anuradhapura
Tel: 025 2234775 | Fax: 025 2234763

BAMBALAPITIYA

329. Galle Road, Colombo 04
Tel: 2506822-4 | Fax: 2506825

BORELLA

996A Maradana Road, Colombo 08
Tel: 2696464 | Fax: 2696461

DAM STREET

22. Dam Street, Colombo 12
Tel: 2473788-9 | Fax: 2346052

DEHIWELA

104. Galle Road, Dehiwela
Tel: 2730626 / 2727660 | Fax: 2730624

GALLE

170 Main Street, Galle
Tel: 091 2226834 | Fax: 091 2226835

GAMPAHA

95. Colombo Road, Gampaha
Tel: 033 2220046-7 | Fax: 033 2220048

GAMPOLA

73E NuwaraEliya Road, Gampola
Tel: 081 2351222 | Fax: 081 2353998

KADAWATHA

138 Kandy Road, Kadawatha
Tel: 011 2925187 | Fax: 011 2925192

KANDY

111. Kotugodella Veediya, Kandy
Tel: 081 2232991-3 | Fax: 081 2232994

KATUGASTOTA

161. Madawala Road, Katugastota
Tel: 081 2500361 | Fax: 081 2500362

KEGALLE

72/74 Main Street Kegalle
Tel: 035 2221017 | Fax: 035 2221018

KIRULAPONE

100 High Level Road, Colombo 06
Tel: 2515226 | Fax: 2515227

KOLLUPITIYA

450. Galle Road, Colombo 03
Tel: 2565565 | Fax: 2301150

KOTAHENA

215A. George R. de Silva Mawatha,
Colombo 13
Tel: 2473528-9 | Fax: 2346066

KURUNEGALA

22 Suratissa Mawatha, Kurunegala
Tel: 037 2221729-30
Fax: 037-2221731

MAHARAGAMA

173/1 High Level Road, Maharagama
Tel: 2838396-8 | Fax: 2838397

MATARA

32B. Anagarika Dharmapala Mawatha,
Matara Tel: 041 2231361
Fax: 041 2231362

MORATUWA

18 New Galle Road Moratuwa
Tel: 2641352 | Fax: 2641354

NARAHENPITA

526. Elvitigala Mawatha, Colombo 05
Tel: 2368668 | Fax: 2368667

NEGOMBO

90. St. Joseph's Street, Negombo
Tel: 031 2231257-8 | Fax: 031 2231259

NUGEGODA

132C. High Level Road, Nugegoda
Tel: 2828225-6 | Fax: 2828228

OLD MOOR STREET

314, Old Moor Street, Colombo 12
Tel: 2473667-8 | Fax: 2392897

PANCHIKAWATTA

221/221A. Sri Sangaraja Mawatha
Colombo 10
Tel: 2447456-7 | Fax: 2447452

PANADURA

506. Galle Road, Panadura
Tel: 038 2243051-2 | Fax: 038 2243053

PETTAH

64. Keyzer Street, Colombo 11
Tel: 5363651 | Fax: 5363652

RAJAGIRIYA

468. Kotte Road, Rajagiriya
Tel: 2887148 | Fax: 2866823

RATNAPURA

198. Main Street, Ratnapura
Tel: 045 2231845-7 | Fax: 045 2231848

WATTALA

180. Negombo Road, Wattala
Tel: 2945096 | Fax: 2945095

WELLAWATTA

150. Galle Road, Colombo 06
Tel: 2362409 | Fax: 2362399

WENNAPPUWA

06. Chillaw Road, Wennappuwa
Tel: 031 2249555 | Fax: 031 2249556

WORLD TRADE CENTRE

Level 2. East Tower
World Trade Centre, Colombo 01
Tel: 2346049-50 | Fax: 2346053

KALUTARA

264, Main Street, Kalutara South
Kalutara.
Tel: 034 2221259-60
Fax: 034 2221258

Correspondent Banks

Australia

ANZ Banking Group Ltd.,
National Australia Bank
City Bank NA
Commonwealth Bank of Australia

Austria

Creditanstalt Bankverein
Bank of Austria AG

Bangladesh

Bank Asia Ltd
Standard Chartered Bank

Bahrain

Standard Chartered Bank
KOC Bank

Belgium

Bank Brussels Lambert
General De Banque S.A.
Kbc Bank NV

Brazil

ABN Amro Bank
Banco Bradesco SA

Bulgaria

Hebros Bank

Brunai

Standard Chartered Bank

Canada

Toronto Dominion Bank
Credit Lyonnais

Channel Islands

ANZ Bank (Guernsey) Ltd.
ANZ Grindlays Bank (Jersey) Ltd.

Cook Islands

ANZ Banking Group Ltd.

Chile

ABN Amro Bank
Banco Santander, Chile

China

Overseas Chinese Banking Corp, China
Standard Chartered Bank
Deutsche Bank AG
Credit Lyonnais

Cyprus

National Bank of Greece (Cyprus) Ltd
Hellenic Bank Ltd.

Denmark

Den Danske Bank A/S
ABN Amro Bank

Egypt

Mashreq Bank

Fiji

ANZ Banking Group Ltd.

Finland

Nordea Bank Finland plc, Helsinki

France

Union De Banq Arab Et Francais
(UBAF)
ABN Amro Bank
Bankers Trust Co.

Germany

Commerz Bank AG
Dresdner Bank AG
Deutsche Bank AG
Sparkasse Essen
Bayerrische- Hypovereins Bank

Greece

ANZ Grindlays Bank PLC

Hongkong

Hongkong & Shanghai Banking Corp.
Ltd.
Deutsche Bank
HBZ Finance Limited
Mashreq Bank
Standard Chartered Bank
UBAF

Hungaria

ABN - Amro

India

Bank of Ceylon – Chennai
Standard Chartered Bank
Citi Bank N.A.
Mashreq Bank
Tamilnad Mercantile Bank
ICICI Bank

Indonesia

Deutsche Bank
ABN Amro Bank
Citi Bank N.A.
Standard Chartered Bank

Ireland

ABN Amro Bank N.V. -Dublin

Iran

Bank - Sedarat

Italy

Banca Nazionale Del Lavoro S.P.A.
Banca Commercial Italiana S.P.A.
Cassa Di Risparmio Di Carrara
H S B C Bank

Israel

Israel Discount Bank
Mercantile Discount Bank Ltd.

Correspondent Banks

Japan

Deutsche Bank AG
UBAF - Tokyo
Citi Bank NA
Overseas Chinese Banking Corp. Ltd.
Bank of Nova Scotia
Standard Chartered Bank

Jordan

Standard Chartered Bank

Kenya

Standard Chartered Bank
Dubai Bank Kenya Ltd.
Akiba Bank

Korea

Deutsche Bank
UBAF
Citi Bank N.A.
Korea Exchange Bank
Standard Chartered Bank

Kuwait

Kuwait Bahrain Int. Exchange Co.
National Bank of Kuwait (SAK)
Burgan Bank S.A.K

Lebanon

Inaash Bank SAL

Luxembourg

Bankers Trust Co. Americas

Malaysia

Standard Chartered Bank
HSBC Bank
OCBC Bank Malaysia

Maldives

Bank of Ceylon –Male
Bank of Maldives

Mauritius

Mauritius Commerce Bank,Port Louis
MV

Mexico

ABN Amro Bank

Nepal

Himalayan Bank Ltd
Standard Chartered Bank Nepal Ltd

Netherlands

ABN-Amro Bank
KOC Bank
Holand Bank
ING-Bank

Norway

Skandinaviska Enskilda Banken

New Zealand

Australia & New Zealand
Banking Group (New Zealand Ltd)
Bank of New Zealand
Citi Bank N.A

Oman

Habib Bank A G Zurich
Standard Chartered Bank

Pakistan

Muslim Commercial Bank Ltd.
Standard Chartered Bank
Mashreq Bank

Papua New Guinea

ANZ Banking Group (PNG) Ltd

Philippines

ABN Amro Bank
Citi Bank NA.
Standard Chartered Bank

Poland

Bank Handlowy W Warsza wie S.A.

Prague

Commerz Bank

Qatar

Mashreq Bank
Standard Chartered Bank

Russia

Rossiyskiy Kredit Bank
International Moscow Bank

Saudi Arabia

Al-Rajhi Banking & Investment Corp.
Saudi Hollandi Bank Ltd.

Singapore

Citi Bank N.A.
DBS Bank
Overseas – Chinese Banking Cop. Ltd.
Standard Chartered Bank
H S B C Bank
Deutsche Bank
United Overseas Bank.
UBAF

Soloman Islands

ANZ Banking Group Ltd.,

South Africa

ABSA Bank Limited
NED Bank
State Bank of India

Spain

Banco Santander Cenral Hisapano S.A
Banca Nazionale Del Lavoro S.P.A.
Bankers Trust Co. Americas

Sweden

Svenska Handelsbanken
Skandinaviska Enskilda Banken(SEB)
ABN Amro Bank
Nordbanken AB
SWED Bank



Switzerland

UBS AG
Credit Suisse

Taiwan ROC

Deutsche Bank ,Taipei
Citi Bank NA
Standard Chartered Bank –Taipei

Thailand

Standard Chartered Bank
Thai Farmers Bank
Bank of Asia
Citi Bank NA

Turkey

Iktisat Bankasi T.A.S
Bank Kapital T.A.S
Tekstil Banksai A.S.
KOC Bank Istanbul -Turkey

UAE

ABN Amro Bank
Habib Bank AG Zurich
Standard Chartered Bank
Mashreq Bank PSC
UAE Exchange
Bank Sedarat

UK

Bank of Ceylon
Lloyds TSB Bank
Standard Chartered Bank
Midland Bank PLC
Mashreq Bank PSC
Deutsche Bank AG
ABN Amro Bank
Habib Bank AG Zurich

USA

American Express Bank
Deutsche Bank
First Union National Bank
Philladelphia
First Union National Bank North

Carolina

Habib Bank New York
Mashreq Bank New York
Republic Bank of New York
Bank of New York
Credit Lyonnais NA
JP Morgan Chase
HSBC New York
Cho Hung Bank
Harris Bank International N.Y
Israel Discount Bank N.Y
National City Bank N.Y
Shinhan Bank N.Y
U.S Bank (Formally First National
Association)
Standard Chartered Bank

Vietnam

Citi Bank NA

Zambia

Standard Chartered Bank

Zimbabwe

Standard Chartered Bank

Glossary of Financial & Banking Terms

Accrual Basis

Recognising the effect of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Capital Adequacy Ratio

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

Capital Reserve

Capital Reserve consists of Revaluation Reserves arising from revaluation of properties owned by the Bank and reserve fund set aside for a specific purpose defined under the Banking Act No. 30 of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

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.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or nonoccurrence of one or more future events.

Cost Income Ratio

Operating expenses as a percentage of net income.

Dealing Securities

Marketable securities that are acquired and held with the intention of re-selling them in the short term.

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.

Documentary Letters of Credit (L/Cs)

Written undertakings by a bank on behalf of its customers (typically an importer), favouring a third party where the third party could get paid up to a stipulated amount by fulfilling specific terms and conditions. Such undertakings are established for the purpose of facilitating trade.

Earnings Per Share

Net profits earned during a period attributable to ordinary shareholders of a company divided by weighted average number of shares in issue during that period.

Employee Efficiency Ratio

Personnel Cost divided by, Net Income less Overheads excluding personnel cost.

Fair Value

Fair Value is the amount for which an asset could be exchanged between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

Finance Lease

Leases which transfer risks and rewards of ownership. Title may or may not eventually be transferred.

Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transactions/last Balance Sheet date and the settlement/Balance Sheet date. Also arises from trading in foreign currencies.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

General Provisions

Are established for all Loans and Advances for anticipated losses on aggregate exposures where credit losses cannot yet be determined on an individual facility basis.

Guarantees

Primarily represent irrevocable assurances that a Bank will make payments in the event that its customer cannot meet its financial obligations to third parties. Certain other guarantees represent non-financial undertakings such as bid and performance bonds.

Impairment

When recoverable amount declines below carrying amount.

Intangible Asset

An identifiable non-monetary asset without physical substance held for use in the production/supply of goods/services or for rental to others or for administrative purposes.

Interest Margin

Net interest income as a percentage of average interest earning assets.

Interest In Suspense

Interest suspended on Non-Performing Loans and Advances.

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

Key Management Personnel

Key Management Personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily.

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of each share at the year end.

Net Assets Value Per Share

Shareholders' funds divided by the number of ordinary shares in issue.

Net-Interest Income

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

NPA Ratio

Total non-performing advances (net of interest in suspense) divided by total advances portfolio (net of interest in suspense).

Off-Balance Sheet Transactions

Transactions not recognised as Assets or Liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Provision for Loan Losses

A charge to income added to the allowance for loan losses. Specific provisions are established to reduce the book value of specific assets (primarily loans) to estimated realisable values.

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.

Reserve Fund

A capital reserve created as per the provision of the Banking Act No. 30 of 1988.

Return on Average Assets

Profit after tax divided by the average assets.

Revenue Reserve

Reserves set aside for future distribution and investment.

Risk Weighted Assets

On-Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk weighting factors.

Shareholders' Funds

Total of issued and fully paid share capital plus capital and revenue reserves.

Tier 1 Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier 2 Capital

Supplementary capital representing, general provisions and other capital instruments, which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debt.

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.

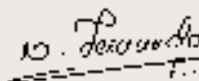
Notice of Meeting

NOTICE IS HEREBY GIVEN that the FOURTEENTH ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION PLC will be held at the Waters Edge No.316, Ethulkotte Road, Battaramulla on 30th April, 2009 at 9.30 a.m. for the following purposes :-

1. To receive the Audited Financial Statements and the Annual Report of the Board for the year ended 31st December, 2008 with the Auditors Report thereon.
2. To re-elect Mr.A.G. Weerasinghe, who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.
3. To re-elect Mr.J.A.S.S.Adhihetty, who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.
4. To re-elect Mr. A.A. Page, who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.
5. To re-elect Mr. R.E.U. De Silva, who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.
6. To re-elect Mr.M.D.S.Goonatilleke, who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.
7. To determine the remuneration of the Directors.

8. To approve donations / contributions made by the Directors during the year under review.
9. To re-appoint the Auditors of the Bank, M/s Ernst & Young and to authorise the Directors to determine their remuneration.

BY ORDER OF THE BOARD



N. Fernando
Company Secretary.

PAN ASIA BANKING CORPORATION PLC

450, Galle Road, Colombo 3.

19 March 2009

NOTES :

1. A member entitled to attend and vote at the meeting is entitled to appoint a proxy to attend and vote in his/her stead.
2. A proxy need not be a member of the Company. The form of proxy is enclosed herewith.
3. The completed form of proxy must be deposited with the Company Secretary at the Registered Office of the Company, 450, Galle Road, Colombo 3 not later than 48 hours prior to the time appointed for the holding of the meeting.
4. Shareholders/proxies attending the meeting are requested to bring their National Identity Cards.

Notes

[illegible]

[illegible]

Form of Proxy

I/We
 (NIC No/s.....)
 ofbeing

a shareholder/being shareholders of Pan Asia Banking Corporation PLC, hereby appoint

- | | |
|---|--|
| 1. Aratchige Gunaratne Weerasinghe
Wannakawattawaduge Don Nimal Hemasiri Perera
Kimarli Fernando
Harda Vimal Amarasekera
John Anthony Sunil Sumith Adhihetty
Leelananda Wickremaratchchi
Joseph Dharmar Chandra Coonghe
Anthony Asokumar Page
Ruwanpura Eshana Uvindra De Silva
Mestiyage Don Saddhamangala Goonatilleke | of Colombo or failing him
of Colombo or failing him
of Colombo or failing her
of Colombo or failing her
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him
of Colombo or failing him |
|---|--|

2.
 (NIC No.....)
 of

as my/our* proxy to vote on my/our* behalf at the fourteenth Annual General Meeting of Pan Asia Banking Corporation PLC, to be held on 30th April, 2009 at 9.30 a.m. and at any adjournment thereof.

I/We, the undersigned, hereby authorise my/our* proxy to vote for me/us* and on my/our* behalf in accordance with the preference as indicated below.

	For	Against
1. Resolution No. 1 To receive the Audited Financial Statements and the Annual Report of the Board for the year ended 31st December,2008 with the Auditors Report thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Resolution No. 2 To re-elect Mr. A.G. Weerasinghe who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
3. Resolution No. 3 To re-elect Mr. J.A.S.S.Adhihetty who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. Resolution No. 4 To re - elect Mr. A.A. Page who retires by rotation at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>

Form of Proxy

	For	Against
5. Resolution No. 5 To re - elect Mr.R.E.U.De Silva who retires by rotation at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
6. Resolution No. 6 To re elect Mr.M.D.S.Goonatilleke who retires by rotation at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
7. Resolution No. 7 To determine the remuneration of the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
8. Resolution No. 8 To approve donations/contributions made by the Directors during the year under review.	<input type="checkbox"/>	<input type="checkbox"/>
9. Resolution No. 9 To re-appoint the Auditors of the Bank, M/s Ernst & Young and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

As witness I/we* have set my/our* hand/s* hereunto thisday of -----Two Thousand and Nine

.....
Signature of shareholder.

Note : Instructions as to completion of the Form of Proxy.

- To be valid, this form of proxy must be deposited with the Company Secretary at the Registered Office situated at No.450, Galle Road, Colombo 3, before 9.30 a.m. on the 28th of April, 2009 being 48 hours before the time appointed for holding of the meeting.
- In perfecting the form of proxy please ensure that all details are legible.
- The proxy appointed need not be a shareholder of Pan Asia Banking Corporation PLC.
- If the shareholder is a Company/Corporation, the proxy must be under its Common Seal, which should be affixed and attested in the manner prescribed by its Articles of Association.
- A shareholder appointing a proxy (other than a Director of the Bank) to attend the meeting should indicate the proxy holder's National Identity Card (NIC) number on the Form of Proxy and request the proxy holder to bring his/her * National Identity Card with him/her*.
- Please indicate with 'x' in the space provided how your proxy is to vote on each resolution.

* Delete whichever is inapplicable.

Corporate Information

NAME OF THE COMPANY

Pan Asia Banking Corporation PLC

LEGAL FORM

A Public Limited liability company incorporated in Sri Lanka on 06th March 1995 under the Companies Act No.17 of 1982 and re-registered under the Companies Act No.07 of 2007.A licensed commercial Bank under the Banking Act No.30 of 1988 and listed in the Colombo Stock Exchange.

COMPANY REGISTRATION NUMBER

PQ 48

REGISTERED OFFICE/HEAD OFFICE

No. 450, Galle Road,
Colombo 03,
Sri Lanka.

TELEPHONE

+94(0)11 2565565

FAX

+94(0)11 2565568

SWIFT CODE

PABSLKLX

E-MAIL

pabc@pabcbank.com

WEB SITE

www.pabcbank .com

TAX PAYER IDENTIFICATION NUMBER (TIN)

134005700

BOARD OF DIRECTORS

Mr. A G Weerasinghe - Chairman
Mr. W D N H Perera - Deputy Chairman
Ms. Kimarli Fernando - Chief Executive Officer
Ms. H V Amarasekera
Mr. J A S S Adhihetty
Mr. L Wickremarachchi
Mr. J D C Coonghe
Mr. A A Page
Mr. R E U De Silva
Mr. M D S Goonatilleke

COMPANY SECRETARY

Ms. N Fernando

AUDIT COMMITTEE

Mr. M D S Goonatilleke - Chairman
Ms. H V Amarasekera
Mr. A A Page

AUDITORS

Ernst & Young
Chartered Accountants
No. 201, De Saram Place,
P.O Box 101,
Colombo 10,
Sri Lanka.

CREDIT RATING

The Bank has been assigned BBB-(lka) National Credit Rating for implied long term senior unsecured debt by Fitch Ratings Lanka Limited.

STOCK EXCHANGE LISTING

110,640,407 Ordinary Shares of the Company are listed on the Colombo Stock Exchange in Sri Lanka.

