



PABC Bank
Pan Asia Banking Corporation Limited

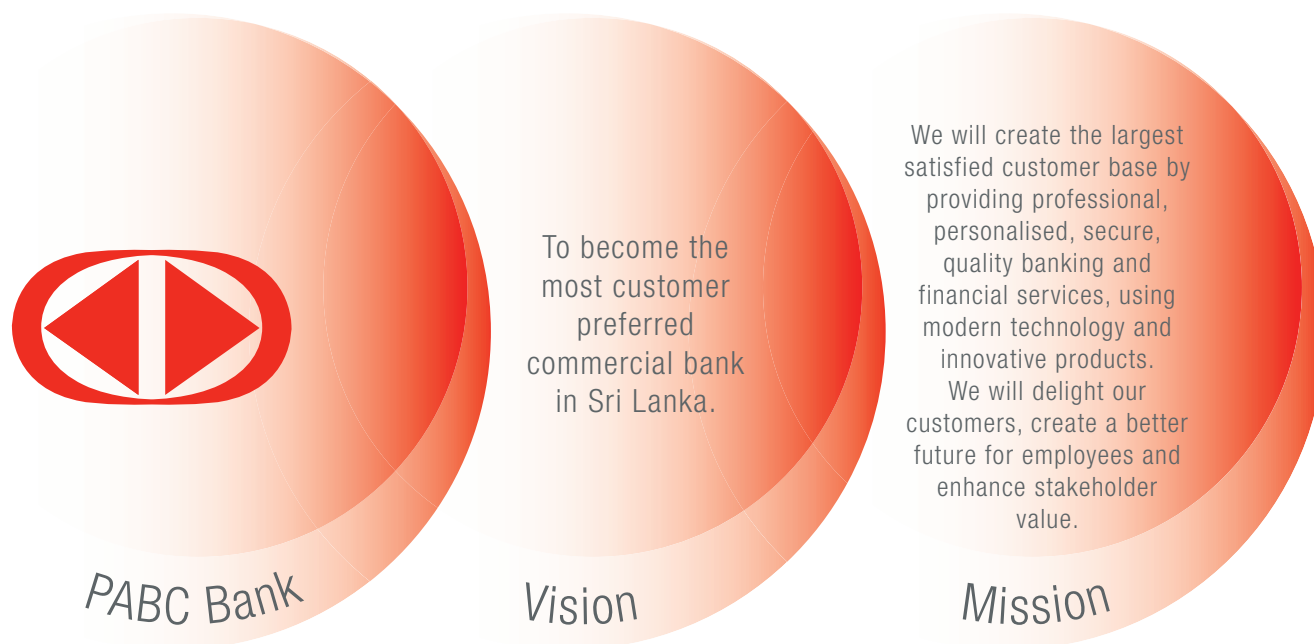
Annual Report 2005

< We are 100 Million & growing >

We are growing. Small in comparison with the giants in the business.

We've got a long way to go. But, we've got the spunk, we've got the guts and we've got the style to do the impossible. What others would see as common, we see as potential. What others consider routine, we treat as fundamentals. True enough, ten years of experience has given us some confidence but we know our real strength lies elsewhere - in the spirit of our people who share one dream to transform lives and position the Bank as the most preferred Commercial Bank in the country. This dream that can only be shared by those who believe in the wonder of human endeavor. Thus is the spirit, that is PABC.

Vision & Mission



Vision & Mission	1	Audit Committee Report	38	Sources & Utilisation of Funds	68
Highlights of Special Events	2	Directors' Responsibility for Financial Reporting	39	Value Added Statement	69
Financial Highlights	3	Corporate Information	40	Quarterly Statistics	70
Chairman's Message	4	Financial Reports & Accounts	41	Branch Network	71
CEO's Report	6	Financial Calendar	41	Information of Shareholders	72
Board of Directors	10	Report of the Auditors	43	Top Twenty Shareholders	73
Corporate Management	12	Income Statement	44	Ten Year Statistical Summary	74
Senior Management	13	Balance Sheet	45	Graphical Review of Ten Year Summary	76
Strategies & Objectives 2005	15	Statement of Changes in Equity	46	Definition of Financial Terms	77
Financial Review	19	Cash Flow Statement	47	Correspondent Banks	78
Our Sustaining Efforts Towards the Society	21	Notes to the Financial Statements	48	Notice of Meeting	80
Responsibility Towards Good Corporate Governance	29	Capital Adequacy	64	Form of Proxy	83
Report of the Directors	33	Analysis of Deposits	66		
Risk Management	36	Analysis of Advances	67		

Highlights of Special Events



Kotahena Branch customer get-together.



Headvertising - a new wave of communication. PABC was at Colombo Big matches with stickers for foreheads.



Turnaround Press conference



Presentation to the members of Sri Lanka Garment Buying Offices Association.



Customers of PABC at an event sponsored by the Bank - Vintage Car Rally.



Recognition of 10,000th ATM Customer



Customers at Rajagiriya relocation.

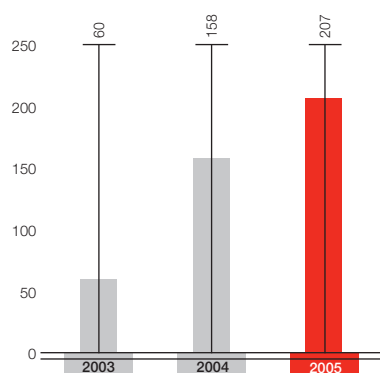


Staff accepting award for SMS Banking at BCS National Best Quality Software award ceremony.

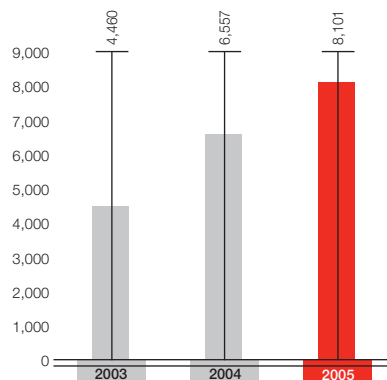


Opening of Customer Service Centre at Werriagapwua.

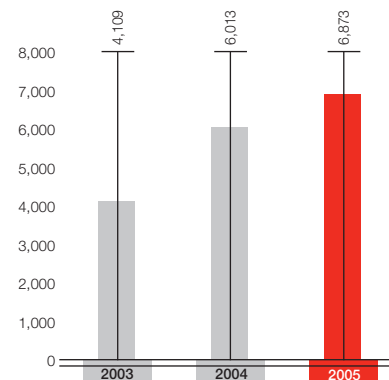
Financial Highlights



Growth in Profit before Provisioning & Taxes
(Rs. millions)



Growth in Deposits
(Rs. millions)



Growth in Advances
(Rs. millions)

	2005 Rs.	2004 Rs.	Change %
Results for the Year			
Income	1,224,658,123	1,033,031,269	18.55
Profit before provisioning & Taxes	207,078,322	158,494,078	30.65
Profit before Income Tax	152,229,228	54,866,191	177.46
Income Tax on Profit	43,900,000	13,693,000	220.60
Profit after Income Tax	108,329,228	41,173,191	163.11
At the Year End			
Shareholders' Funds	539,973,199	375,429,675	43.83
Deposits from customers	8,100,716,491	6,557,186,094	23.54
Debentures	253,789,000	253,789,000	-
Advances to Customers (Net)	6,872,619,021	6,013,100,162	14.29
Total Assets	10,851,339,551	9,048,929,413	19.93
Net Asset Value per share (Rs)	9.72	6.76	43.79
Earnings per share (Rs)	1.95	0.74	163.51
Statutory Ratios (%)			
Capital Adequacy			
- Tier 1 (Minimum Requirement - 5%)	9.15	7.81	17.16
- Tier 1 & 11 (Minimum Requirement - 10%)	11.95	11.71	2.05
Liquidity (Minimum Requirement - 20%)	24.34	20.09	21.15
Return on Average Assets	1.09	0.49	122.45
Return on Average Shareholders' Funds	23.53	11.22	109.71

Chairman's Message



“ The growth rate remains insufficient to uplift the economic standards of the country as poverty levels and unemployment remain high. Even though Sri Lanka boasts of a per capita income of US \$1,000, that economic growth is confined to the western province. Thus, the disparity in income distribution is a cause for concern.”

W M Abeyratne Bandara

The year 2005 dawned on a biggest natural disaster to ravage Sri Lanka. The damage along 1,000 kms of the island's coastline, destroyed more than 35,000 lives, left 550,000 homeless and shattered livelihoods, leaving in its wake physical damage estimated at US \$1 billion, a cost a struggling Sri Lankan economy could ill afford. However, even though the destruction was equivalent to 4.9% of Sri Lanka's GDP, while we faced the adverse effects of trying to overcome the disaster, the tsunami also brought with it new hope for our land through many dimensions. Sri Lankans as a united nation plunged into helping those affected wholeheartedly with absolute dedication. The generosity and outpouring of assistance was unprecedented. This was also another example where

boundaries of caste, creed, religion and race were put aside, where people, irrespective of their ethnic or cultural backgrounds, worked in unison, side by side. The disaster also demonstrated the national capacity in rebuilding and reconstruction. As an example, the railway and main trunk road from Colombo to Galle was workable in record time. I do believe that the tsunami was the one opportunity that the leaders of our country could have utilised to unite the entirety of our people under one flag, eliminating the ethnic strife that has taken its toll on Sri Lanka for over two decades.

Economy

Having faced numerous challenges from the beginning of the year, the Sri Lankan economy recorded an annual GDP growth of less than 5% in 2005, a downward development trend compared to the 6% and 5.4% growth in 2003 and 2004 respectively. The extensive damage along the coastline due to the tsunami had severe repercussions on the fisheries and tourism industries, negative growth in agricultural sector, and slowdown of the growth in the industrial sector, the relative beating in the apparel industries due to the elimination of the Multi-Fibre Agreement in 2005, decreasing Government capital investment in large development projects, low levels of capital formation through local savings due to the decreased

savings. Spiralling global oil prices and foreign investment resultant decreasing of low productivity levels, high labour costs and restrictive labour regulations, bureaucracy, inadequate infrastructure and political instability were all contributory factors to the slow growth the country faced during the year. Despite the world market expanding and more opportunities opening out, Sri Lanka was unable to capture a slice of this expanding market due to lacking cost effectiveness, low productivity and competitiveness.

The growth rate remains insufficient to uplift the economic standards of the country as poverty levels and unemployment remain high. Even though Sri Lanka boasts a per capita income of US \$1,000, that economic growth is confined to the Western Province. Thus, the disparity in income distribution is a cause for concern. Inflation was affected by both the cost-push and demand-pull factors. Extensive production costs heralded by high oil prices, other contributory factors including increase in money supply due to high Government expenditure on rehabilitation, re-construction and increased subsidies improved the purchasing power of the consumer, pushing prices of goods and services upwards.

On the other hand the high cost of energy and spiralling interest rates augmented production costs. All these were influencing factors on the rise of the inflation rate from a single digit to double digits at the close of the year. The budget deficit widened due to low revenue streams, high recurrent Government expenditure and unfavourable external trade balances.

We have seen notable improvements in the financial and service sectors of the economy deemed one of the fastest growing sectors in the country. Some of the improvements include the amendment to the Banking Act (No 2 of 2005), licensed commercial banks and

finance companies being allowed to engage in Islamic banking, finance companies accepting savings deposits, the establishment of the SME Bank, the welcome concept of 'Fit and Proper' persons in banking directorates approved by the Central Bank and new minimum capital requirements for the banking sector.

The Bank's Performance

I am extremely happy to note that this year has been the best in recent times for the Bank. Having been through many challenges in the past, our strategic decisions and initiatives bore fruit this year. The Bank's performance has been remarkable compared to previous years, posting an after tax profit of Rs 108.33 million in 2005 compared to Rs 41.17 million in 2004. This could mainly be attributed to the increased efficiency levels in our operating activities and our augmented recovery drive. Our branch network consisting of 18 Branches and 2 Customer Service Centres contributed immensely to our success, with the deposit base doubled in the past two years. Concentrating very heavily on a quality tenet for credit rather than quantity, the Bank's improved credit control and quality procedures contributed to the increased interest income and in the reduction for NPA provisions. The accelerated recovery process saw a decrease from 13.70% in 2004 to 10.73% at the end of 2005 in the NPA ratio (net of interest).

Some of the forward thinking initiatives implemented in 2004 including a complete image makeover for the Bank and improved customer service levels working towards excellence, have seen a positive change in customer perceptions and confidence, resulting in an increase in the customer base as well. The Bank has also concentrated on several initiatives to improve employee productivity levels, pointing towards

increased efficiency and productivity and in improving the cost management and non-interest income, results of which are seen in the increased profitability of the Bank.

While we are very proud of our admirable performance this year, we foresee several major challenges in the year ahead. Achieving the minimum capital requirement, minimising the NPA Ratio, increasing our deposit base and maintaining the competitive high standard customer service in order to remain on our growth path for profitability are some. We are in the process of developing and implementing several strategies in readiness for next year. Challenges however are not new to the Bank and having weathered many a storm in times past, I remain confident of overcoming these new challenges and in forecasting a very successful year ahead for the Bank.

While thanking the Bank's dynamic and energetic team for their unreserved support in garnering this notable performance in 2005, I also take this opportunity to thank the valuable customers and shareholders of the Bank for the confidence displayed in us. My appreciation also to the Board of Directors, all sister financial institutions and the Central Bank of Sri Lanka in extending unstinted co-operation to enable us to succeed in our efforts.



W. M. Abeyratne Bandara
Chairman

February 22, 2006
Colombo

CEO's Report



R Nadarajah

“PABC entered its tenth year of operation this year and despite having to operate in an increasingly competitive and sometimes unpredictable environment, showed its best performance in recent times. The consolidation and restructuring strategies implemented a few years ago, the changed focus and expansion plans worked out in year 2004 and the fact that the entire team put their shoulders to the wheel to make a success of PABC, finally paid dividends.”

Hope and opportunity are two aspects to life that spring eternal and even though the Tsunami devastated Sri Lanka both in an economic and social sense, the outpouring of generosity and the quick action taken by individuals and organisations, served to bring back the hope and opportunity that is vital for a renaissance of those affected and for the entire nation. Throughout the year 2005 however, while Sri Lanka struggled to keep her forecasted GDP figures on track, political instability and subsequent elections, the oil prices reaching all time highs, contributed immensely to the country not achieving the desired growth. Even the infusion of some foreign funds as

assistance for the Tsunami rehabilitation did not assist in giving the country a boost in its growth rate.

FDIs were minimal and the stock market was volatile, subject to vagaries of the environment. Business confidence remained low and in the immediate aftermath of the elections in November 2005, hit rock bottom. The fiscal budget presented after the election by the new President was positive, on the one side being pro poor and working on policies of uplifting the rural economy with its many subsidies and low revenue streams, presented a budget deficit at the same time. The country therefore ended on a growth rate of less than 5%, a figure lower than those of the

previous two years and certainly not satisfactory given that the rest of the region, taking advantage of global growth patterns, growing in tandem despite a oil price hike.

PABC Performance

PABC entered its tenth year of operation this year and despite having to operate in an increasingly competitive and sometimes unpredictable environment, showed its best performance in recent times. The consolidation and restructuring strategies implemented a few years ago, the changed focus and expansion plans worked out in year 2004 and the fact

that the entire team put their shoulders to the wheel to make a success of PABC, finally paid dividends.

The new logo and corporate image change launched in the latter part of 2004 instilled a sense of confidence among customers and a boost in the staff morale and with the general perception of PABC at an all time high, the Bank has seen the benefits of this change accruing this year with the bottom line enhanced considerably. However PABC did face many challenges during the year. Interest rates increased by 2% during the course of the year resulting in thinner margins. With short term deposits subject to short term re-pricing interest rates, the Bank was compelled to accept deposits at higher interest rates in order to remain competitive in the market. Some of the national budgetary implications also had a negative impact on small banks like PABC. For instance, taxation on advertising and VAT on profit for banks, also took its toll on the profitability.

However, despite a number of challenges, PABC displayed its inherent strength derived from its skilled and committed staff, weathering the storm to post commendable results. The Bank recorded a profit of Rs 207.07 million from operations before making provisions for doubtful debts and taxes including VAT in 2005, an increase of 30.65% compared to the operating profit before provision and taxation posted in 2004. Net interest income of the Bank increased by 20.11% from Rs 355.56 million in 2004 to Rs 427.07 million in 2005. Fee based income also saw an upward trend, increasing from Rs 200.62 million to Rs 231.63 million in 2005, a percentage increase of 15.46%.

The remarkable performance posted by the Bank this year could be attributed largely to a very focused and extensive recovery drive. Having started with a clean book in 2004 after strictly providing for all doubtful loans and advances in accordance with Central Bank guidelines, the fact that the recovery drive enabled the Bank to recover a part of those NPLs saw a reversal of those provisions, a major contributor towards profitability. The NPA ratio net of interest now stands at 10.73%, while the NPA ratio net of interest and provisions as well stands at 7.19%.

In line with its far-sighted expansion strategy, the network of 18 Branches and 02 Customer Service Centres which are all on line, manned and led by some of the industry's best people are the main strengths the Bank has leveraged upon. The performance of individual branches contributed to increasing the Bank's deposit base to over Rs 8,100.72 million, an increase of 23.54% from last year.

Deposits, Advances and Assets

The corporate image change of the Bank in 2004 has seen a significant increase in customer confidence and loyalty, a fact that is tangibly displayed by the increasing number of customers the Bank has seen walking through its doors. Product and service levels too have been moving towards being innovative, working on a 'towards excellence' platform rather than following market trends.

Total net advances as at end 2005 stood at Rs. 6,872.61 million compared to Rs. 6,013.10 million in 2004, an increase of Rs. 859.51 million, showing a growth percentage of 14.29%.

Total assets of the Bank displayed an upward incline as well, recording an increase of 19.93%, from Rs. 9,048.93 million in 2004 to Rs. 10,851.34 million in 2005.

Liquidity and Capital Adequacy

Given the instability of the external environment the Bank functioned in, liquidity continued to remain tight and volatile. Two IPOs during the year did see remarkable investor interest in the market, contributing to the liquidity constraints. With inter-bank rates mounting together with numerous other challenges, liquidity constraints in the market therefore continued to be tight, though PABC is very satisfied that it maintained an average liquid asset ratio of 23.80% well above the statutory minimum requirement of 20%.

Another challenging aspect for the Bank is the statutory minimum capital requirement of Rs 2.5 billion to be met by 2007. While larger banks have already met the requirement, for smaller banks like PABC, meeting this requirement could pose a considerable challenge for the management to enhance shareholder value through improved performance, increased branch network, increased profitability and net asset value of shares leading to shareholder confidence. Management is confident this challenge could be met. PABC is in the process of mapping out and in some cases implementing some strategies, which will enable it to meet the capital requirement by the end of 2007.

New Products and Services

- **Multi-lingual SMS service**

PABC is proud to have been the recipient of the Bronze award by the British Computer Society in the financial applications category for the Bank's

innovative service of providing SMS fast messaging banking alerts to our customers in English, Sinhala or Tamil. The partnership with Dialog though established for SMS banking in 2004 became fully functional in 2005. The Bank created yet another strategic partnership with Mobitel to enhance the customer net on a similar platform.

- ***Dedicated Travellers' Cheque Unit - Foreign Exchange Services***

This unit set up in 2004 began making considerable progress in 2005. Dedicated and skilled staff reaches the target market offering various incentives and quick, hassle free delivery of TCs. This made PABC the market leaders in the sale of Amex Travellers' cheques.

- ***Dasalakshapathi -***

The millionaire option, is a highly retail oriented product that enables interested parties from anywhere in the island, irrespective of whether the Bank operates a branch in that locality or not, to participate in the scheme where with a mere investment of Rs. 1000/- in an interest bearing special fixed deposit for 6 months they receive an opportunity to participate in a draw of Rs. 1 million.

- ***"Sammana" - Senior Citizen Account***

Where in addition to many benefits this segment enjoys the privilege of receiving their monthly interest delivered at their door step, incurring no cost.

Risk Management

PABC is a Bank that has seen a remarkable and noteworthy turnaround in the last few years, proving that with judicious and astute strategies and a

concerted effort can and will bring in the desired results for the Bank. Risk management for PABC is an all important area especially in the light of BASEL II implementation in two years and thus, this year the Bank appointed a DGM with wide experience in the banking arena to concentrate on risk management focussing on operations and credit.

The Bank's credit administration too was centralised this year. Credit monitoring and control aspects were looked at intently on quality rather than quantity, with a large concentration on independent evaluation and documentation. Being a part of the core business of the Bank, credit is now well monitored through the centralised administration, with transparency and accountability of action being paramount.

Human Resources

The dedication and commitment by the professional and dynamic but mature PABC team has taken the Bank to newer heights. The Bank's outstanding performance would not have been possible if not for the concerted team effort that focused on achieving the Bank's Vision through applying the ideals of the mission that the Bank has detailed. Being a constantly transforming industry that keeps raising standards for service levels, the Bank has resolutely worked on the aspect of customer service excellence, applying training and development to achieve the objectives of excellence in service standards. Enhanced remuneration as set out in 2005, a more conducive working environment, performance reviews that are aligned to personal career development and the goals and objectives of the Bank and rewards and recognition based on merits are all fundamentals introduced to ensure a happy and contented team that works with team spirit for the betterment of the Bank.

Our team members participated in training programmes organised by the Central Bank, Universities, financial institutions and various professional organisations, while our IT team members also participated in a specialised training programme in India this year. The Bank also held in-house and external training programmes conducted by eminent HR personnel.

The Future

The change in the political background of the country, and other uncertainties naturally will have an impact on the economy due to the unpredictability of the situation. However, banks have thus far weathered many a storm in the past and I believe that in the coming year too, the industry will overcome the challenges albeit not in the anticipated growth rates. We cannot rule out the possibility of a tremendous opportunity that might be erected during the year through the peace process.

PABC will continue to concentrate on improving customer service levels. In line with this, the Bank aims to open new branches in 2006 and bring in the new concept of customer service points adjacent to all town branches. It will also inculcate the savings habit among the people with banking being more accessible and convenient, together with pawning and leasing as well. We are also mindful of continuing to train and develop skills of our staff and are constantly looking for training opportunities.

Acknowledgments

While the Bank strives to imbue the values of its Mission of satisfying its customers through a professional, personalised, secure and quality banking service through innovative products using modern

technology, my deep appreciation is extended to the Bank's customers whose confidence and loyalty has remained constant even through the most challenging times. They have ensured our remarkable growth and we are extremely thankful for the trust and belief they displayed in PABC.

I also wish to extend my sincere appreciation to the Chairman and Board of Directors for the guidance extended to me at all times and to our shareholders who have continued to be by the Bank's side through the many challenges we have emerged from. My heartfelt thanks also to my Team without whom the notable performance of the Bank this year would not have been possible. They have worked tirelessly in their endeavour to put customers first, a fact that the Bank is very appreciative of.

My appreciation also to the Governor and officers of the Central Bank for the continued guidance, advice and accessibility at all times.

Finally the external auditors, our advertising agencies and our printers have done a commendable job and I thank them all !



R. Nadarajah

Managing Director/General Manager/CEO

*February 22, 2006
Colombo.*

Board of Directors



R. Nadarajah



W. M. Abeyratne Bandara



K. D. Dhammika Perera



Mukthar Marikkar



S. K. Malcolm Nandasena



Ravi Hathiramani



Harda Amarasekera



Sumith Adihetty



A. G. Weerasinghe



Ravindra Hewavitharana

Board of Directors

Mr. W. M. ABEYRATNE BANDARA - Chairman

Mr. Bandara has been the Chairman of the Bank since the year 2001. He is a Senior Lecturer in the Faculty of Management Studies at the University of Sri Jayawardenapura and at the Postgraduate Institute of Management. He holds a B.Sc.(Bus. Admin) SL, MBA from Ottawa, Canada, MAAT (S.L) and ACA (Intermediate.) (S.L). He is a Director of L.B. Finance Ltd.

Mr. K. D. DHAMMIKA PERERA - Deputy Chairman

Mr. Perera is the youngest member of the Board of PABC Bank, and was appointed as the Deputy Chairman of the Bank in June, 2004. His diversified business interests include hydro-power generation, shipping, entertainment, estate and property development. He is the Chairman of Vallibel Holdings (Pvt) Ltd., Didul (Pvt) Ltd., and Vallibel Power Erathna Ltd. He presently holds the position of Deputy Chairman of Royal Ceramics Lanka Ltd., L.B. Finance Ltd., and Connaissance Holdings Ltd., with a vested controlling interest in all these Companies. He was appointed as a Director, Board of Investment, recently.

Mr. MUKTHAR MARIKKAR - Director

Mr. Marikkar is the Chairman of Danish Trading Co (Pvt) Ltd.. He is also the Honourary Consul for Tunisia in Sri Lanka. He is a Fellow of the Institute of Sales & Marketing Management - U.K. and a member of the Institute of Marketing, U.K.

Mr. A. W. HATHIRAMANI - Director

Mr. RAVI HATHIRAMANI (Alternate Director)

Mr. Hathiramani is the Chairman of Pesons Group of Companies. He is represented by an alternate Director, Mr. Ravi Hathiramani, who is a partner of Pesons Group of Companies, Chairman of Aramex (Pvt) Ltd., and serves as a Director, Lifestyle Fitness Lanka (Pvt.) Ltd.

Mr. S. K. MALCOLM NANDASENA - Director

Mr. Nandasena is a former Commissioner of Inland Revenue. He holds a B.A. Honors degree from the University of Peradeniya.

Ms. HARDA AMARASEKERA - Director

Ms. Amarasekera is an Attorney-at-Law, holds a Masters Degree in International and Comparative Law (LLM Brussels), Masters Degree in Accountancy and Finance (M.A.F. Brussels - cum Laude) and serves as a Director, Bensons Ltd, Managing Director COMCORP Private Ltd., Alternate Director, AT & T Global Information Solutions (Lanka) Ltd - NCR., and is a former member of the Senior Management of Bank of Tokyo, Luxemburg from 1991 - 1995 (Now Tokyo Mitsubishi Bank, Luxemburg).

Mr. A. G. WEERASINGHE - Director

Mr. Weerasinghe is a Senior Banker. He Holds a B.A. Degree (Econ). is an Associate member, Institute of Bankers, Sri Lanka and a Fellow, Institute of Bankers, Sri Lanka and serves as a Director, Suncity Property Developers (Pvt). Ltd.

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

Mr. Adhietty is a veteran marketer. He is the Managing Director, L B Finance Ltd and serves as a Director, Rupee Finance Co Ltd and Leasing Association of Sri Lanka.

Mr. RAVINDRA HEWAVITHARANA - Director

Mr. Hewavitharana is the Director General, Samurdhi Authority of Sri Lanka. He holds a B.Com Special from the University of Kelaniya.

Mr. R. NADARAJAH - Managing Director / General Manager / CEO

Mr. Nadarajah was appointed as the General Manager / CEO in October 2001 and re-designated as Managing Director / General Manager / CEO in October, 2003. He was conferred with a life time award by the Chartered Institute of Bankers, London, Sri Lanka Branch. A senior Banker for the past 37 years, he has served in the Bank of Ceylon in the capacity of Deputy General Manager- Finance, Planning, Treasury and Investment. He is a past President of the Association of Professional Bankers Sri Lanka. He was the first President of the Primary Dealers' Association of Sri Lanka.

Mr. J. C. P. JAYASINGHE - Director

Mr. Jayasinghe resigned from the Board in May 2005.

Mrs. G. N. MANO ALLES - Director

Mrs. Alles resigned from the Board in July 2005.

Mr. VERNON COORAY

Ceased to be a Director with effect from 26th May 2005.

Mr. NADESAN PUSHPARAJA - Director

Ceased to be a Director with effect from 26th May 2005.

Mr. W G MITHRARATNE - Director

Mr. Mithraratne resigned from the Board in March 2005.

Corporate Management



R Nadarajah



Bradley Emerson



Claude Peiris



Lakshman Uduwara



Trevor Mendis



Amitha Samarasinghe



S Umakanthan



Sunil de Silva



Helene Jayamaha

Mr. R. Nadarajah

Managing Director/GM/CEO

Mr. Bradley Emerson

Deputy CEO

Mr. Claude Peiris

Deputy General Manager

Mr. Lakshman Uduwara

Asst. General Manager - Retail Banking - 2

Mr. Sunil de Silva

Asst. General Manager - Retail Banking - 1

Ms. Amitha Samarasinghe

Head of Human Resources Development

Ms. Helene Jayamaha

Head of Corporate Banking

Mr. S. Umakanthan

Asst. General Manager - Trade

Mr. Trevor Mendis

Asst. General Manager - Leasing & Pawning

Senior Management



Mr. Sarath C Fernando
Senior Manager



Ms. Nayantha Fernando
Company Secretary



Mr. Jayantha Chandrapala
Senior Manager - International



Mr. Ranjith Perera
Senior Manager - Recoveries



Mr. Upali Ratnayake
Senior Manager



Mr. Ranjith Dissanayake
Senior Manager - Metro Branch



Mr. Felician Jayakody
Senior Manager - Kollupitiya Branch



Mr. Noel Wijendran
Senior Manager - Kotahena Branch

Senior Management



Mr. Dinesh Perera

Senior Manager - Kandy Branch



Mr. Tissa Rodrigo

Senior Manager - Panadura Branch

Absent

Ms. Pradeepa Ranaweera

Senior Manager - Internal Audit

Absent

Mr. K. Narendrakumar

Legal Advisor

Since Promoted / Recruited

Mr. Radley Stephen

Senior Manager - Public Relations & Business Development

Mr. Naleen Edirisinghe

Senior Manager - Nugegoda Branch

Mr. Harsha Kurukulasooriya

Senior Manager - Dehiwala Branch

Mr. Kenneth Mendis

Senior Manager - Panchikawatte Branch

Mr. Nimal Ratnayake

Senior Manager - Matara Branch

Mr. Adrian Assauw

Senior Manager - Consumer Banking

Ms. Yogadinusha Yogagopalakrishnan

Chief Accountant

Mr. S. Anandarajah

Senior Manager - Bambalapitiya Branch

Strategies & Objectives 2005



Deputy CEO lighting the traditional oil lamp at the 10th Anniversary celebration.

Celebrating 10 years, MD/CEO joins Chairman in cutting the cake.



Street promotion in progress celebrating the 10th Anniversary.

Business Development

PABC Bank focused on increasing its business volumes through the use of below-the-line tools to communicate with targeted market segments, whilst also concentrating on the sustainability aspect in relation to the community.

This more pragmatic approach in relation to most of the Bank's Business Development Activities followed the high degree of success of the corporate restructuring programme that achieved a remarkable turnaround in the previous year.

A flagship corporate campaign was launched to cultivate the high quality image of the newly launched brand "PABC Bank" on the theme "Drive and Determination Towards Excellence", coinciding with the 10th Anniversary of the Bank.

This campaign was supported with 10 special offers that included the launch of 3 new products:

"Sammana" - Senior Citizens Account, "Dasalakshapathi" - The Millionaire Option, and Ran Nidiya - Gold Investment scheme.

The Bank expects research to play a pivotal role in identifying customer needs, as well as new markets for future development. Meanwhile, the Bank intends to capitalise on the use of information technology for faster communication and delivery.

Corporate Banking

The Corporate Banking Division caters mainly to the banking needs of large and medium sized corporate customers with the potential to develop into major players. Corporate Banking continued to make a significant contribution to the Bank's profitability and accounted for 40% of the Bank's gross loans and advances portfolio.

During the year 2005 the Corporate Banking Division recorded an increase of 26% of its loans and advances by focusing on:

- Increasing levels of utilisation of approved limits to the existing customer base whose past track record is known to the Bank.
- Expansion of the corporate customer base through very selective canvassing.

Expansion of the corporate portfolio through the granting of new credit was undertaken with greater emphasis on the viability of borrowers, acceptability of security, and sound management qualities.

The non-performing loans were reduced significantly during the year, despite the increase in the Corporate Loans and Advances. This was a sound reflection on credit appraisal procedures and the strengthened post-sanction monitoring mechanisms of the Bank.



PABC promotion at the Thomian fair.

Winner of the money run receiving her award from the Chairman.



Street promotion in progress in Ratnapura.

Retail Banking

The Bank adopted a highly target oriented strategy with respect of its branch network, with strong emphasis on improving retail businesses.

The Branches have been divided into two regions supervised and supported by two Assistant General Managers, with the objective of being highly productive business units. Every member of the staff has been assigned a role to play, towards increasing customer bases for products such as Credit Cards, ATM cards, deposit products and SMS activations.

The progress of each branch is reviewed at monthly meetings by the Senior Management in consultation with the Branch Managers. The best performers within the branches are selected on four perspectives on the balanced score card method and given recognition of their achievements.

The Bank set up a Customer Service Centre at Wennappuwa in August 2005, a successful effort reflected by the deposit volume of Rs. 47.5 million at the end of the year. The Bank plans to convert the centre into a fully fledged Branch in the near future.

For increased customer convenience, our Rajagiriya and Nugegoda Branches were moved to new locations, which offer better ambience and ease of access.

In a market where more banks are competing to secure consumer banking business, PABC's products have increased their customer base significantly. The Bank successfully enhanced its Credit Card base which stood at Rs. 109.0 million at the end of the year.

A short term (06 months) deposit product named "Dashalakshapathi" was introduced with small ticket values (Rs.1000/-) which qualify for a lottery draw with a prize of Rs. 1.0 million.

PABC is currently planning to offer wider reach to its customers by entering into a partnership with another bank to share access through their ATM network as well.

Foreign Exchange Services

The Foreign Exchange Services Department recorded another good performance in 2005, following a similar feat the previous year. With the increase in sales turnover net income increased by 22% in 2005.

This increase in net income before tax was the result of a re-focusing of the department's sales strategy which brought an increase in FX spread income and commission income. In 2005 the department adopted a strategy of concentrating on the corporate travel segment for its business, after having previously focused on the retail travel segment.

Credit Card Performance

The performance of the PABC Credit Card Department was quite creditable in 2005, the first full year of operation for this department. The total number of cards issued increased by 53% whilst the total credit card asset grew by 54%. The main reasons for these increases were the strength of the PABC branch network and vigorous in-house credit card sales promotions.

Trade Finance

The Bank maintained steady progress in trade activities and made its presence felt. Most internationally recognised foreign banks have recognised PABC to commence relationships, and several have extended their co-operation by also providing credit lines.

Although most trade activities came to a standstill during the latter part of the year, we were successful in maintaining expected levels, and generated a fee based income of Rs. 72 million during the year.

The turnover of import bills and letters of credit handled by the Domestic Banking Unit increased to Rs. 12.35 billion compared to Rs. 11.59 billion in 2004, an increase of 6.57%. Export bills turnover was Rs. 2.1 billion during the year.

Foreign Currency Banking Unit

The Foreign Currency Banking Unit was able to maintain the expected profit level during the year.

The FCBU's steady progress during the year was achieved by providing a professional, personalised service to customers. The FCBU mainly focused on trade related activities and facilities, issuing of foreign remittances / drafts, foreign currency deposits, and advances.

The FCBU maintains a diversified portfolio which includes a clientele of importers, exporters, manufacturers and entrepreneurs. Encouraged by the achievements of 2005, the FCBU expects to meet an ambitious target during the year 2006.

Recovery Efforts

The Recovery Department was strengthened to expedite recovery action through negotiations, litigations and parate. Evaluation, monitoring and follow-up procedures were improved in order to minimise the migration of credit facilities to the non-performing segment. This in turn reduced the build-up of non-performing facilities and the related requirement to provide for credit losses.

During the year under review the NPA (net of interest) dropped from Rs. 889.51 million to Rs. 766.78 million. This resulted in reducing the Bank's non-performing ratio (net of interest) from 13.70% to 10.73%.

Treasury

2005 was a good year for Treasury operations at PABC when compared with the previous period. The Treasury is mainly responsible for managing the Bank's liquidity, statutory reserve requirement and interest rates.

The Statutory Reserve Requirement increased by 31.64% due to rapid growth in our deposit base. After the Boxing Day Tsunami disaster the USD/LKR exchange rate appreciated to Rs. 98.50 in January 2005 from Rs. 104.55 as at December 2004 which closed at Rs. 102.10 in December 2005. During that period the Treasury was able to mitigate the risk and enhance profitability while providing a competitive service to our valuable customers.

During the year the country's economy faced severe inflationary pressure due to the rise in prices of crude oil and other vital commodities in the international markets, and political uncertainty as a result of the presidential election. The rate of inflation at end December was 11.60%, compared with 8.80% in January, an increase of 2.80%. Due to this situation, the Central Bank tightened its monetary policy and increased the policy rate by 125 basis points during the year.

Global interest rates were also on an upward trend, with the US Federal Reserve increasing its FED rate by 200 basis points. In addition, EUR, AUD, and CAD hiked their policy rates while the Bank of England reduced its policy rate by 25 basis points.

Local inflation pressure and interest rates were not conducive for growth in the gilt-edged-securities market. During this period the demand for medium and long term securities was kept low with market participants expecting further policy rate hikes and also expecting the yield to rise further.

However the Bank's investment portfolio in government securities grew by 30.78% to Rs. 1,865.81 million.

Leasing

The Leasing Division was re-designed to focus more on the retail segment, with the Bank having identified its potential in enhancing the bottom line. As a result, the Bank has seen a very healthy growth of almost 40% during 2005, which demonstrates the effectiveness of the distribution channels. Factors which contributed to the growth on leasing included competitive pricing, flexibility, and efficient service using the branch network.

Pawning

The Bank's pawning activities were revitalised by branding it as "Ranshakthi" during 2005, in order to harness market potential. This was yet another strategy to enhance revenue from the retail sector where margins are comparatively higher.

The new branding and market penetration, giving the benefit of rising gold prices to the customer by increasing the quantum of advance per sovereign, saw the Bank recording a remarkable growth of 90% during the year 2005.

Information Technology

It was a year of innovation for PABC Bank, where a gamut of groundbreaking new features and services, were launched which maximised the Bank's IT infrastructure and resources and increased value addition to customers.

This period also saw the bank being recognised for its dedication to quality and customer service by winning bronze at the National Best Quality Software Award - 2005 (NBQSA-2005) in the "Financial Applications" category for its Multi Lingual/Multi Currency SMS banking service.

The PABC SMS banking application is the only SMS banking application which supports Sinhala and Tamil language processing, as well as being the first SMS banking application to offer a mobile bill top-up facility in collaboration with Mobitel. This SMS banking application, developed completely in-house by the PABC Information Technology Department, also had the distinction of being nominated for the Asia Pacific ICT Awards 2006, becoming the first locally developed SMS banking application from Sri Lanka to be bestowed this honour.

PABC has signed up with Dialog Telekom and Mobitel in offering this service and has already prepared the blueprints to roll out revolutionary new features in the near future to enhance the banking experience of SMS Banking customers.

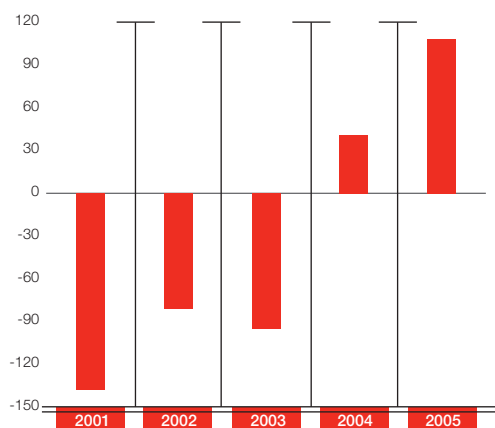
PABC has continued to make substantial investments in upgrading IT services offered by the Bank, and to improve convenient delivery of products and services.

The Bank also aggressively pursued cost-efficiency and productivity of its IT resources and implemented an intranet, developed completely in-house, covering all locations of the Bank, which has already brought about substantial improvements in workflow and

operational cost reduction. The Bank upgraded its Disaster Recovery Site at Rajagiriya in order to ensure uninterrupted service to its customers.

With innovation being a key benchmark for any product or service launched by PABC, the Bank's vision for 2006 includes an upgrade to the core banking application with 24 hour online features, adding more innovative services to SMS/Internet banking, enhancing the ATM network of the Bank with Cirrus/MasterCard connectivity and improving the internal infrastructure of IT to maximise the cost benefit to the Bank.

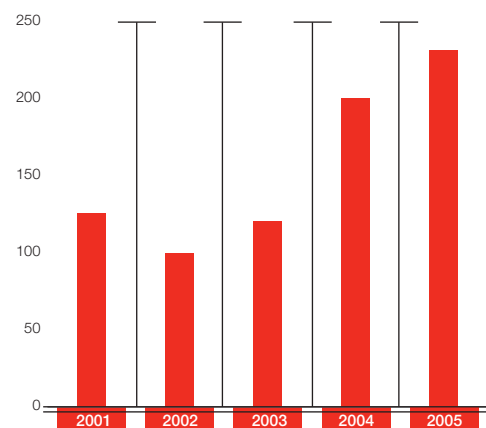
Financial Review



Net Profit for the Year
(Rs. millions)

Net Profit for the Year

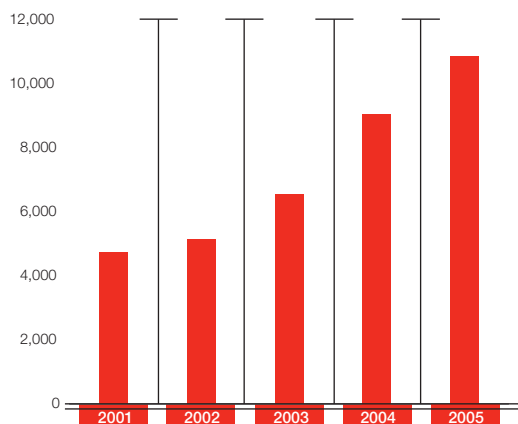
The profit before Income Tax Rs. 152.23 million and Net Profit is Rs. 108.33 million. This marks a growth of 177.46% and 163.11% respectively.



Other Income
(Rs. millions)

Other Income

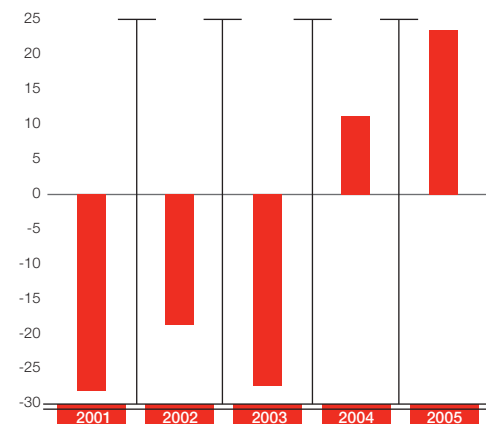
The Fee Based and Foreign Exchange Income recorded for the year 2005 was Rs. 231.63 million., compared to year 2004 of Rs. 200.62 million., revealed the upward trend of a 15.46% growth.



Total Assets
(Rs. millions)

Total Assets

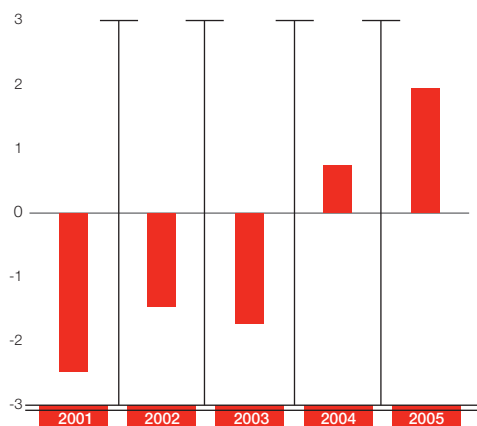
Total Assets of the Bank stood at Rs. 10,851.34 million. as at 31/12/2005 reflecting a growth of 19.93% over the 2004.



Return on Shareholders' Funds
(%)

Return on Shareholders' Funds

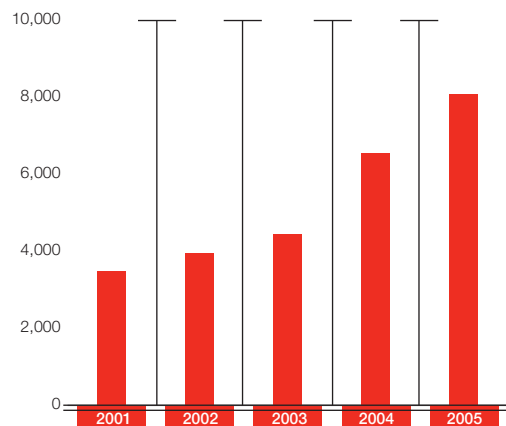
The ratio was 23.53% in the year 2005 compared to 11.22% in year 2004.



Earnings Per Share
(Rs.)

EPS

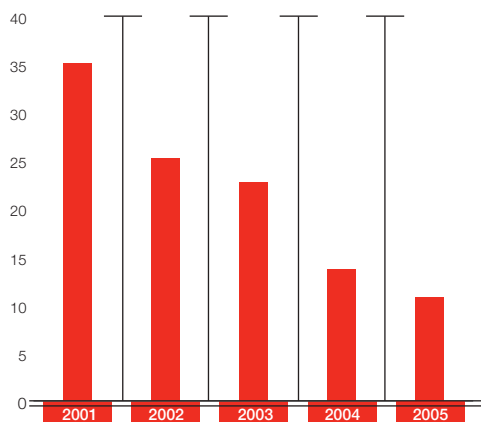
Earnings Per Share of PABC for the year 2005 was Rs.1.95 posting a growth of 163.51% due to the outstanding performance during the year.



Deposits
(Rs. millions)

Deposits of the Bank

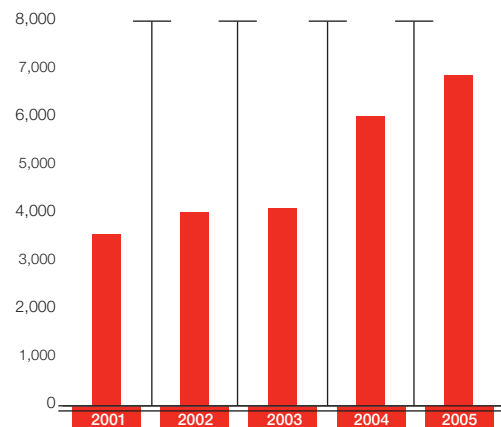
A deposit growth of 23.54% in year 2005 compared to previous year. Deposit base as at Dec 2005 was Rs. 8,100.72 million and 2004 was Rs. 6,557.19 million.



Non-Performing Advances Ratio
(%)

Non-Performing Advances Ratio

Non-Performing Advances Ratio of the Bank was reduced from 13.70% in year 2004 to 10.73% in year 2005. This was achieved through intensive recovery drive.



Net Advances
(Rs. millions)

Advances of the Bank (Net)

Net Advances recorded a growth of 14.29% from Rs. 6,013.10 million in year 2004 to Rs. 6,872.61 million in year 2005.

Our Sustaining Efforts Towards the Society



Customer get-together at the Nugegoda Branch

As a bank, we believe we also have a responsibility to be of service to the people of Sri Lanka and as such we have to play our part in helping the development of an empowered nation. Being a small sized bank in comparison to the other major commercial banks in the industry, we have faced many challenges since inception and thus, have had to look inwards at ourselves to ensure our sustainability. In that time, our biggest responsibility was maintaining the integrity and competitiveness of the Bank and to ensure that our team were with us on a long and difficult journey. This we are proud to say has been achieved. Our Team has been one of our greatest strengths and with their commitment towards the betterment of the Bank have ensured that another stakeholder segment, our customers have placed confidence in our abilities to continue being 'their own Bank'. Thus, while being honoured that both these segments have believed in us unequivocally to ensure our continuance, we are confident that we have now overcome the challenges that faced us in years past. We are now ready to embark on fulfilling our mission statement.

Having overcome those challenges and successfully turning around and repositioning ourselves, we are now moving towards attaining our vision of being the most customer preferred commercial bank in Sri Lanka. We are also ready to become an all important cog in the wheel of sustainable development in Sri Lanka, contributing in our own way towards achieving a sustainable future for all our stakeholders and the country in total, mainly the retail and middle market segments.

What you will read in the next few pages are the efforts we have employed towards this contribution. The initiatives may be small in some contexts but as the axiom goes, 'Little drops of water make the mighty ocean' and these in their own way have contributed towards the bigger picture of sustainability. We aim to grow the initiatives we have in place and to introduce and employ more in the next few years to ensure that our goals and actions in sustainability will be considered significant.

CUSTOMER RELATIONS

The loyalty displayed by our customers throughout our years in operation can only be termed outstanding. Given that the Bank has been through rough patches in the past, our customers have not veered in their faith in the Bank but have been a partner in our efforts towards beating the challenges that arose. Given the change management and restructuring strategies we employed, we are now happy to mention that we are headed on a great track towards a bright future.





Breakfast meeting for the Customers at the Head office

In appreciation of our customers and in a bid to further augment the strong relationship we have with them, in the last year, the Bank embarked on some programmes that will assist various segments of our customers in developing themselves and ensuring a sustainable environment for them to grow. As a routine effort, we now invite experts and specialists in various fields to address customers at breakfast meetings. The speakers have included :

- Bennet Patternott, (Group General Manager, HR Carsons Management Services) on 'Learning as a Strategy for your success'
- Dhammika Kalapuge (Chartered Marketer) on "Easy Things First"
- Dr. Travis Perera (Snr. Consultant in HRD, Postgraduate Institute of Management) on 'Entrepreneurship'
- Ajith Colonne (Former Chairman of the NAITA, visiting lecturer on the MBA programmes at the Universities) on 'Norms in the 21st century'

- Kingsley Bernard (Management Consultant-SLECIC) on 'Team Building'

EMPLOYEE RELATIONS

Our Team has remained the backbone of our existence. It is they who have provided the lifeblood for the Bank to continue its operations, to meet constantly

emerging challenges, influence a healthy turnaround and now work towards bigger and better goals. The Bank has in turn, worked on creating an environment of opportunity, rewards and achievement, where teamwork and unity lie paramount in achieving the Bank's Vision and Mission, while allowing individuals to grow, develop and reach beyond their capacities, abilities and skills. The Balanced Scorecard implemented in 2004, continuous and apt training, development with developmental goals in mind and the 'open door' policy in management which encourages a feedback of ideas and new thinking, enables us to achieve these two pronged goals.

As the Bank grows, so does our Team, both in a personal and professional sense and the Bank will continue to maintain and enhance that environment of achievement and competitiveness to ensure that together, we can make a journey that will take us to greater heights.

Many organisations face the challenge of developing greater confidence, initiative, solutions-finding, and



PABC Ball 2005



problem-solving capabilities among their people. Organisations need staff at all levels to be more self-sufficient, resourceful, creative and autonomous. This behaviour enables staff to operate at higher strategic levels, which makes them more productive and competitive. People's efforts produce bigger results. It's what all organisations strive to achieve.

Recruitment and Selection

Every Business must devise a means to make and measure the profit from an investment as profit reflects the very nature of Business. Since the profitability of a company is directly linked to the Performance of Employees it is imperative that an organisation makes the correct recruitment decisions. With this in mind a demanding and meticulous recruitment and selection process has been set in place with an aim of recruiting the best in the market.

The prospective candidates are subjected to a selection process consisting of aptitude & psychometric tests/ interviews in several stages. In order to maintain uniformity and fair play, the Bank has

introduced interview panels for each grade and stage of recruitment. For the year 2005 we were successful in making recruitments consisting of Corporate Management members, Managers, Executives, Clerical and allied grades, increasing the cadre to 394.

Training & Development

Training & Development in any sense should lead to organisational performance improvement. To facilitate this process the Bank's performance needs, gaps and priorities were first identified and a training calendar for the year was formulated in accordance with these factors. Significant progress was made in this area with an emphasis on job knowledge and customer service skills. In recognition of the importance of staff development for continued growth, a residential training programme over a weekend was conducted. In addition several employees were sent overseas to enhance their technical expertise in IT.

In addition 24 in house training programmes were conducted throughout the year for over 234

participants and 101 participants were sent for outdoor training sessions.

Staff Well-being, Motivation and Satisfaction

On reaching a significant milestone by completing 10 years of service in the banking industry, we acknowledged the importance of the human factor in our success, by rewarding 12 employees who completed 10 years of service by presenting them with Gold Medals in recognition of their long years of service.

The talent and capabilities of our staff were well demonstrated by becoming the winners in The Banking Quiz conducted by the Association of Chartered Bankers of Sri Lanka, one of the most popular events amongst the bankers of Sri Lanka with over 30 teams participating. The winning team were awarded cash rewards. Another team who developed the software which won the bronze award at the National Best Quality Software Awards 2005 was appreciated by the presentation of a gold medal each.

Taking into account that our employees are our key asset, a number of HR initiatives were introduced with a view to motivating the staff. The promotional procedure was amended giving due weightage to the number of years in service and experience in the Grade, in addition to professional qualifications. We were able to promote 43 employees this year in line with these amendments.

Recognising the high performance of our employees, merit increments were given for staff members up to the grade of Executive Level 2, who scored above 71 marks at the year end performance evaluation.

In keeping with the PABC tradition, the Annual Sports Fiesta, Dinner Dance and Children's Christmas party were conducted by the PABC Sports Club and was an unparalleled success.

Human Resources Development Department

Since Corporate Governance emphasises the need to balance the achievement of corporate objectives against the need for a sound framework of controls, the Bank introduced several new policies and procedures. These policies were established to inculcate a culture of accountability, compliance and transparency in the organisation.

Employee Orientation/ Induction programmes

Induction training is more than skills training. It is one of the most important steps in the absorption of a new recruit to an organisation. It is these first impressions that decide the successful integration of the new recruits to the organisation. Good induction training ensures that new recruits are retained, and then settled in quickly and happily to a productive role. To facilitate and ensure successful settling in by the new recruits, they are subjected to in-depth Induction programmes, where they are given an insight into the culture, norms and structure of the Bank along with a brief introduction to the departments and their functions.

Recruitment of Management Trainees

With a view to ensuring an effective succession plan for the Bank, 18 management trainees were recruited after a vigorous and intensive selection process. They will be subjected to an effective on the job training consisting of rotations between branches and Head



Staff relaxing after a street campaign

Office departments. This training will enable them to take up strategic positions in the organisation in the future.

We offer young graduate students the opportunity of gaining valuable exposure to the corporate world through our internship scheme.

This scheme designed to facilitate the practical development addresses the need to make graduates more employable by giving them a basic set of knowledge and skills required to thrive in a corporate culture. The interns are remunerated a nominal amount during their internship.

Salary Review Committee

The Bank also continued its efforts in bringing remuneration more in line with the prevalent norms of the industry, with a salary revision for the employees up to the grade of Manager. This was implemented upon the recommendation of the Board sub-committee in order to retain quality staff and to attract competent employees from the market.

Disciplinary Procedure

A Disciplinary procedure was introduced in order to standardise and give equitable solutions to all concerned. This new procedure will help maintain the transparency of the organisation and facilitate compliance by the employees with the bank's code of conduct and laid down policies and procedures.

Transfer procedure

As rotation of staff is mandatory for ensuring security of banking operations, development of skills to meet exigencies of service and for other administrative reasons, an internal transfer procedure was implemented.

Information Technology Structure

Considering the importance of IT in competencies, technological advancements in the field, and to make optimum use of these features to develop low cost solutions, the IT Department was restructured with relevant job responsibilities, promotional guidelines and salary structure. From the control point of view, clear

responsibilities for development, operations and system security were demarcated.

COMMUNITY RELATIONS

The support and encouragement we have received from the community in the challenging times we faced in the past have been immeasurable. We believe that the strong relationships we have forged with the communities that we operate in have helped us in our turnaround efforts and in the good performances we have displayed this year. We are extremely appreciative of this confidence and encouragement without which, 'rising like the phoenix' would not have been possible. As soon as we were able, we began giving back to the community in a sincere gesture of thanks and in the hope that our commitment to the betterment of the community will uplift and develop the people around us.

Developing our youth

Youth in our country are enthusiastic and dynamic but most often are not given direction, the proper guidance or the opportunities to give of their best towards developing themselves, their community and subsequently the nation. PABC Bank identified some projects during the course of the year that would give leadership and the impetus necessary to point young people towards a holistic development. Some of the projects we have been involved in are given below:

- Partnered the University of Sri Jayawardenepura in its publication, 'Practical Guidelines of the Department of Finance' for the undergraduates of the University
- Partnered the Jaycees International on a programme on 'Personal Development'

- Co-partnered a programme to mark World Children's Day at the BMICH in Colombo with the Ministry of Information, providing educational information and entertainment to children from all parts of the country
- Several underprivileged schools in rural difficult areas with no access and no funds to enhance IT skills, were gifted with 57 well maintained computers in our contribution towards the national goal of taking IT to the villages.
- Students obtaining the highest aggregates at the GCE A/level examination in the districts of Colombo, Gampaha, Kurunegala, Kandy, Matara and Ratnapura were awarded cash gifts towards expenses for the initial part of university education
- Employees and Bank equally contributed to the CBSL Fund to assist Tsunami hit brethren.
- Partnered the Interact Clubs of Bishop's College and Royal College in a two fold project of skills development. A day out was organised for 200 Tsunami children thereby giving these unfortunate children a little light in their lives. The programme

also served to hone the leadership and organisational skills as well as to nurture the sense of caring for others in the young people organising the event.

- Sponsor of the Inter-school Scrabble Competition
- De Mazenod College Kandana organised a car wash campaign to assist tsunami victims. The Bank gladly assisted this worthy project as these students were given an opportunity to develop their organisational skills while bringing out the very important facet of social responsibility in these young people.
- With sports having been a proven skill in building team spirit and teamworking, to give impetus to sport and these facets of youth development, the Bank sponsored a soft ball six-a-side tournament in Panadura

Gender Equality

With women playing a vital role in the complete development of family and community, we have also seen the emergence of entrepreneurial skills among



Donating computers to a School in Matara

women, who have taken on the mantle of supporting their families or becoming breadwinners themselves. To mark International Women's Day, the Bank co-sponsored workshops on cookery and hair dressing, a viable avenue of self employment that can be nurtured and developed for women to attain sustainable empowerment.

Relationship Building

In its years of operation, the Bank is well aware of the importance of building relationships. Strong relationships forge life long ties and a Bank is built upon that foundation.

Hence, we have

now taken that message into the community and been active in relationship building programmes that will create further unity among various segments of society.

- To forge stronger ties between the police and the residents, PABC Bank sponsored a public awareness programme in Kotahena.
- Sponsored a 'Paduru Party' organised by the Traders' Association of Kandy.
 - Sponsored the gifts presented at the Sinhala Velanda Peramuna Annual Awards Ceremony.
 - Fulfilling a long felt need in Kurunegala, the Bank was a significant contributor towards the inauguration of the Kurunegala Town Complex.

Caring & Sharing

Within a caring and sharing atmosphere which we try to inculcate among our Team, we believe that a sustainable environment can be created. By uplifting some of the most destitute and unfortunate segments of society, we will build bridges for them to cross confidently in their endeavours to lead a better life. The Bank was involved in:

- Partnering the Sahanodaya Foundation in assisting 602 tsunami affected children, providing scholarships and gift packs comprising school requirements. The Bank contributed 550 school bags and opened 602 Lahiru accounts at the PABC branch in Dehiwala.
- The team members of the branches are magnanimous in their philosophy of caring and sharing and have continuously worked within the communities, especially the elders, giving alms and sharing meals to mark the anniversaries of the branches.
- On the health platform, the Bank co-sponsored a cancer awareness programme on World Cancer Day in Kandy.

Importance of culture and religion

While development brings with it opportunities and innovation, PABC Bank has not forgotten Sri Lanka's history, religious roots, culture and traditions that stand tall and strong, evolving almost from the beginning of civilisation. We believe that being a Bank operating in a country with such a proud history, we have a due diligence and responsibility to keep these historical foundations alive and remembered. We have:





Offering mid day meal to devotees in Kataragama

- co-sponsored the Gampaha Bak Maha Ulela Perahera.
- offered a mid-day meal to 5,000 devotees on Vesak day at the Kirivehera in Kataragama. A contribution of Rs 150,000 was also made towards the Ruhunu Maahgampaththtuwa Kataragama Kirivehera Temple.
- co-sponsored the Natya Kala Mandir's programme presented by the Fine Arts students of that school.
- co-sponsored the Colombo KAMBYAN Cultural Programme.

ENVIRONMENT

Being an organisation in the financial services industry, we are not mandated for environment certification for our operations though we are extremely conscious of the absolute importance of environmental sustainability and banking ethics.

Garbage disposal

PABC Bank constantly reminds its team of their civic responsibilities and tries to bring in a sense of environmental responsibility where garbage disposal must be effected to the proper norms. We believe also in setting examples for others to follow. And as an initial step, whenever the Bank conducts highway promotions, all garbage resulting from this exercise is collected and disposed of or recycled by the Bank, while the promotional area too is cleaned up.

Conserving Energy

We are also conscious of the energy problems that the country is faced with, especially with regard to electricity which cost is extremely high for an emerging economy. One of the initiatives in place is to remind all employees of our Bank to switch off electric bulbs, computers and appliances before they leave the office. We have also programmed one of our elevators to stop operations after 6 p.m. each evening to save on energy consumption.



Sahanoda Foster Parent Children Fund in progress

Going Green on Paper

We have initiated a concerted drive towards a paperless environment in the entirety of our operations. We have centralised many of our processes eliminating

duplication. All employees have their own email and internal memos are done electronically via email or intranet. This year we also strategically implemented a paper recycling effort within the office where all waste paper is shredded, collated in boxes and is collected by a company for recycling purposes.

Supporting Environmentally Friendly Projects

The industrial sector needs to be more aware of the importance of waste management and environmental conformity. In the coming years, PABC Bank will be more supportive of organisations that have an environmental policy and embark on environmentally friendly projects or initiatives, which will in effect contribute towards environmental sustainability. Since our operations do not allow us to play as direct a role as we would like in the conservation of the environment, by assisting those who are implementing and are conscious of the cohabitation required for the sustenance of human life on earth, we think we can make a further contribution towards our environmental conservation goals.



Responsibility Towards Good Corporate Governance

The Board of Directors and Management of PABC Bank are completely committed to internationally accepted principles of Good Corporate Governance, with the intention of adhering very strictly to corporate values such as Transparency, Integrity, Disclosure, and Accountability.

We at PABC believe that it is only through the application of such corporate values that we can fully execute our responsibilities to all our stakeholders, who include shareholders, management, staff, customers, partners, suppliers, and society as a whole.

As a bank that is committed to the steady expansion of products, services, and branches, we believe that good corporate governance is an essential element in striking the correct balance between the Company's financial growth, operational growth, and the needs of shareholders and stakeholders. It is these principles that govern the day to day direction, control and administration of important functions of the bank.

Corporate governance also provides the structure through which the objectives of the Company are set. It is also the means through which those objectives are attained, and the manner in which the performance of departments and individual members of the staff are monitored. Good corporate governance provides incentives for the Board and management to pursue

objectives that are in the interests of the Company, and encourages the use of resources in the most efficient manner.

The members of the staff of PABC have been made fully aware of the Company's policies on corporate governance, including those in the branch network. Their commitment to good corporate governance practices is closely monitored by three sub committees of the Board.

The Board of Directors of PABC Bank

The Company's Board is comprised of ten Directors, all of whom are independent and Non-Executive Directors except for the Managing Director/GM/CEO.

Mr. W.M. Abeyratne Bandara	- Chairman
Mr. K.D. Dhammika Perera	- Deputy Chairman
Mr. R. Nadarajah	- Managing Director /GM/ CEO
Mr. M.S.M.M. Marikkar	- Director
Mr. A.W. Hathiramani	- Director
Mr. S.K.M. Nandasena	- Director
Mrs. H.V. Amarasekera	- Director
Mr. A.G. Weerasinghe	- Director
Mr. J.A.S.S. Adhihetty	- Director
Mr. R. Hewavitharana	- Director
Mr. Ravi Hathiramani	- Alternate Director for Mr. A.W. Hathiramani

Expert Advice for the Board

The Board obtains the advice of three Sub Committees, each of which monitors an area under its control covering the areas of Audit, Credit, and Salary Review. Each of these sub-committees is comprised of three members, and is chaired by a Non-Executive Director, and its recommendations are conveyed to the Board of Directors for necessary action. Meetings of each sub committee are attended by the Managing Director / General Manager / Chief Executive Officer, Deputy CEO & relevant members of staff.

The Board is also advised by members of the Corporate Management, and the Board from time to time obtains the expert advice of independent professionals on specific matters as deemed necessary.

Division of Roles and Responsibilities

The posts of Chairman and Managing Director/GM/CEO are occupied by separate individuals, in keeping with accepted principles of corporate governance.

The Chairman

The Chairman conducts meetings of the Board, and ensures that all Directors contribute towards the objectives of the Company and presides over any meetings of the share holders.

The Managing Director /General Manager/ Chief Executive Officer

The Managing Director /GM/ Chief Executive Officer is responsible for the day-to-day activities of the Company, and the implementation of long term strategies and policies of the Board.

He brings to the attention of the Board all relevant issues facing the Company, and advises the Board on business opportunities and strategies which have been evaluated and recommended by the Management Team. He also provides the Board with complete and up-to-date information on any matter as instructed by the Board.

Company Secretary

The Board is assisted by the Company Secretary, who advises on proper procedures, rules and guidelines with regard to Board matters.

Expertise of the Board

The knowledge and expertise of the Board of Directors is maintained at current levels in the banking industry, through the services of internal and external experts when the need arises. None of the members of the Board of Directors is an employee of the Company, except for the Managing Director /GM/ CEO.

Audit Sub Committee

Mr. A.G. Weerasinghe (Chairman)

Mr. S.K.M. Nandasena

Mrs. H.V. Amarasekera

The Audit Sub Committee comprises of three non Executive Directors of the Bank. The Sub Committee approves the Company's audit plans in advance. It then provides a forum for discussion of issues and recommendations that are highlighted in the audit reports and the management letter from external auditors, and formulates remedial measures whenever necessary.

Among its many functions, the Audit Sub Committee reviews the bank's systems of internal control, and its compliance with statutory requirements.

Credit Sub Committee

Mr. W.M. Abeyratne Bandara (Chairman)

Mr. K.D. Dhammika Perera

Mr. J.A.S.S. Adhihetty

The Credit Sub Committee is responsible for the reviewing of the bank's Credit Policy on a regular basis with objective of maintaining a healthy Credit Portfolio in the bank. In addition, the Sub Committee also reviews credit approvals which are made under delegated authority. Credit limits that exceed the

General Manager's authority are approved or recommended for approval by the Board, as appropriate.

The progress of Credit Recoveries is also reviewed at meetings of the Sub Committee, which are held fortnightly. The special attention of the Sub Committee was given during this financial year towards the re-structuring of the Credit Administration of the bank and the monitoring of Bank Advances.

Salary Review Committee

Mr. A.G. Weerasinghe (Chairman)

Mr. S.K.M. Nandasena

Mrs. H.V. Amarasekera

The Salary Review Committee is in charge of the bank's continuing efforts to bring the remuneration of members of the management and staff in line with prevailing norms in the industry, with the intention of retaining staff of high quality, and attracting more individuals of proven talent, experience and expertise in the industry.

The Committee, together with senior members of the management team, made a thorough analysis of market rates and revised the salaries of employees up to the grade of Manager, during the year under review.

The Committee paid special attention to the IT Department, as the bank intends to take maximum advantage of technological advancements in the IT field to provide it with a competitive advantage by developing low cost solutions to enhance the bank's services. The IT Department was restructured with designated job descriptions and responsibilities, guidelines for promotions, and a revised salary structure. From a control point of view, clear responsibilities were demarcated for development, operations, and system security.

The Management Team

The day to day running of the bank's operations is carried out under the supervision of the management team, which reports directly to the Managing Director/GM / CEO. They are responsible for the identification of issues, risks, and opportunities, and the formulation of recommendations to the Board through the MD/GM / CEO.

They are also responsible for the achievement of targets and goals, and the implementation of strategies and projects within stipulated budgets and time frames.

Appointments to the Board

Casual appointments to the Board are done under Article 100 of the Articles of Association as and when necessary by the Board of Directors.

Re-election of Members of the Board

Re-election of members of the Board are done as per Articles 93 and 94 of the Articles of Association.

Directors' Remuneration

Each director is paid a nominal fee for attendance at each Board meeting.

Relations and Opinions of Shareholders

The Company values the opinions of its many shareholders, and strives to keep shareholders informed of the performance, activities and developments in the Company. The Annual General Meeting is an opportunity for shareholders to voice their opinions with regard to matters pertaining to the Company, and is also a forum for a mutual exchange of information between shareholders and the Board.

Increasing Shareholder Value

Uppermost in the minds of the members of the Board is the objective of enhancing returns for shareholders, through the increase of profits of the Company. All activities and strategies of the Company are carried out in keeping with this objective.

Protecting Depositors

The Company considers the protection of depositors to be a matter of the utmost importance. The Board and Senior Management are constantly vigilant for the

slightest possibility of inefficiency in the Company's operations, in order to ensure the complete elimination of wastage and mismanagement.

Compliance

The bank makes a continuous effort to comply with all applicable laws, rules and regulations pertaining to the banking industry of Sri Lanka, and all accepted international banking practices. The bank works closely with all regulators, especially those of the Central Bank, in order to ensure integrity and accountability in all its day to day and long term strategic activities.

Auditors to the Company

The bank continues to maintain a relationship with its auditors, M/s Ernst & Young, which is expected to safeguard the independence of the Auditors while at the same time providing an appropriate environment for its staff to conduct thorough audits of the bank's financial activities.

Internal Controls

PABC places a very high degree of importance in ensuring that its Internal Control Systems are in place to avoid and/or minimise operational risks as far as possible.

Regular Branch / Departmental Audits are carried out, which have been designed to provide assurance that

the bank's pre-determined operational guidelines, systems and procedures are being complied with. The audit findings are discussed in detail at meetings of the Board Audit Sub Committee. Special attention is paid to the adequacy of procedures and controls.

Regular meetings are held with operational staff to discuss operational issues in detail and take all possible preventive measures on risk areas highlighted at these meetings. These meetings are considered to be highly effective since they involve participation of a cross-section of staff.

The segregation of the business from the operations is ensured so that these two functions run independently.

In addition to the requirements under BASEL II to provide capital to cover operational risks, the bank considers the strengthening procedures and systems necessary at all times, as a measure to prevent operational losses.

Human Resources Development

Since Corporate Governance emphasises the need to balance the achievement of corporate objectives against the need for a sound framework of controls, the bank introduced several new policies and procedures from time to time.

The bank introduced a Disciplinary Procedure and a Transfer Procedure in the year 2005 as guidelines for efficient handling of Human Resources.

The bank has also focused on continuous skills development to complement Corporate Governance and the need to balance the achievement of Corporate Objectives. A well-planned programme of Induction Training ensures that newcomers fit into the corporate environment rapidly, and settle in quickly to a productive role. This includes awareness programmes in elements of Banking, and an effective on the job training consisting of rotations between Branches and Head Office departments.

Report of the Directors

Directors of Pan Asia Banking Corporation Ltd., have pleasure in presenting to the members their report together with the audited financial statements for the year ended 31st December 2005.

Company's Activities

The principal activities of the Company are commercial banking and related financial services.

Profit and Appropriation

The Bank's profits and appropriations were as follows :

	2005 Rs. 000	2004 Rs. 000
Profit before taxation	152,229	54,866
Taxation	(43,900)	(13,693)
Profit after taxation	108,329	41,173
Retained profit/(loss) brought forward	(186,060)	(226,233)
Transfer to Reserve Fund	(6,500)	(1,000)
Surplus on revaluation of property, plant & equipment at the time of disposal	1,131	-
Unappropriated profit/(loss) to be carried forward	(83,100)	(186,060)

Provision for Taxation

Deferred taxation is provided on the liability method. However, there is no deferred tax liability in view of tax losses. The Tax Charge on the Bank's profits for the year 2005 was 30% on domestic operations and on profits from all on-shore transactions of the Foreign Currency Banking Unit. The tax charge on profit on off-shore operations of FCBU was 20%.

Capital Expenditure

Expenditure on Property, Plant & Equipment at cost amounted to Rs. 24,155,252 during 2005, details of which are given in Note 23 to the Accounts.

Reserves

The Bank's Reserves as at December 31, 2005 stood at Rs. (15,745,631). This comprises a Statutory Reserve Fund of Rs.12,270,909, Revaluation reserve of Rs.55,083,561 and Revenue Reserve of Rs.(83,100,101). The movement in Reserve Fund and Revaluation Reserve are shown in Notes 29 & 30 to the Accounts respectively.

Share Capital

The total issued and paid up share capital as at December 31st 2005 was Rs. 555,718,830 consisting of 55,571,883 ordinary shares, paid up value Rs. 10/- per share.

Donations / Contributions

During the year under review, the Board has made the following donations / contributions :-

1. National Disaster (Tsunami)	Rs. 541,560
2. Ruhunu Kataragama Kirivehera	Rs. 150,000
3. World Childrens' Day	Rs. 100,000
4. Staff Sports Festival	Rs. 50,000
Total amount	Rs. 841,560

Shareholding

There were 1205 registered shareholders as at 31st December, 2005. The distribution of the shareholding is shown on page 72 of this report.

Top 20 Shareholders

The Top 20 Shareholders of the Bank is given on page 73 with their names and holding.

Directors

Following were the directors of Pan Asia Banking Corporation Ltd., during the year ended 31st December 2005 and the following changes

occurred in the Composition of the Board during the period under review. :-

Mr. W M Abeyratne Bandara	- Chairman
Mr. K D D Perera *	- Deputy Chairman
Mr. A W Hathiramani**	- Director
Mr. M S M M Marikkar	- Director
Mr. J C P Jayasinghe	- Director (Resigned w.e.f. 11.05.2005)
Mr. S K M Nandasena	- Director
Ms. G N M Alles	- Director (Resigned w.e.f. 25.07.2005)
Mr. N Pushparaja	- Director (Ceased to be a Director w.e.f. 26.05.2005)
Mr. W G Mithraratne	- Director (Resigned w. e. f. 23.03.2005)
Mr. N F V Cooray	- Director (Ceased to be a Director w.e.f. 26.05.2005)
Ms. H V Amarasekera	- Director (Appointed w.e.f. 15.06.2005)
Mr. A G Weerasinghe	- Director (Appointed w.e.f. 15.06.2005)
Mr. J A S S Adhihetty	- Director (Appointed w.e.f. 15.06.2005)
Mr. R Hewavitharana	- Director (Appointed w.e.f. 15.06.2005)
Mr. R Nadarajah	- MD/GM/CEO/Director

* Mr. W D N H Perera was the Alternate Director to Mr. K D D Perera during the period 06.04.2005 to 25.07.2005

** Mr. R Hathiramani was the Alternate Director to Mr. A W Hathiramani.

Retirements

The Directors retiring by rotation in terms of Articles 93 and 94 of the Articles of Association are Mr.W M Abeyratne Bandara and Mr. A W Hathiramani.

Directors retiring under Article 100 are :-

Ms. H V Amarasekera
Mr. A G Weerasinghe
Mr. J A S S Adhihetty
Mr. R Hewavitharana

Directors' Interest in Shares

Shareholding of Directors together with their spouses and dependent children as on 31st December 2005.

	2005	2004
Mr. W M Abeyratne Bandara	50,000	50,000
Mr. K D D Perera	8,295,500	8,295,500
Mr. M S M M Marikkar	01	01
Mr. A W Hathiramani	01	01
Mr. S K M Nandasena	-	-
Ms. H V Amarasekera	-	-
Mr. A G Weerasinghe	2,000	-
Mr. J A S S Adhihetty	-	-
Mr. R Hewavitharana	-	-
Mr. R Hathiramani	-	-
Mr. R Nadarajah	10,000	10,000

Directors Interest in Contracts

The Directors of the Bank have no direct or indirect interest in any contract or proposed contracts of the Bank, except those specified in Note 34 to the accounts, which have been disclosed and declared at the meeting of Directors.

Audit Committee

During the period under review the Audit Committee of non-executive Directors of the Board was as follows :

Mr. N F V Cooray	- Chairman of the Committee (Ceased on 26.05.2005)
Mr. S K M Nandasena	- Member
Mr. J C P Jayasinghe	- Member (Resigned w.e.f. 11.05.2005)
Mr. A G Weerasinghe	- Chairman of the Committee (Appointed w.e.f. 15.06.2005)
Ms. H V Amarasekra	- Member (Appointed w.e.f. 15.06.2005)

All members of the Committee are non executive directors and their Report is contained on page 38 of this report.

Board Salary Review Committee

The Board Salary Review Committee members were as follows :-

Mr. J C P Jayasinghe	- Chairman of the Committee (Resigned w.e.f. 11.05.2005)
Ms. G N M Alles	- Member (Resigned w.e.f. 25.07.2005)
Mr. S K M Nandasena	- Member
Mr. A G Weerasinghe	- Chairman of the Committee (Appointed w.e.f. 15.06.2005)
Ms. H V Amarasekra	- Member (Appointed w.e.f. 15.06.2005)

Credit Sub Committee

The members of the Credit Sub Committee are non executive Directors.

Mr. W M Abeyratne Bandara	- Chairman of the Committee
Mr. K D D Perera	- Member
Ms. G N M Alles	- Member (Resigned w.e.f. 25.07.2005)
Mr. N Pushparaja	- Member (Ceased to be a member w.e.f. 26.05.2005)
Mr. J A S S Adhihetty	- Member (Appointed w.e.f. 31.08.2005)

Post Balance Sheet Events

There have not been any material events of unusual nature that occurred subsequent to the date of the Balance Sheet up to the date of signing of accounts, that warrants adjustments or disclosure to the Financial Statements.

Business Development

To mark the 10th anniversary of the PABC, the Bank launched 3 unique products Dasalakshapathi, Ran Nidiya & Sammana.

Dasalakshapathi

This product was launched with the idea of mobilising low cost deposits and broadening its customer data base. The unique feature of this product is that customers can establish a relationship with the Bank with a Minimum deposit of Rs.1000/-, earn interest and also participate in a draw offering a prize money of Rs.1 million.

Ran Nidiya

Launched with an intention of increasing PABCs "zero risk weighted asset" by Gold related lending and also enhancing the Bank's image amongst retail customers as a bank truly committed to helping the customers in

building their wealth. The product provides customers with an opportunity of investing for their future requirements of Gold at current prices. The scheme rotates on the basis of a loan that is repaid in equated monthly installments and offers customers the distinct advantage of capitalising on the increase in Gold prices through a facility of “buy back” at market price extended by the Bank.

Sammana

With an objective of acquiring a reasonable share of the rapidly growing senior citizens market, the senior citizen account “Sammana” was launched to citizens over the age of 50 years. The product also aims at acquiring long term funds and establishing a loyal reference group of customers to promote cross selling and other opportunities in the long run. The Unique Selling Proposition of this product is meeting the convenience of the aging population by offering to deliver their monthly interest right to their door step.

Meetings of Directors

The Directors of the Bank met twice a month for the regular Board Meetings in year 2005.

Corporate Governance

The main corporate governance practices of the Bank are given on pages 29 to 32 of this Report.

Appointment of Auditors

A resolution proposing the appointment of the Auditors of the Company will be proposed at the Annual General Meeting and authorising the Directors to determine their remuneration.

Annual General Meeting

The 11th Annual General Meeting of the Bank will be held at the Penthouse of Pan Asia Banking Corporation, 450, Galle Road, Colombo 03 on 27th April, 2006 at 10.00 a.m. The Notice of the 11th Annual General Meeting is on page 80 of this Report.

By order of the Board

N. Fernando

Company Secretary

PAN ASIA BANKING CORPORATION LIMITED

Colombo 3.

8th March, 2006

Risk Management

The identification and interpreting of various types of risks inherent in banking is of paramount importance. The Bank formulates and implements suitable Risk Management measures against each of the identified risks. The prime objective of the Bank's risk management system is to safeguard the Bank's capital, and financial resources including its deposit portfolio, whilst being mindful of increasing profitability; and improving the Bank's market share, reputation, and developing human resources.

Institutional Arrangements

The Asset/Liability Committee (ALCO), which meets monthly, is chaired by the Chief Executive Officer and is attended by the Corporate Management Staff. The committee is responsible for balance sheet management from a risk-return perspective including management/review of interest rates, liquidity profile, from maturity reports, investments and monitoring of capital risks. The primary goal of the committee is to achieve a correlation between profitability, business growth and risk.

The Board Credit Sub Committee meets regularly and is chaired by the Chairman. Its members include three directors with the Managing Director/Chief Executive Officer, Deputy CEO and the Deputy General Manager. All large credit proposals are evaluated and if need be approved by the committee and thereafter monitored. In addition, the Board limits prior to tabling at the Board are further evaluated for structure and for compliance with the Bank's credit criteria.

Credit Risk

Credit risk arises from a borrower failing to repay the capital or interest of a funded facility, or both, within the agreed period of time. Though the credit risk

continues to be inherent in lending, the bank mitigates this risk by implementing the following measures:-

- Careful credit evaluation based on the examination of financials, viability of operations including an assessment of the financial needs vis-à-vis borrower's overall banking relationships.
- Adequately securing advances.
- Adoption of a well defined Credit Policy that outlines the parameters for granting credit, including avoidance of excessive credit concentration, which may expose the bank to risk in the event of a downturn of a particular industry.
- Effective post sanction monitoring and the follow up to ensure the implementation of terms and conditions of approval of credit facilities.
- Delegation of authority to Branch Managers depending on their respective credit skills, banking experience and expertise.
- Skills development in credit evaluation/undertaking of good credit decision-making.
- Marking of approved credit limits/pricing by an independent centralised credit administration unit.
- Review of Credit Limits periodically.

Additionally, the Bank's software/Accounting procedures continue to be programmed strictly in accordance with the parameters set by the Central Bank of Sri Lanka on the suspension of interest including identifying/classification of non-performing loans.

PABC ensure two independent units effectively manage these credit risks namely.

- A) Credit appraisal / review/ Central Credit input
- B) Credit Recovery and Supervision

Credit evaluation continues to be achieved through a layered process, taking into consideration the importance of delivery time with the delegation of credit authority to Branch Managers and Senior Credit Officers.

Following on, each credit evaluation is subject to an independent review at different levels of authority.

Liquidity Risk

The objective of liquidity management is to ensure the availability of sufficient cash flows to meet all of the Bank's financial commitments and to facilitate the expansion of the business. For this, the Bank holds a sufficient level of highly liquid marketable assets such as Government Treasury Bills and Bonds. The Treasury Division is responsible for managing liquidity in accordance with Board policy while meeting the minimum regulatory requirements.

The primary objectives of the Bank's funding policies are to ensure liquidity in the event of a credit crunch and also to facilitate the desired level of asset growth. The liquidity management policy entails the identification and continuous monitoring of alternative funding sources to enable the expansion and diversification of the Assets/Liability portfolio. The Bank responds to changing market conditions by continuously monitoring and taking action to reduce the cost of funding to maintain acceptable margins.

Interest Rate Risks

The main Risk Management measures adopted to minimise Interest Rate Risks include managing mismatched maturity gaps of assets and liability products appearing on the Bank's Balance Sheet, and close monitoring of interest rate movements and

market trends and taking prompt decisions on re-pricing and timing of deposits and advances.

Foreign Exchange Risks

The Bank has adopted several Risk Management measures such as minimising overexposure on foreign currencies, minimising involvement in speculative trading, close monitoring of foreign currency exposures for both spot and forward positions, establishing different limits and reporting lines for dealing and processing staff, and hedging of currency exposures.

Market Risks

This arises from adverse price fluctuations in the Bank's trading portfolios, which would result in provisions for possible losses in the Profit & Loss Account. PABC Bank is free from this risk at present, as its exposure towards trading securities is currently nil.

Operational Risks

These risks arise from several sources such as natural disaster, human error, frauds, Computer/System failures etc. The main measures adopted are as follows ;

- Adequate steps have been undertaken to safeguard tangible assets including regular maintenance of equipment and having adequate insurance cover against various perceived risk.
- Ensuring proper systems, procedures and controls are in place, and constant review of such procedures.
- Taking extra precautionary measures to manage risk of computer related frauds.
- Having Disaster Recovery Plans.
- Planned Internal Audit of Operations in Branches and Head Office.
- The Bank is also taking necessary steps to meet with Basel II requirement.

Legal Risks

These risks are associated with non-compliance of various legal and other regulatory requirements. The main measures adopted are as follows ;

- Compliance with all legal and other requirements, not only as a Bank, but also as a public company, tax payer and as an employer.
- Appointment of a compliance officer to monitor the fulfilment of this requirement.
- Monitoring the compliance of legal and other Banking requirements at Board of Directors level.

Reputation Risks

It is the risk arising from adverse or negative publicity regarding the Bank's practices. Public perception, whether true or not in turn affects earnings/ Bank's ability to raise short term funds. Close review to service detail including the evaluation of comments from our existing customers including the systematic scanning of media reports provide regular feedback for the Bank to act pro-actively.

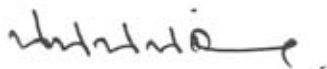
Audit Committee Report

The Audit Committee is appointed by the Board of Directors and comprises of three non - executive Directors of the Bank.

The Committee is empowered to examine any matters relating to the financial affairs of the Bank and to review the adequacy and effectiveness of internal control procedures, assess compliance with statutory and corporate governance requirements, analyse the statutory accounts and published financial statements. The Committee also takes note of all significant observations highlighted in the internal and external audit reports relating to business risks and control issues.

The Committee during the year had monthly meetings and reviewed the external auditors' management letter and assessed action taken by the Management to provide reasonable assurance to the Directors that the assets are safeguarded and financial position and the results of operations disclosed in the accounts are free from material misstatements.

The Committee has recommended to the Board of Directors that M/s. Ernst & Young be re-appointed as Auditors for the year ending December 31, 2006 subject to the approval of shareholders at the Annual General Meeting.



Mr. A.G. Weerasinghe
*Chairman,
Audit Committee*

February 22, 2006

Directors' Responsibility for Financial Reporting

The financial statements for the year 2005 of the Bank have been prepared and presented in accordance with the Sri Lanka Accounting Standards, the Companies Act No. 17 of 1982, the Banking Act No. 30 of 1988, the Banking (Amendment) Act No. 33 of 1995 and the Banking (Amendment) Act No. 2 of 2005.

The Board of Directors has established an effective system for Internal Controls. This comprises Internal Check, Internal Audit and the whole system of financial and other controls to secure as far as practicable the accuracy and reliability of the records.

The Bank's Auditors, M/S Ernst & Young carry out checks on internal control as and when necessary.

The Board of Directors at their regular meetings reviews the monthly financial statements.

The Bank Supervision Department of the Central Bank of Sri Lanka carries out their Audit to ensure the effective implementation of the internal control systems.

The Directors are also satisfied that suitable accounting policies have been consistently applied, supported by reasonable and prudent judgement, and that estimates have been applied in the preparation of these financial statements and considered that the Bank is a going concern and will continue in operations for the foreseeable future.

By order of the Board



Company Secretary,

8th March, 2006

Corporate Information

NAME OF THE COMPANY	:	Pan Asia Banking Corporation Limited
LEGAL FORM	:	A Public limited liability Company incorporated in Sri Lanka on 6th March, 1995 under the Companies Act No. 17 of 1982. A licensed commercial Bank under the Banking Act No. 30 of 1988 and listed in the Colombo Stock Exchange.
COMPANY REGISTRATION NO	:	N(PBS)570
REGISTERED OFFICE / HEAD OFFICE	:	450, Galle Road, Colombo 03.
AUDITORS	:	Ernst & Young - Chartered Accountants
COMPANY SECRETARY	:	Ms. N Fernando, Attorney-at-Law
TELEPHONE	:	+94 (0)11 2565565
FAX	:	+94 (0)11 2565558
TELEX	:	23477 PABNKCE
SWIFT CODE	:	PABSLKLX
E-MAIL	:	pabc@pabcbank.com
WEB SITE	:	www.pabcbank.com
VAT REGISTRATION NO	:	1340057007000
CREDIT RATING	:	FITCH Rating (Lanka) Limited has affirmed BB+(sri) National Rating for Pan Asia Banking Corporation Ltd, in 2005
STOCK EXCHANGE LISTING	:	55,571,883 Ordinary Shares

Financial Reports & Accounts

Financial Calendar	41	Analysis of Deposits	66	Ten Year Statistical Summary	74
Report of the Auditors	43	Analysis of Advances	67	Graphical Review of Ten Year Summary	76
Income Statement	44	Sources & Utilisation of Funds	68	Definition of Financial Terms	77
Balance Sheet	45	Value Added Statement	69	Correspondent Banks	78
Statement of Changes in Equity	46	Quarterly Statistics	70	Notice of Meeting	80
Cash Flow Statement	47	Branch Network	71	Form of Proxy	83
Notes to the Financial Statements	48	Information of Shareholders	72		
Capital Adequacy	64	Top Twenty Shareholders	73		

Financial Calendar

Financial Calendar - 2005

1st Quarterly Results 2005	April 2005
2nd Quarterly Results 2005	July 2005
3rd Quarterly Results 2005	October 2005
Annual Report for 2005	April 2006
11th Annual General Meeting	April 2006

Financial Calendar - 2006

1st Quarterly Results 2006	April 2006
2nd Quarterly Results 2006	July 2006
3rd Quarterly Results 2006	October 2006
Annual Report for 2006	March 2007
12th Annual General Meeting	April 2007

Report of the Auditors



■ **Chartered Accountants**
201 De Saram Place
P. O. Box 101
Colombo 10
Sri Lanka

■ **Telephone** : (0) 11 2463500
Fax **Gen** : (0) 11 2697369
 Tax : (0) 11 5375180
E-Mail : cysl@lk.ey.com

AUDITORS' REPORT TO THE MEMBERS OF PAN ASIA BANKING CORPORATION LIMITED

We have audited the Balance Sheet of Pan Asia Banking Corporation Ltd., as at December 31, 2005 and the related statements of Income, Changes in Equity and Cash Flows for the year then ended and the related Accounting Policies and Notes exhibited on pages 44 to 63.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. 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 has maintained proper books of account for the year ended December 31, 2005 and to the best of our information and according to the explanations given to us, the said Balance Sheet and related statements of Income, Changes in Equity and Cash Flows and the Accounting Policies and Notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and the Banking Act No. 30 of 1988 as amended by the Banking (Amendment) Act No. 33 of 1995, and give a true and fair view of the Bank's state of affairs as at December 31, 2005 and its profit, changes in equity and cash flows for the year then ended.

Directors' Interests in Contracts with the Bank

We further report that according to the information made available to us, the Directors of the Bank were not directly or indirectly interested in contracts with the Bank, other than those disclosed under Note 34 to the financial statements.

Colombo,
February 22, 2006

■ **Partners** : A D B Uthawatte FCA FCMA T K Bandaranayake FCA M P D Cooray ACA FCMA
Ms. Y A De Silva ACA W R J Fernando FCA FCMA A P A Gunasekera FCA FCMA
A Herath FCA D K Hulangamuwa ACA FCMA L B (Tend) A S M Ismail ACA FCMA
H M A Jayasinghe ACA FCMA Ms. G S S Manatunga ACA Ms. I C G Nanayakkara FCA FCMA

Income Statement

Year ended 31 December 2005

	Note	2005 Rs.	2004 Rs.
Income	6	<u>1,224,658,123</u>	<u>1,033,031,269</u>
Interest Income	7	993,028,535	832,410,256
Interest Expense	8	<u>(565,950,710)</u>	<u>(476,848,638)</u>
NET INTEREST INCOME		427,077,825	355,561,618
Other Income	9	<u>231,629,588</u>	<u>200,621,013</u>
		658,707,413	556,182,631
LESS : NON INTEREST EXPENSES			
Operating Expenses		122,888,054	115,708,725
Personnel Costs		147,507,797	124,337,653
Premises, Equipment & Establishment Expenses		172,965,042	152,826,633
Provision for Staff Retirement Benefits		5,354,640	3,832,157
Other Overhead Expenses		<u>2,913,558</u>	<u>983,385</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE PROVISIONING		207,078,322	158,494,078
Loan Loss Provision	20.1	(3,540,299)	(88,727,019)
Provision for Other Losses		<u>(12,808,795)</u>	<u>-</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXES		190,729,228	69,767,059
Value Added Tax	10	<u>(38,500,000)</u>	<u>(14,900,868)</u>
PROFIT ON ORDINARY ACTIVITIES BEFORE INCOME TAX		152,229,228	54,866,191
Tax Expense	11	<u>(43,900,000)</u>	<u>(13,693,000)</u>
NET PROFIT FOR THE YEAR		<u>108,329,228</u>	<u>41,173,191</u>
Earnings Per Share	12	<u>1.95</u>	<u>0.74</u>

The accounting policies and notes on pages 48 through 63 form an integral part of the financial statements.

Colombo
February 22, 2006

Balance Sheet

As at 31 December 2005

	Note	2005 Rs.	2004 Rs.
ASSETS			
Cash & Short Term Funds	13	780,643,386	663,777,580
Statutory Deposit with Central Bank of Sri Lanka	14	609,080,423	446,345,224
Treasury Bills & Other Securities eligible for rediscounting with Central Bank of Sri Lanka	15	1,865,805,422	1,426,721,206
Bills of Exchange	16	485,170,554	379,057,448
Loans & Advances	17	6,009,653,276	5,363,936,529
Interest Receivable	18	87,155,071	77,499,329
Lease Rentals Receivable	19	377,795,191	270,106,185
Taxation Recoverable		-	1,435,868
Investment Securities	21	1,140,000	1,140,000
Other Assets	22	432,215,068	259,098,597
Property, Plant & Equipment	23	202,681,160	159,811,447
		<u>10,851,339,551</u>	<u>9,048,929,413</u>
LIABILITIES			
Deposits	24	8,100,716,491	6,557,186,094
Borrowings	25	1,078,495,421	1,195,783,711
Due to Foreign Banks		64,014,126	174,506,750
Other Liabilities	26	789,132,373	492,234,183
Taxation Payable		25,218,941	-
Debentures	27	253,789,000	253,789,000
		<u>10,311,366,352</u>	<u>8,673,499,738</u>
SHAREHOLDERS' FUNDS			
Share Capital	28	555,718,830	555,718,830
Statutory Reserve Fund	29	12,270,909	5,770,909
Revaluation Reserve	30	55,083,561	-
Accumulated Profit/(Losses)		(83,100,101)	(186,060,064)
		<u>539,973,199</u>	<u>375,429,675</u>
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS		<u>10,851,339,551</u>	<u>9,048,929,413</u>
Commitments & Contingencies	31	<u>1,769,465,360</u>	<u>1,778,667,640</u>

The Board of Directors are responsible for the preparation and presentation of these financial statements

Signed for and on behalf of the Board by




Chairman



Deputy Chairman



Director/CEO



Company Secretary

The accounting policies and notes on pages 48 through 63 form an integral part of the financial statements.

Colombo

February 22, 2006

Statement of Changes in Equity

Year ended 31 December 2005

	Note	Share Capital Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Accumulated Profit/(Losses) Rs.	Total Rs.
Balance as at 31 December 2003		555,718,830	4,770,909	-	(226,233,255)	334,256,484
Profit for the Year 2004		-	-	-	41,173,191	41,173,191
Transfer to Reserve Fund		-	1,000,000	-	(1,000,000)	-
Balance as at 31 December 2004		555,718,830	5,770,909	-	(186,060,064)	375,429,675
Profit for the Year 2005		-	-	-	108,329,228	108,329,228
Transfer to Reserve Fund	29	-	6,500,000	-	(6,500,000)	-
Surplus on Revaluation of Property, Plant & Equipment	30	-	-	55,083,561	1,130,735	56,214,296
Balance as at 31 December 2005		555,718,830	12,270,909	55,083,561	(83,100,101)	539,973,199

The accounting policies and notes on pages 48 through 63 form an integral part of the financial statements.

Colombo

February 22, 2006

Cash Flow Statement

Year ended 31 December 2005

	Note	2005 Rs.	2004 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest Received		983,372,792	823,244,240
Fees & Commission Received	9	158,382,010	126,456,797
Interest Payments		(523,248,670)	(443,380,128)
Exchange Income	9	58,704,350	61,488,900
Receipts from Other Operating Activities	9	14,543,228	12,675,316
Cash Payments to Employees & Suppliers		(290,271,904)	(256,985,496)
Payments on Other Operating Activities		(164,301,612)	(131,592,978)
Operating Profit before changes in Operating Assets		237,180,194	191,906,651
(Increase)/Decrease in Operating Assets			
Bills of Exchange		(106,113,106)	(34,369,062)
Loans and Advances		(649,257,046)	(1,870,410,600)
Other Assets		(185,925,265)	(10,000,484)
Lease Rentals Receivable		(107,689,006)	(128,002,080)
Money at call and short notice		(21,493,959)	(187,325,139)
Treasury Bills / Bonds / Reverse Repos		(439,084,216)	(1,966,962)
		(1,272,382,404)	(2,040,167,676)
Increase/(Decrease) in Operating Liabilities			
Deposits		1,543,530,397	2,096,995,863
Other Liabilities		254,196,150	132,833,594
Borrowings		(117,288,290)	299,694,053
Net Cash from Operating Activities before Income Tax		408,055,853	489,355,834
Taxation Paid		(17,245,191)	(6,300,000)
Net Cash from Operating Activities		390,810,662	483,055,834
CASH FLOWS FROM INVESTING ACTIVITIES			
Investments in Commercial Papers		-	14,879,941
Purchase of Property, Plant & Equipment	23	(24,155,252)	(71,089,453)
Proceeds from Sale of Property, Plant & Equipment		1,944,260	490,541
Net Cash Flows Used in Investing Activities		(22,210,992)	(55,718,971)
CASH FLOWS FROM FINANCING ACTIVITIES			
Redemption of Debentures		-	(135,000,000)
Net Cash used in Financing Activities		-	(135,000,000)
Net Increase/(Decrease) in Cash and Cash Equivalents		368,599,670	292,336,863
Cash and Cash Equivalents at the beginning of the year		698,032,915	405,696,052
Cash and Cash Equivalents at the end of the year		1,066,632,585	698,032,915
Reconciliation of Cash & Cash Equivalents			
Cash & Short Term Funds		521,566,288	426,194,441
Balances with Central Bank of Sri Lanka		609,080,423	446,345,224
Due to Foreign Banks		(64,014,126)	(174,506,750)
		1,066,632,585	698,032,915

The accounting policies and notes on pages 48 through 63 form an integral part of the financial statements.

Notes to the Financial Statements

Year ended 31 December 2005

1. CORPORATE INFORMATION

1.1 General

Pan Asia Banking Corporation Limited ("Bank") is a limited liability company incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 450, Galle Road, Colombo 03.

1.2 Principal Activities and Nature of Operations

During the year, the principal activities of the Bank were banking and related financial services.

1.3 Number of Employees

The number of employees at the end of the year was 394. (2004 - 371)

1.4 Approval of Financial Statements

The financial statements are authorised for issue by the Board of Directors on 22nd February 2006

2. GENERAL POLICIES

2.1 Accounting Convention

The Financial Statements are prepared in conformity with generally accepted accounting principles and the accounting standards laid down by the Institute of Chartered Accountants of Sri Lanka. Where appropriate, the policies are explained in the succeeding notes.

2.2 Comparative Information

Previous year's figures and phrases have been re-arranged wherever necessary to conform to the current presentation. The change made to presentation and classifications of items are given in Note No. 36.

2.3 Foreign Currency Translation

- Assets and Liabilities in foreign currencies are translated at the middle rate of exchange ruling on the date of the balance sheet except as stated in (b) below. Translation gains and losses are dealt with through the Income Statement.
- Forward Exchange Contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealized losses are dealt with through the Income Statement whereas unrealized gains are deferred in Other Liabilities.

2.4 Post Balance Sheet Events

All material events occurring after the Balance Sheet date are considered and where necessary, adjustments are made to the financial statements.

2.5 Taxation

Provision for taxation is made on the basis of the profit for the period as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 38 of 2000 and amendments thereto.

2.6 Deferred Taxation

Deferred Taxation is provided on the liability method and the balance of the deferred taxation account represents income tax applicable to the difference between the written down values for tax purposes of the assets on which depreciation allowances are claimed and the net book value of such assets.

However, there is no deferred tax liability in view of tax losses.

3. ASSETS AND BASES OF THEIR VALUATION

3.1 Advances to Customers

- Advances to customers are stated in the Balance Sheet net of provisions for non-performing loans and advances and net of interest, which is not accrued to revenue.
- Provisions for possible non-performing loans and advances are made on the basis of a continuous review of all advances to the customers, in accordance with the directives issued by the Central Bank of Sri Lanka applicable to the Banking Sector. Accordingly specific provisions are made as follows:

Period Outstanding	Classification	Provision made net of realisable value of Security
6 - 12 months	Sub-standard	20%
12 - 18 months	Doubtful	50%
18 months and over	Loss	100%

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

3.2 Finance Leases

Assets leased to customers in terms of which the Bank does not assume substantially all the risks and rewards of ownership, are

classified as financial leases and disclosed as Lease Rentals Receivable. The leases are stated in the balance sheet after deduction of future income, prepaid lease rentals and provisions for losses.

3.3 Credit Card receivable

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

Specific provisions are made in accordance with the directives issued by the Central Bank of Sri Lanka.

3.4 Investments

Investment Securities

Investment in Government of Sri Lanka Treasury Bills, Government Securities and Central Bank Securities are purchased primarily with the intention of holding them to maturity and are stated at cost. Discounts on purchase are amortised to income on a straight line basis over the periods to maturity.

Investments (other than Government Securities) are acquired and held for yield of capital appreciation in the medium/long term. Such securities are recorded at cost. Changes in market value of these securities are not taken into account unless there is considered to be a permanent diminution in value.

3.5 Property, Plant and Equipment

(a) 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 increment 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 or disposal of the asset.

(b) Depreciation is provided at the following rates on a straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets.

Office Equipment	16.67% per annum
Computer Hardware	16.67% per annum
Computer Software	12.5% per annum
Furniture & Fittings	10% per annum
Motor Vehicles	20% per annum

No provision is made in the year of purchase and full provision is made in year of sale.

3.6 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.

4. LIABILITIES AND PROVISIONS

4.1 Commitments and Contingencies

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

4.2 Retirement Benefit Obligations

a) Defined Benefit Plan - Gratuity
Gratuity is a Defined Benefit Plan. The Bank is liable to pay gratuity in terms of the relevant statute. In order to meet this liability a provision is carried forward in the balance sheet, based on half a month's salary of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The resulting difference between brought forward provision at the beginning of a year and the carried

forward provision at the end of a year is dealt within the Income Statement, after making due adjustments for any payments made.

The gratuity liability is neither funded nor actuarially valued. This item is grouped under Other Liabilities in the Balance Sheet.

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. INCOME STATEMENT

5.1 Revenue Recognition

(a) Interest Income from Customer Advances

Interest Income from Customer Advances is recognised on an accrual basis. Interest ceases to be taken into revenue when the recovery of interest and/or principal is in arrears for over three (3) months. Thereafter, interest on advances is accounted for on cash basis. Interest on non-performing loans and advances is credited to the "Interest in suspense" account, which is netted in the Balance Sheet against the relevant balance.

(b) Interest Income from Other Sources

Interest Income on Government of Sri Lanka Treasury Bills and Central Bank Securities is recognised on an accrual basis. Discounts on purchases are amortised to income on a straight line basis over periods to maturity.

(c) 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.

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) Dividend Income

Dividend Income is recognised on a cash basis.

(e) Recovery of Non-performing Loans and Advances

Interest recovered from non-performing loans and advances is recognised as income on a cash basis.

(f) Lease Income

Finance Lease Income

The excess of aggregate rental receivable over the cost of the leased assets constitutes the total unearned income. The unearned income is recognised in the Income Statement over the term of the lease, commencing from the month in which the lease is executed, on a cash basis.

5.2 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.

5.3 Expenses

Interest payable is recognised on an accrual basis. Other expenses are recognised in the accounts as they are incurred, in the period to which they relate.

Notes to the Financial Statements

Year ended 31 December 2005

	2005 Rs.	2004 Rs.
6. INCOME		
Gross Income	<u>1,224,658,123</u>	<u>1,033,031,269</u>
	<u>1,224,658,123</u>	<u>1,033,031,269</u>
Interest Income (Note 7)	993,028,535	832,410,256
Other Income (Note 9)	<u>231,629,588</u>	<u>200,621,013</u>
	<u>1,224,658,123</u>	<u>1,033,031,269</u>
7. INTEREST INCOME		
Loans & Advances	781,320,462	646,896,612
Treasury Bills & Placements with Other Banks	163,565,739	152,219,861
Interest from Leases	41,873,813	28,356,505
Other Interest Income	<u>6,268,521</u>	<u>4,937,278</u>
	<u>993,028,535</u>	<u>832,410,256</u>
8. INTEREST EXPENSE		
Customer Deposits	430,958,570	310,721,061
Borrowings - Banks	25,566,035	94,501,401
- Others	<u>109,426,105</u>	<u>71,626,176</u>
	<u>565,950,710</u>	<u>476,848,638</u>
9. OTHER INCOME		
Fee & Commission Income	158,382,010	126,456,797
Net Foreign Exchange Gain	58,704,350	61,488,900
Others	<u>14,543,228</u>	<u>12,675,316</u>
	<u>231,629,588</u>	<u>200,621,013</u>
10. PROFIT ON ORDINARY ACTIVITIES BEFORE TAX		
Stated after charging/(crediting)		
Directors' Emoluments	3,507,884	3,087,000
Auditors' Fees & Expenses - Current Year	1,063,966	929,751
- Under/(Over) Provision in respect of Previous Year	16,050	(16,050)
Depreciation	35,011,586	24,537,131
Legal Fees	1,505,484	859,850
Defined Contribution Costs - EPF & ETF	17,752,961	15,241,849
Defined Benefit Plans - Gratuity	5,354,640	3,843,620
Advertising	<u>10,702,909</u>	<u>20,290,471</u>

Year ended 31 December 2005

	2005 Rs.	2004 Rs.
11. TAX EXPENSE		
Tax based on Profits for the year (11.1)	43,900,000	13,693,000
(Charge)/ Reversal in respect of Deferred Taxation	-	-
	<u>43,900,000</u>	<u>13,693,000</u>
11.1 Reconciliation between Current Tax Expense / (Income) and the product of Accounting Profit.		
Accounting Profit (Profit before Income Tax)	152,229,228	54,866,191
Aggregate Disallowed items	239,563,672	150,570,175
Aggregate Allowable Expenses	(161,067,117)	(138,583,950)
Income not subject to Tax	(5,592,367)	(2,031,929)
Taxable Profit	225,133,416	64,820,487
Tax Losses Brought Forward and Utilised	(78,796,696)	(22,687,170)
	<u>146,336,720</u>	<u>42,133,317</u>
Statutory Tax Rate %	30%	32.5%
Current Income Tax Expense	<u>43,900,000</u>	<u>13,693,000</u>
Carried forward tax losses (Provisional)	<u>(238,103,007)</u>	<u>(316,899,703)</u>

12. EARNINGS PER SHARE

12.1 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.

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

	2005 Rs.	2004 Rs.
Amount Used as the Numerator:		
Net Profit attributable to Ordinary Shareholders for basic Earnings Per Share	<u>108,329,228</u>	<u>41,173,191</u>
Number of Ordinary Shares Used as Denominator:	Number	Number
Weighted Average number of Ordinary Shares in issue		
Applicable to basic Earnings Per Share	<u>55,571,883</u>	<u>55,571,883</u>

Year ended 31 December 2005

	2005 Rs.	2004 Rs.
13. CASH & SHORT TERM FUNDS		
Local Currency in Hand	245,056,204	197,770,439
Foreign Currency in Hand	51,061,316	16,493,222
Balances with Foreign Banks	225,448,768	211,930,780
Money at Call & Short Notice	<u>259,077,098</u>	<u>237,583,139</u>
	<u>780,643,386</u>	<u>663,777,580</u>

14. BALANCES WITH CENTRAL BANK OF SRI LANKA

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 10% of the local currency deposit liabilities of the Domestic Banking Unit.

15. TREASURY BILLS & OTHER SECURITIES ELIGIBLE FOR REDISCOUNTING WITH THE CENTRAL BANK OF SRI LANKA

	2005 Rs.	2004 Rs.
Treasury Bills / Treasury Bonds	937,872,878	717,280,871
Treasury Bills / Bonds held under repurchase agreements	<u>927,932,544</u>	<u>709,440,335</u>
	<u>1,865,805,422</u>	<u>1,426,721,206</u>

16. BILLS OF EXCHANGE

Export Bills	269,396,471	282,943,579
Import Bills	148,916,624	141,156,434
Local Bills	<u>127,614,109</u>	<u>44,209,775</u>
	545,927,204	468,309,788
Less : Provision for unpaid bills (Note 20.2)	(2,627,000)	(21,450,222)
Interest in Suspense (Note 20.2)	<u>(58,129,650)</u>	<u>(67,802,118)</u>
	<u>485,170,554</u>	<u>379,057,448</u>

17. LOANS AND ADVANCES**Sri Lanka Rupee Loans & Advances**

Sri Lanka Rupees Overdrafts	2,981,172,037	3,058,387,516
Sri Lanka Rupees Import Loans	345,919,582	480,719,752
Foreign Currency Overdrafts	135,425,950	130,505,270
Foreign Currency Loans	1,614,859	14,274,110
Export Loans	314,181,531	291,111,576
Term Loans, Pledge Loans	2,401,882,777	1,989,136,463
Pawning Loans	225,824,206	118,826,507
Staff Loans	92,338,193	90,331,578
Credit Card Advances	<u>114,332,391</u>	<u>72,190,886</u>
	6,612,691,526	6,245,483,658
Less : Provision for Non-Performing Loans & Advances (Note 20.2)	(260,123,672)	(445,701,305)
Interest In Suspense (Note 20.2)	<u>(342,914,578)</u>	<u>(435,845,824)</u>
	<u>6,009,653,276</u>	<u>5,363,936,529</u>

Year ended 31 December 2005

	2005 Rs.	2004 Rs.
18. INTEREST RECEIVABLE		
Import Bills	239,019	4,644,424
Import Loans	382,265	1,459,750
Foreign Currency Loans	1,267	20,217
Export Loans	2,115,656	492,966
Term Loans	9,436,328	5,879,977
Pawning Loans	10,387,882	7,147,928
Staff Loans	110,410	101,006
Payment Due Loans	9,849,773	15,172,177
Money Builder Loan	91,463	108,512
Interest receivable MM Placements	153,049	122,656
Interest receivable Treasury Bills & Bonds	54,270,556	40,819,606
Interest receivable Reverse Repo	117,403	1,530,110
	<u>87,155,071</u>	<u>77,499,329</u>

19. LEASE RENTALS RECEIVABLE

Gross Investment in Finance Leases	480,532,832	347,541,353
Less : Unearned Income	<u>(92,891,392)</u>	<u>(66,131,605)</u>
	387,641,440	281,409,748
Less : Provision for Non - Performing Leases (Note 20.2)	<u>(9,846,249)</u>	<u>(11,303,563)</u>
	<u>377,795,191</u>	<u>270,106,185</u>

20. MOVEMENT IN THE PROVISION FOR LOAN LOSSES

	Provision against Loans and Advances, Bills of Exchange and Leases			
	General	Specific	Total	Suspended Interest
	Rs.	Rs.	Rs.	Rs.
As at 01.01.2005	-	478,455,090	478,455,090	503,647,942
Provision for Loan Loss during the year (Note 20.1)	-	3,540,299	3,540,299	-
Amounts written off	-	(209,398,468)	(209,398,468)	-
Interest in Suspense net of recoveries for the year	-	-	-	228,556,542
Interest in Suspense reversals during the year	-	-	-	<u>(331,160,256)</u>
As at 31.12.2005	<u>-</u>	<u>272,596,921</u>	<u>272,596,921</u>	<u>401,044,228</u>
			2005 Rs.	2004 Rs.
20.1 Provision for loan losses during the year				
Provision during the year			104,275,299	166,314,881
Recoveries/Reversals/Transfers during the year			<u>(100,735,000)</u>	<u>(77,587,862)</u>
			<u>3,540,299</u>	<u>88,727,019</u>

Year ended 31 December 2005

	Loan Loss Provision Rs.	Interest in Suspense Rs.
20.2 Analysis of provision for loan losses and interest in suspense		
Bills of Exchange (Note 16)	2,627,000	58,129,650
Loans and Advances (Note 17)	260,123,672	342,914,578
Lease Rentals Receivable (Note 19)	9,846,249	-
	<u>272,596,921</u>	<u>401,044,228</u>

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

	2005 Rs. '000	2004 Rs. '000
Bills of Exchange	95,139	122,716
Loans and Advances	1,037,378	1,228,798
Lease Rentals Receivable	35,315	41,653
	<u>1,167,832</u>	<u>1,393,167</u>
Less: Provision for Loan Loss (Note 20.2)	(272,597)	(478,455)
Interest in Suspense (Note 20.2)	(401,044)	(503,648)
	<u>494,191</u>	<u>411,064</u>

20.4 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 Loans and Advances, Bills of Exchange and Leases

	2005 Rs.	2004 Rs.
Food, Beverages and Tobacco	104,515,951	35,179,257
Agriculture, Agro Business and Fisheries	139,298,919	194,843,677
Textiles and Wearing Apparel	35,061,584	48,094,807
Rubber and Leather Products	27,793,728	22,137,686
Metal, Chemicals and Engineering	230,260,954	201,817,078
Hotels	138,300,044	203,425,051
Services	297,548,133	373,111,043
Others (*)	6,573,480,857	5,916,594,595
	<u>7,546,260,170</u>	<u>6,995,203,194</u>

* Others include the following sectors.

Year ended 31 December 2005

	2005 Rs.	2004 Rs.
20.4 Concentration of Credit Risk (Contd.)		
Exports	842,787,822	690,414,694
Imports	1,549,835,599	1,585,575,672
Trading	1,287,887,605	569,293,892
Financial	188,695,628	308,069,629
Housing	69,377,885	66,633,678
Consumption	998,871,645	687,828,685
Miscellaneous	<u>1,636,024,673</u>	<u>2,008,778,345</u>
	<u>6,573,480,857</u>	<u>5,916,594,595</u>
Loans and Advances (Note 17)	6,612,691,526	6,245,483,658
Bills of Exchange (Note 16)	545,927,204	468,309,788
Lease Rentals Receivable (Note 19)	<u>387,641,440</u>	<u>281,409,748</u>
	<u>7,546,260,170</u>	<u>6,995,203,194</u>
21. INVESTMENT SECURITIES		
Shares- Unquoted		
Credit Information Bureau of Sri Lanka (300 Ordinary shares of Rs.100 each)	30,000	30,000
Society for Worldwide International Financial Telecommunications - SWIFT	110,000	110,000
Lankaclear (Private) Ltd. (100,000 Ordinary Shares of Rs.10/- each)	<u>1,000,000</u>	<u>1,000,000</u>
	<u>1,140,000</u>	<u>1,140,000</u>
22. OTHER ASSETS		
Deposits & Prepayments	51,562,037	51,659,074
Other Debtors	<u>393,461,826</u>	<u>207,439,523</u>
	445,023,863	259,098,597
Less : Provision in respect of Other Debtors	<u>(12,808,795)</u>	<u>-</u>
	<u>432,215,068</u>	<u>259,098,597</u>

Year ended 31 December 2005

23. PROPERTY, PLANT & EQUIPMENT

23.1 Gross Carrying Amounts	Balance As at 01.01.2005 Rs.	Additions Rs.	Increase/ (Decrease) in /Revaluation Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2005 Rs.
Office Equipment	54,989,599	5,291,688	(43,354,385)	(767,246)	16,159,656
Computer Hardware	141,346,602	8,412,852	(131,850,696)	129,920	18,038,678
Computer Software	102,413,274	1,641,933	-	-	104,055,207
Furniture & Fittings	104,804,574	8,808,779	(91,520,227)	(55,674)	22,037,452
Motor Vehicles	9,652,080	-	-	(6,546,728)	3,105,352
	<u>413,206,129</u>	<u>24,155,252</u>	<u>(266,725,308)</u>	<u>(7,239,728)</u>	<u>163,396,345</u>
At Valuation					
Office Equipment	-	-	28,195,726	-	28,195,726
Computer Hardware	-	-	89,881,600	(2,924,500)	86,957,100
Furniture & Fittings	-	-	35,933,842	(25,000)	35,908,842
	-	-	154,011,168	(2,949,500)	151,061,668
Total Value of Depreciable Assets	<u>413,206,129</u>	<u>24,155,252</u>	<u>(112,714,140)</u>	<u>(10,189,228)</u>	<u>314,458,012</u>
23.2 Depreciation					
At Cost	Balance As at 01.01.2005 Rs.	Charge for the year/ Transfers Rs.	Increase/ (Decrease) in /Revaluation Rs.	(Disposals)/ Transfers Rs.	Balance As at 31.12.2005 Rs.
Office Equipment	33,030,212	1,932,082	(33,002,258)	(95,906)	1,864,130
Computer Hardware	77,806,102	1,559,446	(76,590,860)	(591,527)	2,183,161
Computer Software	73,709,164	6,697,720	-	-	80,406,884
Furniture & Fittings	59,435,448	1,315,356	(59,284,152)	-	1,466,652
Motor Vehicles	9,413,756	234,043	-	(6,546,728)	3,101,071
	<u>253,394,682</u>	<u>11,738,647</u>	<u>(168,877,270)</u>	<u>(7,234,161)</u>	<u>89,021,898</u>
At Valuation					
Office Equipment	-	4,699,288	-	-	4,699,288
Computer Hardware	-	14,980,267	-	(492,984)	14,487,283
Furniture & Fittings	-	3,593,384	-	(25,000)	3,568,384
	-	23,272,939	-	(517,984)	22,754,955
Total Depreciation	<u>253,394,682</u>	<u>35,011,586</u>	<u>(168,877,270)</u>	<u>(7,752,145)</u>	<u>111,776,853</u>
23.3 Net Book Values 31 December				2005	2004
At Cost				74,374,447	159,811,447
At Valuation				128,306,713	-
Total Carrying Amount of Property, Plant & Equipment				<u>202,681,160</u>	<u>159,811,447</u>

Year ended 31 December 2005

23.3 Office Equipment, Computers and Furniture & 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 is as follows:

Class of Asset	Cost	Cumulative Depreciation if assets were carried at cost	Net Carrying Amount
	Rs.	Rs.	2005 Rs.
Office Equipment	43,354,385	36,226,239	7,128,146
Computers	131,850,696	90,926,358	40,924,338
Furniture & Fittings	<u>91,520,227</u>	<u>64,954,511</u>	<u>26,565,716</u>
	<u>266,725,308</u>	<u>192,107,108</u>	<u>74,618,200</u>

	2005	2004
	Rs.	Rs.

24. DEPOSITS FROM CUSTOMERS

Local Currency Deposits

Current Account Deposits	1,140,216,133	706,757,941
Savings Deposits	697,340,643	607,961,639
Time Deposits	4,139,001,485	3,280,222,413
Certificates of Deposit	785,427,533	819,584,200
Savings Certificates	11,682	71,863
Margin Deposits	<u>244,572,375</u>	<u>99,417,576</u>
	<u>7,006,569,851</u>	<u>5,514,015,632</u>

Foreign Currency Deposits

Current Account Deposits	177,647,272	181,739,717
Savings Deposits	489,722,339	430,984,673
Time Deposits	422,412,723	426,807,942
Margin Deposits	<u>4,364,306</u>	<u>3,638,130</u>
	<u>1,094,146,640</u>	<u>1,043,170,462</u>
	<u>8,100,716,491</u>	<u>6,557,186,094</u>

25. BORROWINGS

Call Money Borrowings	100,000,000	450,000,000
Borrowings under Repos	927,932,546	709,440,336
Other Borrowings From Banks	<u>50,562,875</u>	<u>36,343,375</u>
	<u>1,078,495,421</u>	<u>1,195,783,711</u>

Year ended 31 December 2005

	2005 Rs.	2004 Rs.
26. OTHER LIABILITIES		
Cheques Pending Realisation	408,767,114	277,173,118
Accrued Expenditure & Interest	168,636,745	108,433,193
Claims Payable	138,931,718	55,964,894
Provision for Gratuity	15,828,525	13,419,337
Other Creditors	<u>56,968,271</u>	<u>37,243,641</u>
	<u>789,132,373</u>	<u>492,234,183</u>

27. DEBENTURES

Unsecured Redeemable Subordinated Unlisted Debentures	<u>253,789,000</u>	<u>253,789,000</u>
	<u>253,789,000</u>	<u>253,789,000</u>

27.1 Date of Redemption
9th November 2008

Redemption Value
at par

Interest Rate
6 months Treasury Bills rate + 3%

28. SHARE CAPITAL**Authorised**

200,000,000 Ordinary Shares of Rs. 10/- each	<u>2,000,000,000</u>	<u>2,000,000,000</u>
--	----------------------	----------------------

Issued & fully paid

Fully paid 55,571,883 Ordinary Shares of Rs. 10 /- each	<u>555,718,830</u>	<u>555,718,830</u>
---	--------------------	--------------------

28.1 The Monetary Board of Central Bank of Sri Lanka through its directive dated April 12, 2005 under the heading "Enhancement of Minimum Capital Requirements of Banks" required all commercial banks to increase their Capital (Tier 1- Core Capital) to Rs. 2,500 million. The directive stipulates the enhancement to be effected in the following manner, for banks that do not currently meet this requirement.

- (a) The existing capital (based on the audited financial statements of 2004) to be enhanced by at least 50% of the deficiency by the end of 2006; and
- (b) The balance of the deficiency should be met by the end of 2007.

On the above basis the Bank would need to enhance its capital by Rs. 1,062,285,163 by the end of 2006. The Board of Directors have resolved to meet this requirement by way of a retained earnings and other methods, so that the total capital funds as at December 31, 2006 shall not be below Rs. 1,437,714,838.

	2005 Rs.	2004 Rs.
29. STATUTORY RESERVE FUND		
Balance as at the beginning of the year	5,770,909	4,770,909
Transferred during the year from Net Profit after Taxation	<u>6,500,000</u>	<u>1,000,000</u>
Balance as at the end of the year	<u>12,270,909</u>	<u>5,770,909</u>

Year ended 31 December 2005

	2005	2004
	Rs.	Rs.
30 RESERVES		
Revaluation Reserve		
Balance as at the beginning of the year	-	-
Transfer of surplus during the year	56,214,296	-
Realised surplus on disposal transferred to Accumulated Profit/(Losses)	(1,130,735)	-
Balance as at the end of the year	<u>55,083,561</u>	<u>-</u>

31. COMMITMENTS & CONTINGENCIES

31.1 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.

	2005	2004
	Rs.	Rs.
Guarantees	1,295,168,783	1,271,252,484
Documentary Credit	474,292,251	507,024,278
Forward Exchange Contracts (Net)	<u>4,326</u>	<u>390,878</u>
	<u>1,769,465,360</u>	<u>1,778,667,640</u>

31.2 Pending case against the Bank

The Bank had issued a guarantee to Telecommunication Consultants India Ltd., (TCIL) on behalf of Nipuna Telecommunication on which a claim of Rs.8,964,428 was made to the Bank. The trial took many years and finally Nipuna and TCIL by joint motion withdrew the case and the enjoining order served on the Bank was not extended.

Since the Bank had a suspicion of collusion between Nipuna and TCIL to defraud the Bank, the payment was not made. Subsequently TCIL filed papers against the Bank claiming the above sum and interest at 24% from 19.06.2001.

Order due on the above on the 24th April 2006.

32. POST BALANCE SHEET EVENTS

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

Year ended 31 December 2005

33. 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 Rs.	3 to 12 months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total Rs.
Interest Bearing Assets						
Bills of Exchange	465,962,705	19,207,849	-	-	-	485,170,554
Loans & Advances	1,285,431,463	1,264,166,613	2,353,864,286	679,336,583	426,854,331	6,009,653,276
Lease Receivable	1,537,348	6,327,506	185,831,118	184,099,219	-	377,795,191
Balances with Foreign Banks	225,448,768	-	-	-	-	225,448,768
Short Term Funds (Placements)	255,503,598	3,573,500	-	-	-	259,077,098
Treasury Bills/Bonds/Reverse Repos	113,197,887	186,841,439	1,103,481,130	274,378,587	187,906,379	1,865,805,422
	<u>2,347,081,769</u>	<u>1,480,116,907</u>	<u>3,643,176,534</u>	<u>1,137,814,389</u>	<u>614,760,710</u>	<u>9,222,950,309</u>
Non-Interest Bearing Assets						
Cash in Hand	151,019,935	44,417,628	82,912,906	14,805,876	2,961,175	296,117,520
Statutory Deposit with CBSL	178,432,101	220,548,497	140,868,991	17,328,708	51,902,126	609,080,423
Investment Securities	-	-	-	-	1,140,000	1,140,000
Property, Plant & Equipment	-	-	10,032,240	93,520,658	99,128,262	202,681,160
Other Assets, Interest Receivables & Taxation Recoverable	467,808,102	-	19,897,126	31,664,911	-	519,370,139
	<u>797,260,138</u>	<u>264,966,125</u>	<u>253,711,263</u>	<u>157,320,153</u>	<u>155,131,563</u>	<u>1,628,389,242</u>
TOTAL ASSETS	<u>3,144,341,907</u>	<u>1,745,083,032</u>	<u>3,896,887,797</u>	<u>1,295,134,542</u>	<u>769,892,273</u>	<u>10,851,339,551</u>
Interest Bearing Liabilities						
Deposits	2,219,608,603	2,794,865,794	1,509,928,701	216,608,848	41,841,140	6,782,853,086
Borrowings including due to Foreign Banks	1,077,708,628	42,518,544	14,061,000	8,221,375	-	1,142,509,547
Debentures	-	-	-	253,789,000	-	253,789,000
	<u>3,297,317,231</u>	<u>2,837,384,338</u>	<u>1,523,989,701</u>	<u>478,619,223</u>	<u>41,841,140</u>	<u>8,179,151,633</u>
Non-Interest Bearing Liabilities						
Deposits	456,338,739	200,199,308	661,325,357	-	-	1,317,863,405
Other Liabilities & Tax Payable	713,852,592	60,279,938	38,694,393	1,524,391	-	814,351,314
Shareholders' Funds	-	-	-	-	539,973,199	539,973,199
	<u>1,170,191,331</u>	<u>260,479,246</u>	<u>700,019,750</u>	<u>1,524,391</u>	<u>539,973,199</u>	<u>2,672,187,918</u>
TOTAL LIABILITIES	<u>4,467,508,562</u>	<u>3,097,863,584</u>	<u>2,224,009,451</u>	<u>480,143,614</u>	<u>581,814,339</u>	<u>10,851,339,551</u>

34. DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

The Bank carries out transactions in the ordinary course of business with Companies in which Directors have interests. Details of these transactions are given in Note 35.

35. RELATED PARTY TRANSACTIONS

- a) The Bank, carries out transactions in the ordinary course of its business on an arms length basis with its shareholders, and Companies in which such persons have a significant influence by representation on the Board of Directors or by substantial shareholding. These Companies, names of the Directors and the nature of transactions entered into are given below.

Name of Directors/ & Relationship	Name of Related Party / Parties	Outstanding as at 31.12.2005 Rs. Mn	Nature of Transactions	Security Obtained
Mr. K. D. D. Perera	Vallibel Lanka (Pvt) Ltd	8.3	Overdraft	Personal Guarantee,
	(Shipping Division)	13.2	Term Loan	Shares, Mortgage over Vessel
	Vallibel Marine Management Ltd	0.5	Performance Guarantee	Fixed Deposit
	Connaissance Holdings Ltd	13.5	Term Loan	Shares
		4.8	Overdraft	
	La Fortresse (Pvt) Limited	8	Letter of Credit	Fixed Deposit
	Neon-X (Pvt) Limited	N/A	Rs. 0.229 million supply of neon sign board & banner	N/A
Mr. M. S. M. Mukthar Marikkar	Frostaire Industries (Pvt) Ltd	N/A	Rs. 0.028 Air Conditioner Service Agreement	N/A
	Frosty Marketing (Pvt) Ltd	1.5	Overdraft	Cash Deposit
Mr. A. W. Hathiramani	M/S Pesons	0.6	Term Loan	Stocks

- b) Borrowings of Directors as at 31st December 2005 are as follows:

Name	Accommodation Outstanding Rs. Mn	Type of Facility	Security Available
Mr. R. Nadarajah	0.7	Overdraft	Fixed Deposit
Mr. M. S. M. Mukthar Marikkar	1.3	Overdraft	Fixed Deposit
	1.6	Loans	

36. COMPARATIVE INFORMATION

The presentation and classification of following items in these Financial Statements in respect of 2004 are amended for comparability with the current year.

	As reported previously 2004 Rs.	Increase Rs.	Decrease Rs.	Current Presentation 2004 Rs.
Other Assets	260,395,413	1,016,934	(2,313,750)	259,098,597
Interest Receivable	35,528,221	41,971,108	-	77,499,329
Loans & Advances	5,403,593,887	-	(39,657,358)	5,363,936,529
Other Liabilities	(491,217,249)	(1,016,934)	-	(492,234,183)
Operating Expense	109,481,616	9,081,346	(2,854,237)	115,708,725
Premises Equip. & Est. Exp.	154,302,856	2,854,237	(4,330,460)	152,826,633
Other O/H Expenses	5,734,271	-	(4,750,886)	983,385
	<u>5,477,819,015</u>	<u>53,906,691</u>	<u>(53,906,691)</u>	<u>5,477,819,015</u>

Capital Adequacy

COMPUTATION OF RISK-WEIGHTED ASSETS

On Balance Sheet Items:

	Balance at End		Risk Weight (%)	Risk Weighted Balance at End	
	2005	2004		2005	2004
	Rs.'000	Rs.'000		Rs.'000	Rs.'000
ASSETS					
Cash, Statutory Deposit with Central Bank of Sri Lanka, Treasury Bills, Government and other Securities	3,149,636	2,285,490	0%	-	-
Loans secured by cash and guaranteed by Central Bank of Sri Lanka	2,193,860	1,834,651	0%	-	-
Loans guaranteed by SLECIC	77,195	92,856	50%	38,598	46,428
Loans secured by Primary Mortgages over Residential Property	69,378	65,460	50%	34,689	32,730
Other Loans and Advances	4,404,571	3,975,922	100%	4,404,571	3,975,922
Due from Banks abroad	285,806	211,931	20%	57,161	42,386
Due from local Banks including Development Financial Institutions	198,720	237,583	20%	39,744	47,517
Due from Foreign Currency Banking Unit	-	-	10%	-	-
Cash Items in the Process of collection	127,614	44,210	20%	25,523	8,842
Investments	1,140	1,140	100%	1,140	1,140
Property, Plant & Equipment	147,597	159,811	100%	147,597	159,811
Other Assets	140,737	139,875	100%	140,737	139,875
TOTAL	10,796,254	9,048,929		4,889,760	4,454,651

Note:- Property, Plant & Equipment stated net of Revaluation Reserve

Off Balance Sheet Items:

	Balance	Credit	Credit	Risk Weighted Balance at End	
	2005	Conversion	Equivalent	2005	2004
	Rs.'000	Factor %	Amount	Rs.'000	Rs.'000
INSTRUMENTS					
General Guarantees of Indebtedness	403,792	100%	403,792	307,926	207,705
Performance Bonds, Bid Bonds & Warranties	228,702	50%	114,351	-	17,199
Shipping Guarantees	184,675	20%	36,935	31,910	51,432
Documentary Letters of Credit	474,292	20%	94,858	68,270	76,332
Bills for Collection	-	0%	-	-	-
Others	110,308	20%	22,062	-	-
Foreign Exchange and Interest Rate related Contracts:					
Customers	-	50%	-	-	155
Banks	-	20%	-	-	483
TOTAL	1,401,769			408,106	353,306

	2005 Rs.'000	2004 Rs.'000
COMPUTATION OF CAPITAL		
TIER 1 : CORE CAPITAL		
Paid up Ordinary Shares	555,719	555,719
Share Premium	-	-
Statutory Reserve Fund	12,271	5,771
Published Retained Profits /(Losses)	(83,100)	(186,060)
General and other Reserves	-	-
Total Tier 1 Capital	484,890	375,430
TIER 2 : SUPPLEMENTARY CAPITAL		
Revaluation Reserve	-	-
General provisions	-	-
Hybrid (debt / equity) Capital Instrument	148,043	187,715
Total Tier 2 Capital/Total Capital Base	632,933	563,145

Note :- Revaluation Reserve of Rs. 55,083,561 excluded

COMPUTATION OF RATIOS

Core Capital	484,890	375,430
Total Capital Base	632,933	563,145
Total Risk Weighted Assets	5,297,866	4,807,957

Core Capital Ratio - Tier 1 (Minimum Required Ratio is 5.0%)

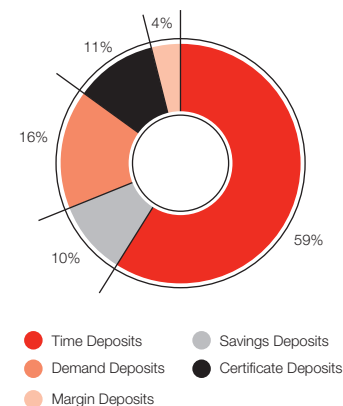
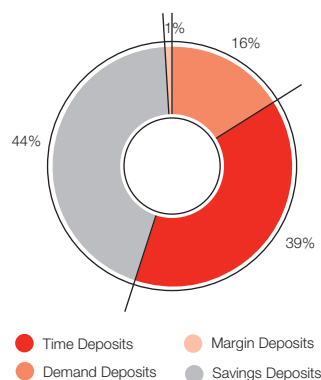
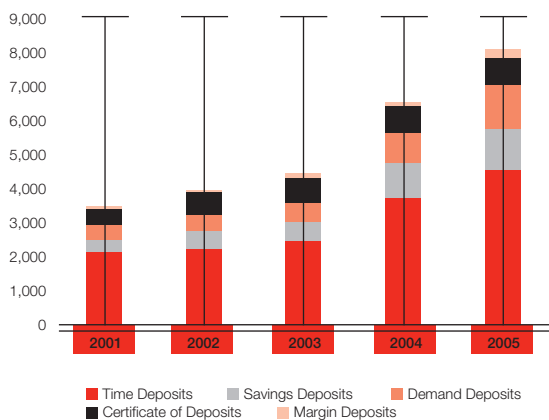
$\frac{\text{Core Capital}}{\text{Risk Weighted Assets}} \times 100$	9.15%	7.81%
--	-------	-------

Total Risk Weighted Capital Ratio - Tier I & II (Minimum Required Ratio is 10%)

$\frac{\text{Total Capital Base}}{\text{Risk Weighted Assets}} \times 100$	11.95%	11.71%
--	--------	--------

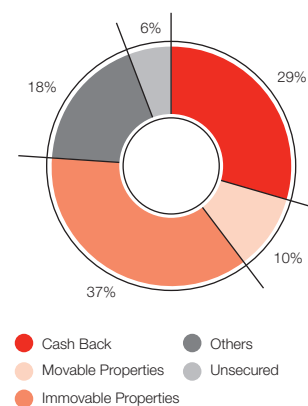
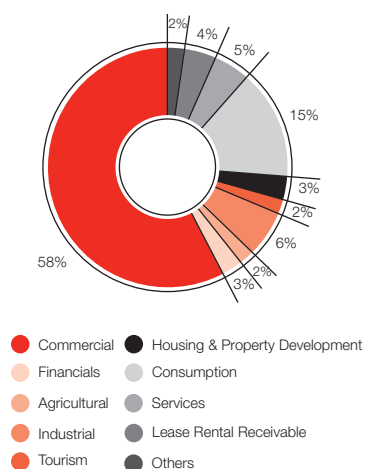
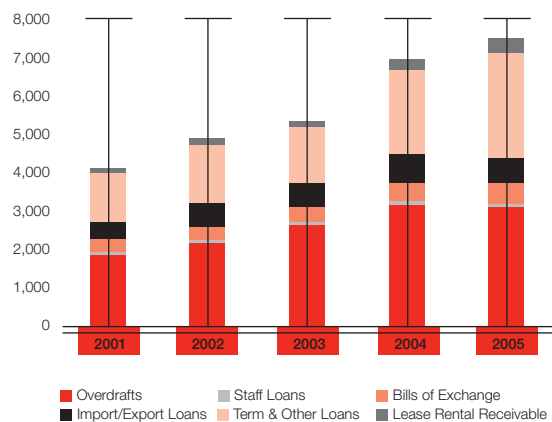
Analysis of Deposits

	2005 Rs.	2004 Rs.	2003 Rs.	2002 Rs.	2001 Rs.
LOCAL CURRENCY DEPOSITS					
Demand Deposits	1,140,216,133	706,757,941	503,155,294	447,801,786	365,482,116
Savings Deposits	697,340,643	607,961,639	346,358,612	336,039,461	223,319,067
Time Deposits	4,139,001,485	3,280,222,413	2,170,345,523	1,988,257,922	1,909,037,479
Certificate of Deposits	785,427,533	819,584,200	727,564,317	661,067,149	479,635,820
Savings Certificates	11,682	71,863	326,784	11,752,404	3,529,450
Margin Deposits	244,572,375	99,417,576	125,279,954	44,179,262	85,725,496
	<u>7,006,569,851</u>	<u>5,514,015,632</u>	<u>3,873,030,484</u>	<u>3,489,097,984</u>	<u>3,066,729,428</u>
FOREIGN CURRENCY DEPOSITS					
Demand Deposits	177,647,272	181,739,717	46,862,572	42,314,641	46,929,701
Savings Deposits	489,722,339	430,984,673	233,495,449	167,148,305	152,757,863
Time Deposits	422,412,723	426,807,942	284,552,634	242,709,145	219,996,307
Margin Deposits	4,364,306	3,638,130	22,249,092	22,028,935	1,253,592
	<u>1,094,146,640</u>	<u>1,043,170,462</u>	<u>587,159,747</u>	<u>474,201,026</u>	<u>420,937,463</u>
Total Deposits	<u>8,100,716,491</u>	<u>6,557,186,094</u>	<u>4,460,190,231</u>	<u>3,963,299,010</u>	<u>3,487,666,891</u>



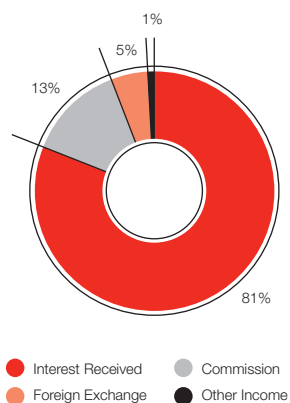
Analysis of Advances

	2005 Rs.	2004 Rs.	2003 Rs.	2002 Rs.	2001 Rs.
LOANS AND ADVANCES					
Overdrafts	3,116,597,987	3,188,892,786	2,655,870,900	2,187,885,918	1,872,635,470
Import Loans	345,919,582	480,719,752	385,412,253	374,692,660	261,674,325
Export Loans	314,181,531	291,111,576	240,730,377	268,430,227	204,726,906
Short Term Loans	329,541,402	280,180,534	136,580,272	115,045,845	74,707,639
Term Loans	2,073,956,234	1,723,230,039	1,241,371,913	1,336,925,717	1,164,253,723
Pawning	225,824,206	118,826,507	83,340,312	55,151,641	18,636,376
Staff Loans	92,338,193	90,331,578	70,301,429	77,443,414	81,540,894
Credit Card Advances	114,332,391	72,190,886	-	-	-
	6,612,691,526	6,245,483,658	4,813,607,456	4,415,575,422	3,678,175,333
Bills of Exchange	545,927,204	468,309,788	407,401,941	332,100,961	326,283,611
Lease Rental Receivable	387,641,440	281,409,748	152,974,156	177,630,511	139,830,718
Total Loans and Advances	7,546,260,170	6,995,203,194	5,373,983,553	4,925,306,894	4,144,289,662

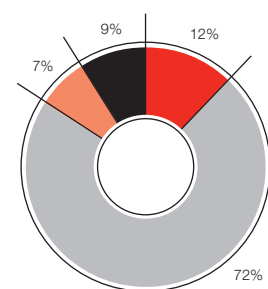


Sources & Utilisation of Funds

	2005 Rs.	2004 Rs.
SOURCES OF INCOME		
Interest Received	993,028,535	832,410,256
Commission	158,382,010	126,456,797
Foreign Exchange	58,704,350	61,488,900
Other Income	14,543,228	12,675,316
	<u>1,224,658,123</u>	<u>1,033,031,269</u>
UTILISATION OF INCOME		
Employees		
Salaries and other payments to Staff	152,862,437	128,169,810
Suppliers		
Interest Paid	565,950,710	476,848,638
Other Expenses	315,115,748	358,245,762
Government		
Value Added Tax	38,500,000	14,900,868
Income Tax	43,900,000	13,693,000
Shareholders		
Dividends	-	-
Retained Profit	108,329,228	41,173,191
	<u>1,224,658,123</u>	<u>1,033,031,269</u>



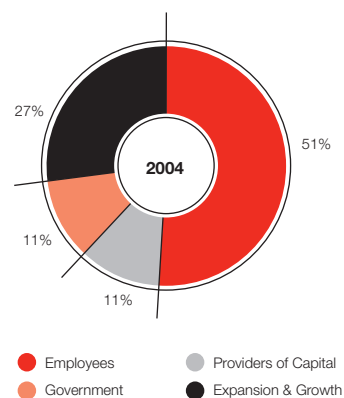
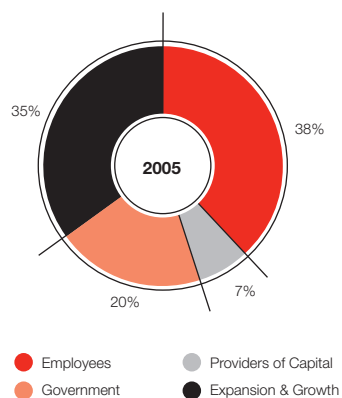
Sources of Income



Utilisation of Income

Value Added Statement

	2005		2004	
	Rs.	Rs.	Rs.	Rs.
VALUE ADDED				
Income from Banking Services		1,224,658,123		1,033,031,269
Cost of Services		(801,862,955)		(695,032,329)
Value added by Banking Services		422,795,168		337,998,940
Provision for Loan Losses		(16,349,094)		(88,727,019)
		<u>406,446,074</u>		<u>249,271,921</u>
DISTRIBUTION OF VALUE ADDED				
To Employees				
Salaries Wages & Other Benefits		152,862,437		128,169,810
To Providers of Capital				
Dividends to Shareholders		-		-
Interest to Debenture holders		27,842,823		26,797,921
To Government				
Income Tax	43,900,000		13,693,000	
Value Added Tax	<u>38,500,000</u>	82,400,000	<u>14,900,868</u>	28,593,868
To Expansion & Growth				
Retained Income	108,329,228		41,173,191	
Depreciation	35,011,586		24,537,131	
Deferred Taxation	<u>-</u>	<u>143,340,814</u>	<u>-</u>	<u>65,710,322</u>
		<u>406,446,074</u>		<u>249,271,921</u>



Quarterly Statistics

For the Quarter ended	2005				2004
	March 31,	June 30,	September 30,	December 31,	December 31,
BALANCE SHEET DATA					
Total Assets	9,631,032,717	10,006,893,614	10,313,014,742	10,851,339,551	9,048,929,413
Loans, Advances & Leases	6,201,865,375	6,264,291,159	6,424,358,587	6,872,619,021	6,013,100,162
Deposits	7,105,404,630	7,448,995,701	7,472,819,506	8,100,716,491	6,557,186,094
Debentures	253,789,000	253,789,000	253,789,000	253,789,000	253,789,000
Shareholders' Funds	390,515,470	477,063,791	495,752,811	539,973,199	375,429,675
Average assets	9,580,480,231	9,707,001,301	10,156,609,862	10,517,856,425	9,150,240,310
OPERATING RESULTS					
Net Interest Income	105,977,733	105,998,781	109,567,734	105,533,577	92,632,602
Foreign Exchange Income	16,907,389	13,473,927	11,838,510	16,484,524	24,495,615
Other Income	<u>23,827,045</u>	<u>43,114,884</u>	<u>56,000,811</u>	<u>49,982,498</u>	<u>33,335,562</u>
Total Revenue	<u>146,712,167</u>	<u>162,587,592</u>	<u>177,407,055</u>	<u>172,000,599</u>	<u>150,463,779</u>
Provision for Credit and Other Losses	(9,245,361)	(7,261,771)	(29,749,453)	29,907,491	(45,628,039)
Non-interest Expenses	(114,744,745)	(116,607,445)	(119,715,637)	(139,061,264)	(105,329,915)
Provision for Income tax	<u>(7,636,265)</u>	<u>(8,384,353)</u>	<u>(9,252,944)</u>	<u>(18,626,438)</u>	<u>(13,693,000)</u>
Net Profit/(Loss) after Tax	<u>15,085,796</u>	<u>30,334,023</u>	<u>18,689,021</u>	<u>44,220,388</u>	<u>(14,187,175)</u>

Branch Network

BAMBALAPITIYA

329, Galle Road, Colombo 04
Tel : 2506822-4
Fax : 2506825
E-mail : mgr.bam@pabcbank.com
Manager's. Direct Tel : 2506824
Senior Manager – Mr S Anandarajah

DEHIWELA

104, Galle Road, Dehiwela
Tel : 2727660, 2730626
Fax : 2730624
E-mail : mgr.deh@pabcbank.com
Manager's. Direct Tel : 2730624
Senior Manager – Mr Harsha Kurukulasuriya

GAMPAHA

95 Colombo Road, Gampaha
Tel : 033 2220046-7
Fax : 033 2220048
E-mail : mgr.gam@pabcbank.com
Manager's. Direct Tel : 033 2220047
Manager – Mr Rajitha Silva

KANDY

111, Kotugodella Veediya, Kandy
Tel : 081 2232991-3
Fax : 081 2232994
E-mail : mgr.kdy@pabcbank.com
Manager's. Direct Tel : 081 2232990
Senior Manager – Mr Dinesh Perera

KOLLUPITIYA

450, Galle Road, Colombo 03
Tel : 2565565
Fax : 2301150
E-mail : mgr.kol@pabcbank.com
Manager's. Direct Tel : 2370203
Senior Manager – Mr Felician Jayakody

KOTAHENA

215, George R de Silva Mv, Colombo 12
Tel : 4616851-2
Fax : 2346066
E-mail : mgr.kot@pabcbank.com
Manager's. Direct Tel : 2346065
Senior Manager – Mr Noel Wijendran

KURUNEGALA

26, Suratissa Mawatha, Kurunegala
Tel : 037 2221729-30
Fax : 037-2221731
E-mail : mgr.kur@pabcbank.com
Manager's. Direct Tel : 037 2221728
Manager – Mrs Chrisanthi Jayasuriya

MATARA

328, Anagarika Dharmapala Mawatha, Matara
Tel : 041 2231361
Fax : 041 2231362
E-mail : mgr.mat@pabcbank.com
Manager's. Direct Tel : 041 2231360
Senior Manager – Mr Nimal Ratnayake

METRO

Level 2, East Tower, World Trade Centre, Colombo 01
Tel : 2346049-50
Fax : 2346053
E-mail : mgr.met@pabcbank.com
Manager's. Direct Tel : 2346051
Senior Manager – Mr Ranjith Dissanayake

NEGOMBO

90, St. Joseph's Street, Negombo
Tel : 031 2231257-8
Fax : 031 2231259
E-mail : mgr.neg@pabcbank.com
Manager's. Direct Tel : 031 2231257
Manager – Mr Saman Kularatne

NUGEGODA

165A, High Level Road, Nugegoda
Tel : 2828225-6
Fax : 2828228
E-mail : mgr.nug@pabcbank.com
Manager's. Direct Tel : 2828227
Senior Manager – Mr Naleen Edirisinghe

OLD MOOR STREET

314, Old Moor Street, Colombo 12
Tel : 2392896-7
Fax : 4736786
E-mail : mgr.oms@pabcbank.com
Manager's. Direct Tel : 2392899
Manager – Mr Teddy Sebastiampillai

PANCHIKAWATTA

221, Sri Sangaraja Mawatha, Colombo 10
Tel : 2447456-7
Fax : 2447452
E-mail : mgr.pnc@pabcbank.com
Manager's. Direct Tel : 2321477
Senior Manager – Mr Kenneth Mendis

PANADURA

506, Galle Road, Panadura
Tel : 038 2243051-2
Fax : 038 2243053
E-mail : mgr.pnd@pabcbank.com
Manager's. Direct Tel : 038 2243050
Senior Manager – Mr Tissa Rodrigo

PETTAH

64, Keyzer Street, Colombo 12
Tel : 5363651-2
Fax : 5363651-2
E-mail : mgr.pet@pabcbank.com
Manager's. Direct Tel : 2543550
Asst. General Manager (Trade) – Mr S Umakanthan

RAJAGIRIYA

1334, Kotte Road, Rajagiriya
Tel : 2887148
Fax : 2866823
E-mail : mgr.raj@pabcbank.com
Manager's. Direct Tel : 2887149
Manager – Mr Thushara Wijewardena

RATNAPURA

258, Main Street, Ratnapura
Tel : 045 2231845-7
Fax : 045 2231848
E-mail : mgr.rat@pabcbank.com
Manager's. Direct Tel : 045 2231844
Manager – Mr Wimalaratne Banda

WATTALA

180, Negombo Road, Wattala
Tel : 2945096
Fax : 2945095
E-mail : mgr.wat@pabcbank.com
Manager's. Direct Tel : 4820024
Manager – Mr Mahinda Samarasekera

DAM STREET TRADE SERVICES UNIT

39, Dam Street, Colombo 12
Tel : 2321227
Fax : 2346052
E-mail : mgr.pet@pabcbank.com

WENNAPPUWA CUSTOMER SERVICE CENTRE

06, Chillaw Road, Wennappuwa
Tel : 031 2249555
Fax : 031 2249556
E-mail : monindraf@pabcbank.com
Executive – Mr Monindra Fernando

WELLAWATTA CUSTOMER SERVICE CENTRE

150, Galle Road, Colombo 06
Tel : 2362409
Fax : 2362399
E-mail : mgr.wel@pabcbank.com
Manager – Mr L N Balaretnaraja

Sri Lanka

Information of Shareholders

As at December 31, 2005

ANALYSIS 1

			RESIDENT		NON RESIDENT		TOTAL		% SHARE HOLDING
RANGE OF SHAREHOLDING			NO. OF SHARE-HOLDERS	NO. OF SHARES	NO. OF SHARE-HOLDERS	NO. OF SHARES	NO. OF SHARE-HOLDERS	NO. OF SHARES	
1	-	1,000	651	372,393	4	3,500	655	375,893	0.68
1,001	-	5,000	312	848,500	1	5,000	313	853,500	1.54
5,001	-	10,000	93	799,090	2	20,000	95	819,090	1.47
10,001	-	50,000	78	1,776,450	5	142,126	83	1,918,576	3.45
50,001	-	100,000	10	723,900	0	-	10	723,900	1.30
100,001	-	500,000	27	6,670,400	3	1,100,900	30	7,771,300	13.98
500,001	-	1,000,000	4	3,050,000	0	-	4	3,050,000	5.49
1,000,001	&	ABOVE	12	31,650,125	3	8,409,499	15	40,059,624	72.09
TOTAL			1187	45,890,858	18	9,681,025	1205	55,571,883	100.0

ANALYSIS 2

			INDIVIDUALS		INSTITUTIONS		TOTAL		% SHARE HOLDING
RANGE OF SHAREHOLDING			NO. OF SHARE-HOLDERS	NO. OF SHARES	NO. OF SHARE-HOLDERS	NO. OF SHARES	NO. OF SHARE-HOLDERS	NO. OF SHARES	
1	-	1,000	645	369,180	10	6,713	655	375,893	0.68
1,001	-	5,000	303	830,500	10	23,000	313	853,500	1.54
5,001	-	10,000	86	742,990	9	76,100	95	819,090	1.47
10,001	-	50,000	71	1,573,576	12	345,000	83	1,918,576	3.45
50,001	-	100,000	7	551,500	3	172,400	10	723,900	1.30
100,001	-	500,000	16	3,528,800	14	4,242,500	30	7,771,300	13.98
500,001	-	1,000,000	0	0	4	3,050,000	4	3,050,000	5.49
1,000,001	&	ABOVE	10	30,900,436	5	9,159,188	15	40,059,624	72.09
TOTAL			1138	38,496,982	67	17,074,901	1205	55,571,883	100.0

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31.12.2005 was 84.960 %.

Top Twenty Shareholders

As at December 31, 2005

	Name of Shareholder	No. of Shares	Holding as a %
1	Kulappuarachchige Don Dhammika Perera	8,295,500	14.93
2	Tay Piak Juay	5,479,499	9.86
3	Dharmar Chandra Coonghe Joseph	3,266,212	5.88
4	Kulappuarachchige Don Harindra Perera	2,913,250	5.24
5	Pramuka Savings & Development Bank Ltd.,	2,782,000	5.01
6	Samurdhi Authority of Sri Lanka	2,557,188	4.60
7	Kulappuarachchige Don Anuradha Perera	2,400,000	4.32
8	Mailvaganam Sritharan	2,189,100	3.94
9	Lalin Thusith Samarawickrama	1,725,000	3.10
10	Pinnawalage Sunil Ariyaratne	1,601,875	2.88
11	Muditha Jayasinghe	1,600,000	2.88
12	Lizzola Holdings Limited	1,500,000	2.70
13	Abdul Majeed Abdual Razak Ali Zalzalal	1,430,000	2.57
14	Raphael Classics (Private) Limited	1,160,000	2.09
15	Michelangelo Footwear (Private) Limited	1,160,000	2.09
16	Alfred Edirisinghe (Private) Limited	850,000	1.53
17	Hanguranketha Samurdhi Maha Sangamaya	800,000	1.44
18	Attanagalla Samurdhi Maha Sangamaya	800,000	1.44
19	Rambukkana Samurdhi Maha Sangamaya	600,000	1.08
20	Favourite Garments Ltd	500,000	0.90
		43,609,624	78.48
	Balance held by 1185 shareholders	11,962,259	21.52
	Total No. of shares	55,571,883	100.00

As at December 31, 2004

	Name of Shareholder	No. of Shares	Holding as a %
1	Kulappuarachchige Don Dhammika Perera	8,295,500	14.93
2	Tay Piak Juay	5,479,499	9.86
3	Samurdhi Authority of Sri Lanka	5,250,000	9.45
4	Kulappuarachchige Don Harindra Perera	2,913,250	5.24
5	Pramuka Savings & Development Bank Ltd	2,782,000	5.01
6	Mailvaganam Sritharan	2,500,000	4.50
7	Kulappuarachchige Don Anuradha Perera	2,400,000	4.32
8	Kurukulasuriya Leo Gerard Rienzie Pintoe	2,100,000	3.78
9	Lalin Thusith Samarawickrama	1,725,000	3.10
10	Pinnawalage Sunil Ariyaratne	1,601,875	2.88
11	Muditha Jayasinghe	1,600,000	2.88
12	Lizzola Holdings Limited	1,500,000	2.70
13	Sundaralingam Maheshan	1,500,000	2.70
14	Abdul Majeed Abdual Razak Ali Zalzalal	1,430,000	2.57
15	Michelangelo Footwear (Private) Ltd	1,160,000	2.09
16	Raphael Classics (Private) Ltd	1,160,000	2.09
17	Tay Blak Chye	1,000,000	1.80
18	Mohamed Kamil Kuthubdeen	892,138	1.60
19	Alfred Edirisinghe (Private) Ltd	850,000	1.53
20	Attanagalla Samurdhi Maha Sangamaya	800,000	1.44
		46,939,262	84.47
	Balance held by 191 shareholders	8,632,621	15.53
	Total No. of shares	55,571,883	100.00

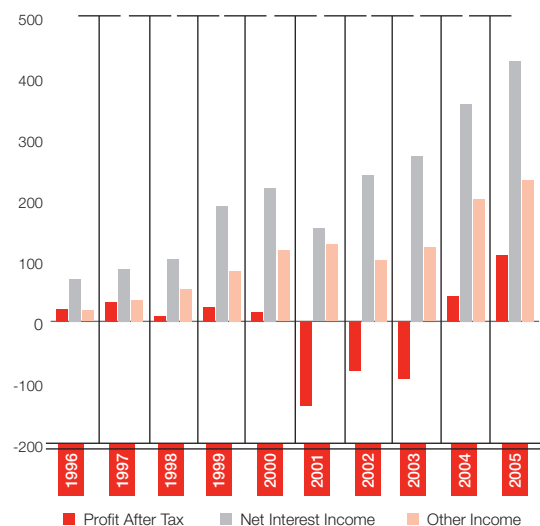
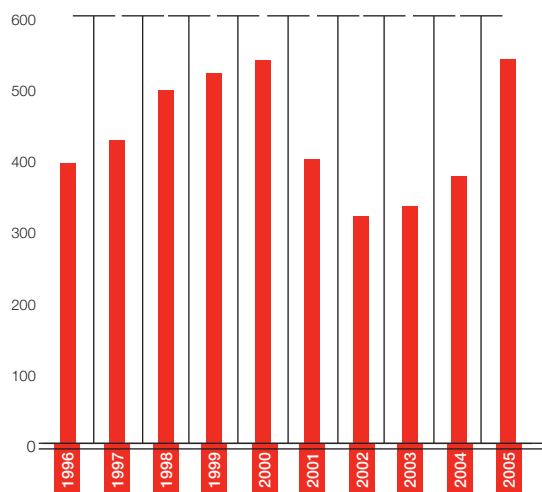
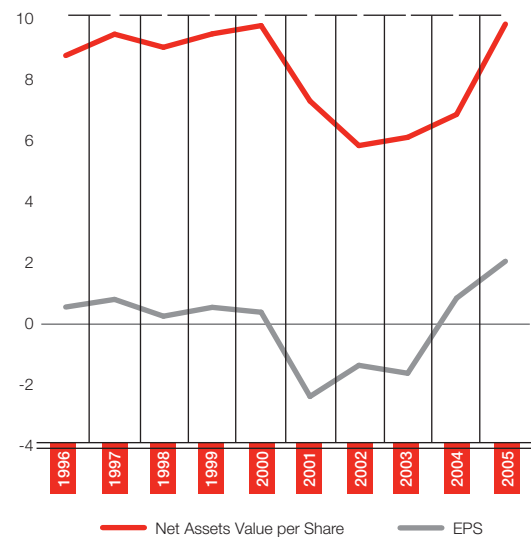
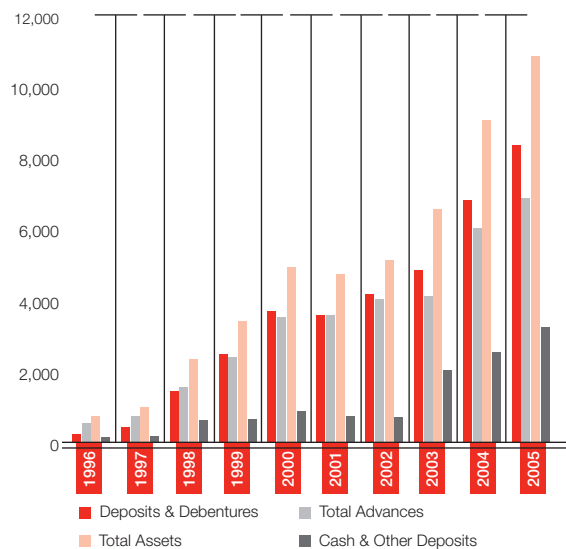
Ten Year Statistical Summary

	2005 Rs.	2004 Rs.	2003 Rs.	2002 Rs.
OPERATING RESULTS				
Gross Income	1,224,658,123	1,033,031,269	752,529,483	750,355,704
Interest Income	993,028,535	832,410,256	631,831,665	650,706,934
Interest Expense	565,950,710	476,848,638	360,588,333	410,237,651
Net Interest Income	427,077,825	355,561,618	271,243,332	240,469,283
Exchange Income	58,704,350	61,488,900	32,565,025	27,361,097
Fee based Income	172,925,238	139,132,113	88,132,793	72,287,673
Profit/(Loss) before Provision & Tax	207,078,322	158,494,078	60,220,447	20,504,205
Profit/(Loss) before Income Tax	152,229,228	54,866,191	(95,345,785)	(81,144,071)
Income tax on Profits	43,900,000	13,693,000	-	-
Profit/(Loss) after Income Tax	108,329,228	41,173,191	(95,345,785)	(81,144,071)
* Reversal of Timing Differences				
ASSETS				
Bills of Exchange (Net)	485,170,554	379,057,448	344,688,386	290,633,404
Loans / Advances & Leases (Net)	6,387,448,467	5,634,042,714	3,764,014,411	3,734,998,593
Investments in Commercial Papers	-	-	14,879,941	-
Cash,Bonds,S.Term & Other Statutory Deposits	3,255,529,231	2,536,844,010	2,025,683,296	705,690,791
Property, Plant & Equipment	202,681,160	159,811,447	113,223,482	149,401,190
Other Assets	520,510,139	339,173,794	287,742,936	242,143,875
Total	10,851,339,551	9,048,929,413	6,550,232,452	5,122,867,853
LIABILITIES				
Customer Deposits	8,100,716,491	6,557,186,094	4,460,190,231	3,963,299,010
Borrowings & Due to Foreign Banks	1,142,509,547	1,370,290,461	1,041,064,658	359,548,562
Debentures	253,789,000	253,789,000	388,789,000	202,000,000
Other Liabilities	789,132,373	492,234,183	325,932,079	279,161,762
Taxation Payable	25,218,941	-	-	-
Deferred Taxation	-	-	-	-
Total	10,311,366,352	8,673,499,738	6,215,975,968	4,804,009,334
SHAREHOLDERS' FUNDS				
Share Capital	555,718,830	555,718,830	555,718,830	444,975,080
Reserves	(15,745,631)	(180,289,155)	(221,462,346)	(126,116,561)
Total	539,973,199	375,429,675	334,256,484	318,858,519
COMMITMENTS & CONTINGENCIES				
Guarantees	1,295,168,783	1,271,252,484	835,094,637	554,906,009
Documentary Credits	474,292,251	507,024,278	302,473,384	279,458,577
Others	4,326	390,878	1,095,772	207,097
Total	1,769,465,360	1,778,667,640	1,138,663,793	834,571,683
SHARE INFORMATION				
Earnings per Share	1.95	0.74	(1.72)	(1.46)
Net Assets Value per Share	9.72	6.76	6.01	5.74
OTHER INFORMATION				
No of Employees	394	371	289	283
No of Branches	18	18	16	13
Customer Service Centres	2	1	-	-

Ten Year Statistical Summary

	2001 Rs.	2000 Rs.	1999 Rs.	1998 Rs.	1997 Rs.	1996 Rs.
	846,110,788	662,492,998	472,968,187	233,525,313	157,156,316	104,320,786
	720,218,191	552,754,845	395,258,384	183,397,450	123,307,636	86,617,935
	567,819,577	333,469,862	205,834,410	81,484,164	36,915,866	17,746,445
	152,398,614	219,284,983	189,423,974	101,913,286	86,391,770	68,871,490
	42,495,018	42,560,456	25,897,613	18,842,090	14,880,265	7,270,519
	83,397,579	73,730,975	56,260,381	34,731,726	19,742,908	10,432,332
	(59,776,678)	47,695,332	81,433,258	25,211,433	53,588,475	32,011,133
	(166,859,947)	13,667,493	40,162,241	15,464,871	48,337,154	30,235,653
	*29,150,500	*1,800,000	16,000,000	7,236,829	16,501,426	9,832,415
	(137,709,447)	15,467,493	24,162,241	8,228,042	31,835,728	20,403,238
	317,580,611	250,081,920	150,578,420	119,372,614	97,605,861	107,601,216
	3,253,867,547	3,264,826,248	2,261,738,662	1,428,048,138	647,017,511	431,738,276
	-	-	-	-	-	-
	739,228,801	895,869,648	648,066,965	637,322,950	183,505,437	160,031,946
	177,158,091	216,313,211	200,028,360	89,871,703	45,124,562	30,520,240
	244,315,997	295,872,668	163,158,763	73,911,121	22,394,993	19,746,874
	4,732,151,047	4,922,963,695	3,423,571,170	2,348,526,526	995,648,364	749,638,552
	3,487,666,891	2,995,606,933	2,488,008,602	1,444,191,983	434,798,992	230,139,737
	486,857,308	314,561,328	103,721,353	255,421,653	78,075,361	32,989,660
	100,000,000	690,000,000	-	-	-	-
	257,624,258	355,932,897	280,646,171	137,880,087	51,456,972	91,760,828
	-	-	-	-	-	-
	-	29,150,500	30,950,500	14,950,500	7,814,024	4,331,040
	4,332,148,457	4,385,251,658	2,903,326,626	1,852,444,223	572,145,349	359,221,265
	444,975,080	444,975,080	442,975,080	442,975,080	362,975,080	362,975,080
	(44,972,490)	92,736,957	77,269,464	53,107,223	63,027,935	31,192,207
	400,002,590	537,712,037	520,244,544	496,082,303	426,003,015	394,167,287
	497,254,174	403,317,292	245,176,498	226,227,728	134,377,159	183,306,331
	220,108,232	353,200,540	246,512,857	404,252,537	164,535,317	270,645,354
	1,985,147	849,922	290,044	89,214,177	35,335,155	35,536,490
	719,347,553	757,367,754	491,979,399	719,694,442	334,247,631	489,488,175
	(2.48)	0.28	0.44	0.15	0.70	0.45
	7.20	9.67	9.40	8.96	9.39	8.69
	306	295	200	173	65	43
	12	12	7	6	2	1
	-	-	-	-	-	-

Graphical Review of Ten Year Summary



Definition of Financial 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.

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 non-occurrence of one or more future events.

Dealing Securities

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

Documentary Credits

Commercial letter of credit provided for payment by a Bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit. Such undertakings are established for the purpose of facilitating International credit.

Earnings per Share

Profit after taxation divided by the number of ordinary shares in issue.

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.

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.

Liquid Assets

Cash and cash equivalents.

Provision for Non-performing loans & Advances

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of its becoming partly or wholly uncollectible.

Net Assets Value Per Share

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

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.

Risk Weighted Assets

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

Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different geographical areas in which it operates.

Shareholders' Funds

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

Tier I Capital

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

Tier II Capital

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

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. 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

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.

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.

Correspondent Banks

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

2 Austria
Creditanstalt Bankverein
Bank of Austria AG

3 Bangladesh
Standard Chartered Bank
Mashreq Bank
Bank of Asia Ltd.
American Express Bank

4 Bahrain
Standard Chartered Bank
KOC Bank

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

6 Brazil
ABN Amro Bank
Banco Bradesco SA

7 Bulgaria
Hebros Bank

8 Brunai
Standard Chartered Bank

9 Canada
Toronto Dominion Bank
Credit Lyonnais

10 Channel Islands
ANZ Bank (Guernsey) Ltd.
ANZ Grindlays Bank (Jersey) Ltd.

11 Cook Islands
ANZ Banking Group Ltd.

12 Chile
ABN Amro Bank

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

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

15 Denmark
Den Danske Bank A/S
Unibank A/S

16 Egypt
Mashreq Bank

17 Fiji
ANZ Banking Group Ltd.

18 Finland
Nordea Bank Finland plc, Helsinki

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

20 Germany
Commerz Bank AG
Dresdner Bank AG
Deutsche Bank AG
Sparkasse Essen
Bayerische Vereinsbank AG

21 Greece
ANZ Grindlays Bank PLC

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

23 Hungary
ABN - Amro

24 India
Bank of Ceylon - Madras
Standard Chartered Bank
Citi Bank N.A.
Mashreq Bank
Tamilnadu Mercantile Bank

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

26 Ireland
ABN Amro Bank N.V. - Dublin

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

28 Israel
Israel Discount Bank
Mercantile Discount Bank Ltd.

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

30 Jordan
ANZ Grindlays Bank PLC
Standard Chartered Bank

31 Kenya
Standard Chartered Bank
Dubai Bank Kenya Ltd.

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

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

34 Lebanon
Inaash Bank SAL

35 Luxembourg
Deutsche Bank

36 Malaysia
Standard Chartered Bank
ABN Amro Bank
HSBC Bank

37 Maldives
Bank of Ceylon

38 Mauritius
Mauritius Commerce Bank, Port Louis MV

39 Mexico
ABN Amro Bank

40 Nepal
Nepal Grindlays Bank Ltd

41 Netherlands
ABN-Amro Bank
Commerz Bank

42 Norway
Holand Bank
ING-Bank
(SEB) Bank Oslo
KOC Bank

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

44 Oman
Habib Bank A G Zurich
Standard Chartered Bank

45 Pakistan
Dawood Bank
Muslim Commercial Bank Ltd.
Standard Chartered Bank
Mashreq Bank

46 Papua New Guinea
ANZ Banking Group (PNG) Ltd

47 Philippines
ABN Amro Bank
Philippine Commercial Int. Bank
ANZ Banking Group Ltd.
Citi Bank NA.

48 Poland
Bank Handlowy W Warsza wie S.A.

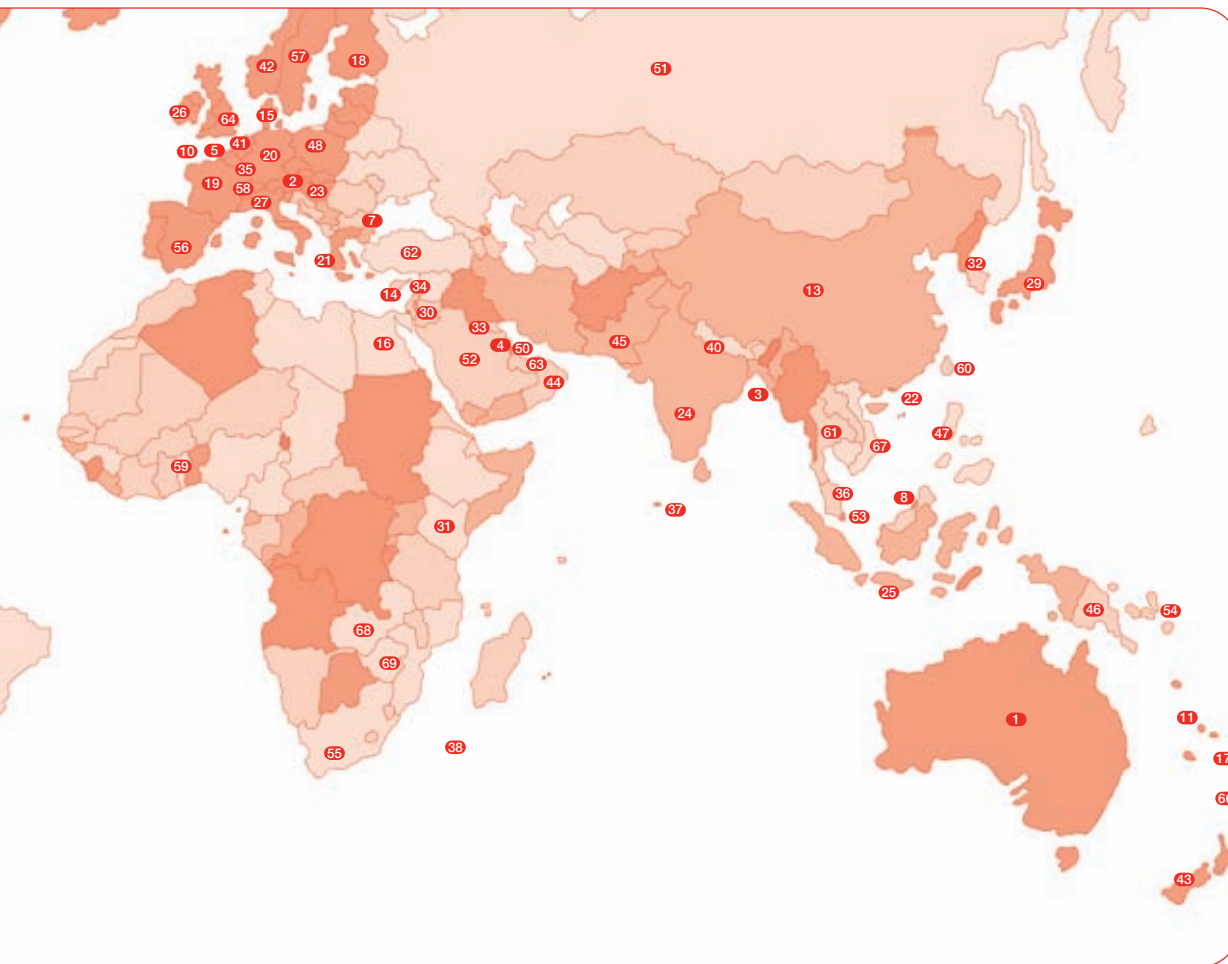


49 Prague
Commerz bank

50 Qatar
Mashreq Bank
ANZ Grindlays Bank PLC
H S B C Bank

51 Russia
Rossiyskiy Kredit Bank
International Moscow Bank
Commerz Bank

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



53 Singapore

Citi Bank N.A.
American Express Bank Ltd.
DBS Bank
Overseas - Chinese Banking Cop. Ltd.
Standard Chartered Bank
HSBC Bank
Deutsche Bank
United Overseas Bank.
UBAF

54 Solomon Islands

ANZ Banking Group Ltd.,

55 South Africa

ABSA Bank Limited
NED Bank
State Bank of India - Johannesburg
Commerz Bank

56 Spain

Commerz Bank AG
Banca Nazionale Del Lavoro S.P.A.
Banco Santander Cenral Hisapano S.A.

57 Sweden

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

58 Switzerland

UBS AG
Credit Lyonnais

59 Kingdom of Tonga

ANZ Banking Group Ltd.

60 Taiwan ROC

Deutsche Bank ,Taipei
Citi Bank NA
Standard Charted Bank - Taipei

61 Thailand

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

62 Turkey

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

63 UAE

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

64 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
Banca Nazionale del lavoro

65 USA

American Express Bank
Deutsche Bank
Standard Chartered Bank
First Union National Bank Philadelphia
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

66 Vanuatu

ANZ Bank (Vanuatu) Ltd.,

67 Vietnam

ANZ Banking Group Ltd.
Citi Bank NA

68 Zambia

HBZ Durban - Zambia
Standard Chartered Bank

69 Zimbabwe

Standard Chartered Bank

Notice of Meeting

NOTICE IS HEREBY GIVEN that the ELEVENTH ANNUAL GENERAL MEETING of PAN ASIA BANKING CORPORATION LIMITED will be held at the Penthouse of Pan Asia Banking Corporation Limited, No. 450, Galle Road, Colombo 03 on 27th April 2006 at 10.00 a.m. for the following purposes :-

1. To receive and consider the Report of the Directors and the statement of Accounts for the year ended December 31st 2005 with the Auditors Report thereon.
2. To re-elect Mr. W M Abeyratne Bandara 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. A W Hathiramani 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 Ms. H Amarasekera 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. A G Weerasinghe 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. J A S S Adhihetty who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.
7. To re-elect Mr. R Hewavitharana who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.
8. To determine the remuneration of the Directors in terms of Article 84 of the Articles of Association.
9. To approve donations / contributions made by the Directors during the year under review.
10. To appoint the Auditors of the Bank, and to authorise the Directors to determine their remuneration.

BY ORDER OF THE BOARD

N. Fernando

Company Secretary

PAN ASIA BANKING CORPORATION LIMITED

450, Galle Road, Colombo 3.

8th March, 2006

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

Form of Proxy

I/We
(NIC No/s)
of being a
shareholder/being shareholders of Pan Asia Banking Corporation Limited (PABC), hereby appoint

1. Weerakoon Mudiyansele Abeyratne Bandara
Kulapparachchige Don Dhammika Perera
Mohamed Sheriff Mohamed Mukthar Marikkar
Arjandas Wassimal Hathiramani
Siyaguna Kosgodage Malcolm Nandasena
Harda Vimal Amarasekera
Aratchige Gunaratne Weerasinghe
John Anthony Sunil Sumith Adhihetty
Ravindra Hewavitharana

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
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 Eleventh Annual General Meeting of Pan Asia Banking Corporation Limited, to be held on 27th April, 2006 at 10.00 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 and consider the Report of the Directors and the Statement of Accounts for the year ended December 31, 2005 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Resolution No. 2 To re elect Mr. W M Abeyratne Bandara 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. A W Hathiramani 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 Ms. H Amarasekera 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"/>
5. Resolution No. 5 To re elect Mr. A G Weerasinghe 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. J A S S Adhihetty 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 re elect Mr. R Hewavitharana 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"/>
8. Resolution No. 8 To determine the remuneration of the Directors in terms of Article 84 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
9. Resolution No. 9 To approve donations / contributions made by the Directors during the year under review.	<input type="checkbox"/>	<input type="checkbox"/>
10. Resolution No. 10 To appoint the Auditors of the Bank until the conclusion of the next Annual General Meeting and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

As witness I/we* have set my/our* hand/s* hereunto this day of Two Thousand and six.

.....
Signature of shareholder

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

1. 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 10.00 a.m. on the 25th April, 2006 being 48 hours before the time appointed for holding the meeting.
2. In perfecting the form of proxy please ensure that all details are legible.
3. The proxy appointed need not be a shareholder of Pan Asia Banking Corporation Limited.
4. 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.
5. 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*.
6. Please indicate with 'X' in the space provided how your proxy is to vote on each resolution.

** Delete whichever is inapplicable.*

