



PABC Bank

Pan Asia Banking Corporation Limited

Your Bank

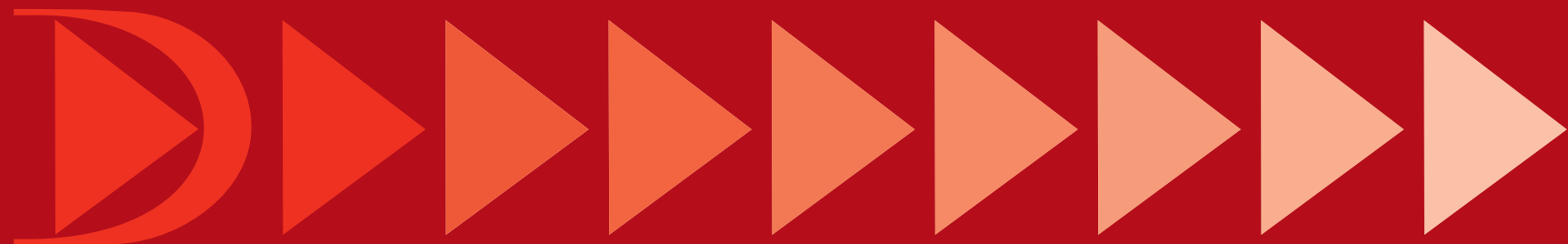
Annual Report 2006





Progress

Speedy service delivery, personalisation and overall benefit to customers has seen PABC become one of the most progressive forces in the local banking sector. Spearheaded by innovation, the strength of will and the professionalism of one of the most dynamic Boards in the circuit, we are truly poised to make our mark amongst the giants.



Our Vision

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

Our Mission

To create the largest satisfied customer base by providing professional, personalised, secure, quality banking and financial services, using modern technology and innovative products.

We will delight our customers, create a better future for employees and enhance stakeholder value.



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Highlights of special events

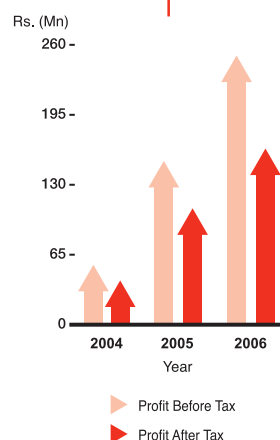
- 01 Relocation of Ratnapura branch
- 02 Opening of the Dam Street branch
- 03 First Prize winner of the "Product Draw"
- 04 "Finance Department" - the Winning Team at the Inter Department/Branch Quiz Competition



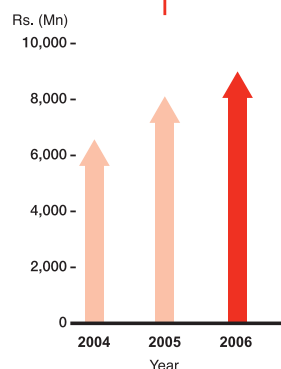
Financial highlights

	2006 Rs. (Mn)	2005 Rs. (Mn)	Change %
Results for the Year			
Income	1,580.84	1,224.66	29.08
Profit before Provisioning & Taxes	307.33	207.08	48.41
Profit before Income Tax	250.17	152.23	64.34
Income Tax on Profits	86.43	43.90	96.88
Profit for the year	163.74	108.33	51.15
At the Year End			
Shareholders' Funds	1,235.12	539.97	128.74
Deposits from Customers	8,962.89	8,100.72	10.64
Debentures	303.79	253.79	19.70
Advances to Customers (Net)	8,063.40	6,872.62	17.33
Total Assets	12,625.88	10,851.34	16.35
Net Asset Value per share (Rs.)	11.16	9.72	14.81
Earnings per share (Rs.)	2.63	1.95	34.87
Statutory Ratios (%)			
Capital Adequacy			
- Tier I (Minimum Requirement - 5%)	16.30	9.15	78.14
- Tier I & II (Minimum Requirement - 10%)	18.33	11.95	53.39
Liquidity (Minimum Requirement - 20%)	21.98	24.34	(9.70)
Return on Average Assets	1.44	1.09	32.11
Return on Average Shareholders' Funds	23.41	23.53	(0.51)

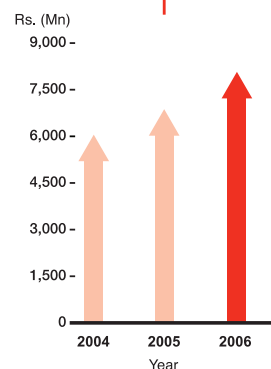
Growth in Profit Before Tax & Profit After Tax



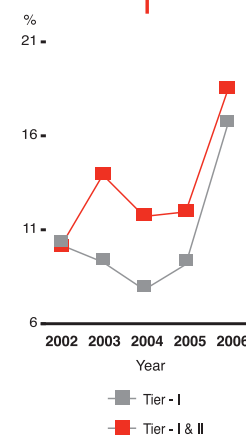
Growth in Deposits



Growth in Advances (Net)



Capital Adequacy Ratio



PROGRESSIVE ATTITUDES DELIVER PROGRESSIVE RESULTS

Progress has been pervasive across the organisation and is reflective in our performance this year. Complimented and impelled by an equally progressive economy, your Bank has climbed the ranks of achievement. You will be pleased to note that in addition to a favourable financial stance, PABC has more importantly embraced a progressive attitude in the understanding that a consistent, organisation-wide philosophy delivers long-term value. In this light, it gives me great pleasure, as the Chairman of your Bank, to present the Annual Report and Audited Accounts of PABC for the year 2006.

ECONOMIC OUTLOOK

An escalation of conflict driven by tenacious policies on the middle-eastern conflict in particular, dogged the global economy.

However, despite high commodity prices, rising short-term interest rates and a bout of financial market volatility, global growth accelerated in the first half of 2006. The pace of the expansion slowed in the second half of the year with developing economies experiencing a growth of 7% for the year as a whole, more than twice as fast as high-income countries, with all developing regions growing by close to or more than 5%. Unlocking additional opportunities for enhanced growth, the emergence of South Asia as a new driving force in the world economy augurs well for Sri Lanka.

The Sri Lankan economy demonstrated continued resilience recording a commendable growth of 8% over the first half of the year tapering off to stabilise at approximately 7% by end 2006 in comparison with 6% growth in 2005. A relatively strong output expansion in all three core sectors of the economy; Agriculture,

Chairman's message



Chairman's message

Services and Industry contributed to the GDP growth. Consequently, the overall balance of payments (BOP) indicated a USD 150 million surplus, in the first half of the year. Gradual tightening of monetary policy moved interest rates upwards across markets. Turnover in the forex market recorded a substantial increase whilst market capitalisation and price indices in the equity market further improved. Inflation, however, continued to notch upwards to 13.7% at the end of the year - the result of excessive demand pressure exacerbated by temporary shortages in supply, up 2.1% from that of 2005.

SECTORAL OUTLOOK

Benefiting from robust economic growth and a favourable external environment, the financial sector recorded satisfactory growth. The sector comprising of financial services, real estate and business services experienced a growth of 9.6% during the first half of the year as against 4.4% growth for a comparable period in 2005. More significantly, the Banking sub-sector grew by an encouraging 10.4% and posted an expanded income during the first six months of the year; a direct result of increased interest income on advances and investments on securities. Insurance and registered finance companies too posted significant growth in both interest and non interest income.

Profitability, capital funds and asset quality of Banks improved, leading to a strengthening of capacity of the sector to absorb shocks. Upward revision of the Central Bank policy on interest rates, a decline in market liquidity and increased inflationary pressures caused market interest rates to increase throughout the year. Consequently, deposit rates and lending rates of Commercial Banks increased during the period.

Activities of Licensed Commercial Banks (LCBs) witnessed further expansion, during the first three quarters of 2006, by way of enhanced outreach, improved delivery channels and product innovation. Mobilised resources such as deposits and capital funds continued to increase posting growths of 16% and 31%, respectively as at end of August 2006. Similarly, domestic credit too increased by 23% during the same period. The Non Performing Advances ratio declined from 7% in 2005 to 6.3%, indicating an improvement in the asset quality of LCBs. The Total Capital Adequacy Ratio (CAR) remained above the minimum regulatory requirement of 10%, but declined marginally from 13.4% at year 2005 to 13% in June 2006, largely due to the inclusion of capital charge for market risk in computing the ratio.

Overall, a favourable sectoral performance was evident for the year 2006.

THE BANK'S PERFORMANCE FOR THE YEAR

Our shareholders will be pleased to note that the progress of the Bank draws parallels with the progress experienced by the economy and the financial services sector during the course of the year. Posting an extremely encouraging performance across all business functions, PABC has in 2006 superseded all previous accomplishments to secure a level of financial performance that is above target expectations for the year. Posting an after-tax profit of Rs. 163.74 million in comparison to Rs. 108.33 million in 2005, the Bank has achieved a growth in profit over 50%.

Non Performing Advances Ratio (Net of Interest in Suspense) recorded a decline from 10.73% in the previous year to stand at a commendable 8.47% in end 2006. The downward trend in the

Chairman's message

NPA ratio is an indicator of the buoyancy of the Bank; reflective of a greater quality in the credit portfolio coupled with speedy recovery processes and a strengthened credit policy.

Reaping the benefits of the Restructuring Program introduced and successfully implemented during the last three years, PABC has witnessed an exponential growth in the levels of brand awareness and brand recognition. An increased Human Resource base in 2006, the Bank paid greater emphasis on quality recruitment is better geared to deliver an efficient and professional service to a growing customer base. Our shareholders will be pleased to note that in the year under review, PABC increased its Deposit Base by 10.64% in comparison with 2005. Total Net Advances peaked to Rs. 8,063.40 million by year end, a 17.33% growth from the total net advances portfolio of Rs. 6,872.62 million as at end 2005. The premises housing the Head Office and Kollupitiya Branch in Colombo 03 was purchased during the year, and the Bank is now the proud owner of this valuable property.

With a view to meeting the minimum capital requirements stipulated by the Central Bank of Sri Lanka in part by end of 2006, the Bank at the Extra-Ordinary General Meeting of shareholders held on 26th October 2006 approved the offer of a Rights Issue of one share per every share held by its shareholders - ordinary shares at Rs.10 (par) per share. By this exercise the Bank infused an additional capital of Rs. 550 million, thus strengthening the Bank's capital base, its capital adequacy ratio and its capacity for further expansion. With the extension granted by the Central Bank of Sri Lanka, to comply with the new minimum capital, PABC intends to meet the total capital requirement of Rs. 2,500 million by year end, 2009.

Expediently executing test-run compliance functions with a view to comply with the Basel II requirements, the Bank has taken into consideration capital charge on market risk and operation risk.

Capital Adequacy has been addressed throughout 2006, in view of the CBSL requirement. With new capital infusion, Total Capital Adequacy Ratio as at December 2006 stood at 18.33%, implying that adequate capital is in place for credit and other related risks.

IN CONCLUSION

For PABC, 2006 has indeed been a year of progress. This progress, I am confident has touched and will continue to touch each and every one of our stakeholders, today and into the future. A dynamic Board of Directors, an inspired Management Team and a group of persevering employees have made my role as Chairman not only challenging but exceptionally satisfying. I offer my appreciation to all of them. We are thankful to all our valuable customers, shareholders, sister financial institutions and the Central Bank of Sri Lanka.

In 2007, let's take PABC to the next realm of success!



W. M. Abeyratne Bandara

Chairman

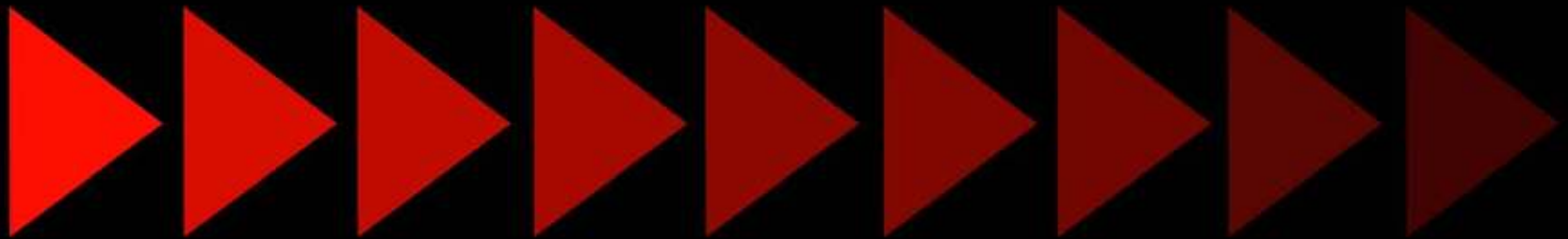
Colombo

February 22, 2007



CEO's

report



I take great pleasure in presenting my review of another very successful year of operations at PABC.

With the dawn of 2006 and a new Government in place, the business community looked for direction of economic and fiscal policies to reset their plans and strategies. One of the vexing issues was the leftist leanings of the coalition Partners of the Government which gave rise to anxiety in the mind of the business diaspora.

They had enjoyed nearly four years of tranquil environment conducive for businesses and feared a return to war which would spell doom for the economy. It was very unfortunate that the acrid “smell” of war wafted in the air throughout the year, dampening the spirits and the growth thrust of the Economy.

It is in the above scenario that our Bank had to steer through. Yet, we managed to record a remarkable performance in the eleventh year in the history of our existence. It was a year of further consolidation of operational activities.

One of the daunting tasks before us was the additional capital requirements imposed by the Central Bank of Sri Lanka, to be achieved within 2 to 3 years. At the end of the year 2006, capital had grown more than double to reach Rs. 1.23 billion. I am proud to state that the Bank managed to achieve this by a very successful Rights Issue made in the fourth quarter and the profit achievement in 2006. In fact, many shareholders had applied for additional shares outside the rights. We are very grateful to our shareholders for the confidence reposed in the Board of Directors and the Management of the Bank and we shall ensure that they will receive their due returns to justify the Investments made.

CEO's report

The Bank can now boast of a strong Capital Adequacy Ratio giving adequate leverage to expand Branch Network, its quality lending portfolio and enhance the interest income.

DEPOSIT GROWTH

The real inflationary rate was riding quite high at 13% - 14% levels on average. Depositors naturally looked for adequate compensation for depreciation in their purchasing power by way of high interest rates. This pressure on deposit rates was more pronounced in the second half of the year. A primary cause was the rise in oil prices which had a chain effect on most of the products and services fuelling rampant inflation. To add to these woes, weather Gods wreaked havoc in some parts of the Country, disturbing and destroying life and property.

There was further pressure on customer deposits as there was a flight, though briefly, due to a mind set created in the public of the purpose of the Financial Investigation Unit (FIU) at CBSL. Naturally, the public looked at it with a suspicious eye and required to allay their fears before seeking intermediation of Banks for their transactions.

The above reasons put a constant pressure on the deposit volumes in Banks and on interest rates and the year ended with a quite high interest rate regime with all the Banks intensely competing to have a larger share of the cake to put up the best balance sheet in the year end. Our deposit portfolio grew by 10.64% to Rs. 8,962.89 million.

ADVANCES GROWTH

We focused on more retail and medium sized corporate lending as a policy. Also, we paid greater attention to quality and secure lending to mitigate the inherent risks. The Bank had more loanable funds at its disposal after the Rights Issue and intensifying Asset creation was quite appropriate. Yet, we were mindful of the risks and were determined to mitigate them with more emphasis on security. There was a lot of pressure to review our lending rates upwards. One of the prime reasons was the sharp upward movement in the deposit rates.

We also now have to meet the general provisioning requirements on regular loans. These provisions cannot be claimed as tax deductible. All these conditions imposed will take out a sizeable portion of profits which otherwise would have been available for the stakeholders. Therefore, we had to increase our lending rates to maintain reasonable returns.

Our Net Advances grew by Rs. 1,190.78 million in the year. A very stringent control on Non Performing Advances levels was exercised and constant monitoring was the key to the successful curtailment in the growth of NPAs. We were however mindful of the high cost of borrowings and the economic pressure people had to undergo due to inflation, war, and natural calamities etc., and allowed rehabilitation / re-schedulement of delinquent advances where warranted. Better security, appraisal criteria and documentation placed the Bank in a strong position and action was initiated for speedy recovery of any delinquent advances. As

a result, the NPA ratio was brought down to 8.47% as at end of the year when compared to 10.73% in the previous year. As the Bank's Loan Portfolio continues to expand, we are determined to stymie the concentration of the NPAs to preferably the industry norms.

NEW PRODUCTS AND SERVICES

We introduced several products in line with our policy to offer the best services to our valued clients. Two savings products stand out among them. Branded as "Lahiru Special Account", which was especially designed for Children up to the age of 14 years with interest at 15% p.a in the first year and thereafter 2% over the normal savings rate. We offered the highest rate on Children's Savings Accounts higher than any Bank Fixed Deposit rate in place of gifts made available to Children. This re-affirms our commitment to the welfare of Children whom we treasure as the greatest wealth of our Country. Inculcating savings habits and catching them young was our motive.

Also, the Bank introduced another stellar product named "Star Savings" which is a monthly fixed savings scheme that enables the saver to obtain a predetermined lump sum payment at the end of 5 or 10 years.

STAFF WELFARE

The Chairman and the Board of Directors have always fully supported the staff training and welfare activities. The Bank's

policy has always been to give high priority to Human Resources Development. The training calendar for the year was a busy one with all levels of staff sent through training on various disciplines such as sales and marketing, customer service, developing technical and management skills and credit evaluation. The Bank's goal is to develop every staff member professionally and also to help them achieve their personal goals. The Directors were also concerned at the escalating cost of living and approved an upward revision of salary scales as compensation commencing January 2007. We follow the practice of adequately compensating the skilled staff and retaining them, ensuring a better future for them. Our evaluation of staff is performance based and rewards are determined accordingly. A variable bonus scheme based on the performance will come into effect from 2007. We are mindful that all staff stay focused on the growth of business and shoulder responsibility for business development. Therefore, all categories of staff are assigned quarterly marketing targets on different banking products and progress is monitored.

BUSINESS CONSOLIDATION AND GROWTH

It is our policy to spread wings throughout the Country to offer quality services to as many geographical locations and people as possible. We upgraded our Dam Street Trade Desk to a fully fledged Branch in the year. Today, it functions as a key Metropolitan Branch serving all types of Customers. We also, relocated our Ratnapura Branch to poise ourselves better to service clientele in this Gem City.

CEO's report

RISK MANAGEMENT CONTROL AND COMPLIANCE

The credit evaluation and approval process was further refined and more balanced towards security and pre-arranged advances. The outcome has been very satisfactory showing a further declining trend in NPAs despite the growth in advances. The vetting process was made more stringent, though the approvals are made fast. The Board Credit sub Committee has played a key role in bringing about this positive change by meeting frequently to discuss and approve credit.

The Bank deemed it imperative that the service delivery system (IT) be audited for technical precision and fool-proof operations. Consolidation is an important and vital process when machinery for business expansion has been set in motion. A system audit with regard to Information Technology was carried out by PriceWaterHouse Coopers who affirmed that the Bank's IT platform is capable of efficient delivery.

LIQUIDITY

A key factor that the Bank had to manage was the volatile interest rates movements in Deposits. The fierce competition, high inflation and market illiquidity were the drivers. The Asset and Liability Committee (ALCO) met regularly to steer the Bank through managing the liability rates quite well.

With a growing Balance Sheet and an expanding clientele, it has become a challenging task to manage liquidity given the volatile external environment. The Bank strived to maintain the best mix of Assets to maximise interest income and also to meet the liquidity requirements. Mismatches in contractual maturity profiles exist in most Banks. Yet, they had to be managed by regularly focusing on cash inflows and outflows by reading the future behaviour of the market forces. Our ALCO Team attended to this task quite professionally.

PABC PERFORMANCE

In the 11th year of the operations, PABC Bank was able to record the highest profit in its history. This was despite the increasingly volatile business and political environment and the imposition of the high tax regime that siphoned away a major part of the revenue. Successful recovery strategies paid dividends and helped to boost the profits. The Bank recorded a profit of Rs. 307.33 million from its operations prior to loan loss provisioning and VAT, an increase of 48.41% over the previous year on a similar basis. The net interest income earned was Rs. 535.08 million (25.29% over the previous year) and other income including the fee based income earned was Rs. 291.76 million (25.96% over the previous year). The Bank's Cost / Income ratio reduced to 62.83% in year 2006 compared to 68.56% in year

2005. Further the bulk of the loans are now performing and loan loss provisions have already been made as per guidelines.

THE FUTURE

We are planning to establish 10 Branches in the year 2007, Five of which will be in the first six months. We are forecasting a substantial growth in Deposits and Advances with this expansion.

We will strive to enhance the quality and convenience of service delivery keeping in line with our mission to have a delighted client base. Though rough weather could be expected on our path due to a volatile external environment, we shall counter them and steer clear in safe waters as we have done in the past.

I take this opportunity to thank the Chairman and Board of Directors for extending their valuable guidance, direction and co-operation in bringing the Bank to the level of achievement at present. My appreciation is also extended to the Governor and the Officials of the Central Bank who have given their valuable supporting hand for our Branch expansion programme and operational requirements. Achievement of any progress cannot be possible without 'peoples' performance. My deepest, sincere appreciation goes to each and every staff member of PABC. I thank all our clients for the faith and confidence they have shown

in PABC Bank and treating it as "their Bank", Shareholders for their continued support and investing additional capital to make the Bank a strong Bank and are gratefully remembered at the time of our progress review of 2006.

I also thank our External Auditors, Ernst and Young for their advice and support. Our Advertising Agents and Printers have, as in the past done a splendid job and we thank them.

We also wish to extend our gratitude for the support given by all CEO's and employees of other Banks and Financial Institutions.



R. Nadarajah

Managing Director/General Manager/CEO

Colombo

February 22, 2007



Sumith Adhihetty

S. K. Malcolm Nandasena

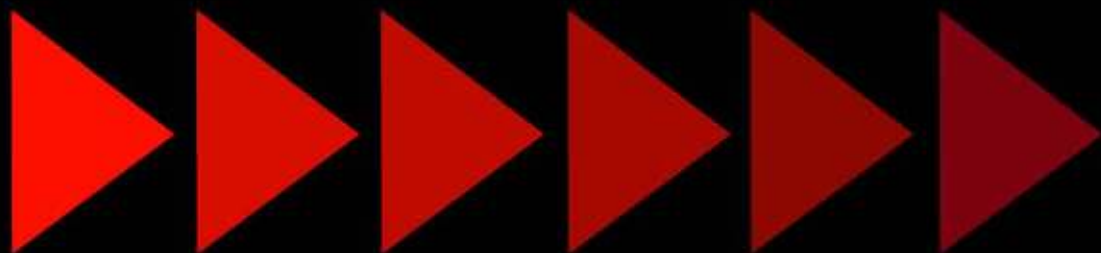
Ravindra Hewavitharana

A. G. Weerasinghe

Harda Amarasekera

W. M. Abeyratne Bandara

Board of directors



Ravi Hathiramani

J. D. C. Coonghe

L. Wickremaratchchi

K. D. Dhammika Perera

R. Nadarajah

Board of directors

W. M. ABEYRATNE BANDARA - Chairman

Mr. Bandara is the Chairman of the Bank since 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 and United Engineering Services (Pvt) Ltd.

K. D. DHAMMIKA PERERA - Deputy Chairman

Mr. Perera was appointed as the Deputy Chairman of the Bank in June, 2004. His diversified business interests include Hydro-Power Generation, Shipping, Manufacturing, Hospitality, Entertainment, Banking & Finance. He is the Chairman of Vallibel Holdings (Pvt) Ltd., Vallibel Lanka Shipping, Vallibel Marine, Didul (Pvt) Ltd., Vallibel Power Erathna Ltd., Vallibel Electric Pvt Ltd and The Fortress Resorts Ltd. He presently holds the position of Deputy Chairman of Royal Ceramics Lanka Ltd., L.B. Finance Ltd., Vallibel Finance Ltd., and Connaissance Holdings Ltd., with a vested controlling interest in all these Companies. He is also a member of the Board of Investment of Sri Lanka and the Strategic Enterprise Management Agency. (SEMA).

A. W. HATHIRAMANI - Director

R. HATHIRAMANI (Alternate Director)

Mr. A.W. Hathiramani is the Chairman of Pesons Group of Companies. He is represented by an alternate Director, Mr. Ravi Hathiramani at PABC Bank. He is a senior Partner of Pesons Group of Companies, and also the Chairman of Aramex Lanka (Pvt) Ltd.

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.

HARDA AMARASEKERA - Director

Mrs. 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., former member of the Senior Management of Bank of Tokyo, Luxemburg from 1991 – 1995 (Now Tokyo Mitsubishi Bank, Luxemburg).

Board of directors

A. G. WEERASINGHE - Director

Mr. Weerasinghe is a Senior Banker and holds a B.A. (Econ) Degree. He is also a fellow member of the Institute of Bankers, Sri Lanka.

J. A. S. SUMITH ADHIHETTY - Director

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

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.

L. WICKREMARACHCHI - Director

Mr. Wickremarachchi is the Managing Director / CEO of Vallibel Power Erathna Limited. He Holds a Master of Science in Engineering (MSc) obtained from People's Friendship University, Moscow, Russia and MBA from the Post Graduate Institute of Management of the University of Sri Jayawardenapura. Earlier he functioned as Director General of the Public Enterprises Reform Commission (PERC) from June 2004 to June 2006.

J. D. C. COONGHE - Director

Mr. Coonghe is a Businessman. He is the Chairman of Ceylindo Private Ltd., and the Managing Partner of A.J.S. and St. Anthony's.

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 holds a B.Sc (Honors) Degree from the University of Peradeniya, MBA from the University of Colombo and also a Fellow member of Chartered Institute of Bankers (London). He was conferred with a life time award by the Chartered Institute of Bankers, (London), Sri Lanka Branch. A Banker for the past 38 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 of Sri Lanka and past President of the Primary Dealers' Association of Sri Lanka.

MUKTHAR MARIKKAR - Director

Resigned from the Board in September 2006.

Corporate management



R. Nadarajah



Claude Peiris



Lakshman Uduwara



Sunil de Silva



Trevor Mendis



S. Umakanthan



Amitha Samarasinghe

R. Nadarajah

Managing Director/GM/CEO

Claude Peiris

Senior Deputy General Manager

Lakshman Uduwara

Asst. General Manager - Retail Banking - II

Sunil de Silva

Asst. General Manager - Retail Banking - I

Trevor Mendis

Asst. General Manager - Leasing & Pawning

S. Umakanthan

Asst. General Manager - Trade

Amitha Samarasinghe

Head of Human Resources Development

Helene Jayamaha (Absent)

Head of Credit Control

Senior management



Sarath C. Fernando



Jayantha Chandrapala



Ranjith Perera



Noel Wijendran



Upali Ratnayake



Dinusha Yogagopalakrishnan



Felician Jayakody



Nayantha Fernando

Sarath C. Fernando
Senior Manager

Jayantha Chandrapala
Senior Manager - International

Ranjith Perera
Senior Manager - Recoveries

Noel Wijendran
Senior Manager - Kotahena Branch

Upali Ratnayake
Senior Manager

Dinusha Yogagopalakrishnan
Chief Accountant

Felician Jayakody
Senior Manager - Kollupitiya Branch

Nayantha Fernando
Company Secretary

Senior management



Dinesh Perera

Radley Stephen

S. Anandarajah

Hsin Haw Li



Kenneth Mendis

Harsha Kurukulasuriya

Dinesh Perera

Senior Manager - Kandy Branch

Radley Stephen

Senior Manager - Public Relations & Business Development

S. Anandarajah

Senior Manager - Bambalapitiya Branch

Hsin Haw Li

Senior Manager - Metro Branch

Kenneth Mendis

Senior Manager - Panchikawatte Branch

Harsha Kurukulasuriya

Senior Manager - Dehiwala Branch

Adrian Assauw (Absent)

Senior Manager - Consumer Banking

Pradeepa Ranaweera (Absent)

Senior Manager - Internal Audit

Naleen Edirisinghe (Absent)

Senior Manager - Nugegoda Branch

Nimal Ratnayake (Absent)

Senior Manager - Matara Branch

Tissa Rodrigo (Absent)

Senior Manager - Panadura Branch

Progressive operations

CORPORATE BANKING

The Corporate Banking Credit portfolio of the Bank presently consists of approx 40% of the total portfolio. The Bank has expertise in place to effectively handle the requirements of corporate customers. As a credit policy the Bank has opted for a mid sized corporate with a view to keeping the credit risks to a single group of companies to moderate levels.

The main characteristic of corporate requirements ie., outlay of wholesale funds at soft interest rates have inversely compared with the prevalent high financial cost. Yet the Bank has offered reasonable interest rates towards corporate customers taking into account the mitigation in the credit risk and other fee based income.

The “Single Borrower Limit” of the Bank increased after the infusion of additional capital in the 4th quarter of the 2006. Now the Bank is in a position to take up a large exposure to a single group but cautious

as to the opportunity of cost of the funds vis-a-vis retail banking opportunities.

The Bank is contemplating whether to support the issue of commercial papers by corporate customers and have also granted money market short term loans tied to money market rates in the process of facilitating corporate banking requirements.

The Bank has also participated in several consortium loans for BOI approved and another industrial ventures.

RETAIL BANKING AND BRANCH EXPANSION

A growing trend in the Banking Sector has been the inclination to move aggressively to secure retail banking business. Several fundamental reasons can be attributed to this emerging trend: larger margins especially on advances, better risk distribution among a larger clientele, the potential for more fee-based income, accessibility to client base and easy demographic segmentation for product promotion.

- 01 Building & managing "Profitable Relationship" sponsored by PABC for Customers
- 02 Religious ceremony to mark the 11th Anniversary
- 03 Wesak Lantern Competition sponsored for schools in Negombo
- 04 Winning the "Gold Award" for designing and developing the Bank's Intranet - "PABC Net" in the "National Best Quality Software Award 2006"



01



02



03



04

During the year in review, PABC too gave a greater focus to retail banking and distributed the operations of the branch network in a manner conducive to the growth of the retail business. With three Assistant General Managers overlooking the functions of the branches proportionately, singular attention to business promotion coupled with the refining of the branch model to a stance of “lean yet healthy” productive business units enabled PABC to garner a significant growth in the retail business. A target oriented culture whereby every member of the retail banking team was encouraged to play an emphatic role in business marketing and targets accomplishment created the right state of mind for success. With monthly performance reviews, each Branch resorted to a strategy of re-assessment of an adopted marketing approach in an effort to consistently achieve the targeted objectives. Recognition and rewards play a crucial role in this performance review.

The prevailing levels of high inflation, has created a scenario of decreased disposable income; a result of increased consumption and diminishing purchase power. With an escalating need for consumption advances to tide over temporary cash flow shortfalls, the Banks had greater opportunity to promote tailor-made consumer loans. PABC formulated a scheme targeted at Business Executives to grant such loans for specific purposes.

The use of Credit Cards of PABC grew to Rs. 175.91 million at the end of 2006. The client base stood at 1,493 numbers at that date.

The Bank believes in offering the best possible customer interfaces by harnessing the power of technology. In addition to SMS banking, PABC now offers Internet Banking to our clients thus enabling them to reach their Bank accounts and fulfill banking needs from the convenience of their homes.

The Retail banking and branch expansion strategy is composed of a two fold approach; consolidation and expansion. Therein, the Bank upgraded the Dam Street, Trade Desk to a Branch and relocated the Ratnapura branch premises during the year. At the end of 2006, we consolidated our branch network at nineteen branches and two Customer Service Centres. More delivery points are in the pipeline for 2007.

FOREIGN EXCHANGE SERVICES (FES)

The FES department recorded exceptional growth in the year under review, exemplifying the Bank’s progressive stance. Indicating value growth, the FES department netted a 30% increase in net income before tax. The value growth is attributed to the concerted strategic drive to shift focus from retail to one of corporate focus during the year 2005. Positively impacting the bottom-line in 2006, the strategic shift - implemented by the Bank’s Senior Management - allowed the department to procure a significant increase in commission income and spread income.

CREDIT CARD

The Credit Card department delivered on par with targets for the year. Recording an impressive 72% growth in the number of cards issued and a 53% growth in the credit assets, the card department benefited from the efforts of a dedicated, fully fledged sales operation during the year. Additionally, special offers, promotions and discounts offered to card members in the months of October and December 2006, impacted positively on the business.

TRADE FINANCE

The year 2006 was a successful year for Trade Finance activities. Significant growth in trade related activities coupled with an increased generation of fee-based income amounting to an approximate value

Progressive operations

of Rs. 80 million, during the year, gave rise to an 11% growth in comparison with 2005.

Letter of Credits and import bills handled by the Domestic Banking Unit increased to Rs. 14.36 billion compared to Rs. 12.35 billion in 2005 an increase of 16.28 %.

FOREIGN CURRENCY BANKING UNIT

Off-shore Banking Unit made remarkable progress during the year 2006, registering a pre-tax profit of USD 462,800 exceeding the budgeted figure for the year by focusing mainly on Trade Finance activities; issuing of foreign remittance, drafts and foreign deposits and advances to off-shore clients.

OPERATIONS

The Operations department functioned smoothly during the period under review. Forging ahead in the face of new technology and methodologies introduced into the banking sector, the Bank experienced a heightening of its image; evident from increased customer confidence and popularity among the general public. Improved financial results for the year 2006 are an indication of this progress.

The Cheque Imaging and Truncation System (CITS) was implemented across the banking sector in May 2006. Pre-implementation, PABC was geared to meet the prerequisites for successful implementation of the CITS and thereby was able to introduce the system seamlessly. PABC remained one of two Banks, in the entirety of the banking sector, which implemented the system without operational complications.

From an overall operational perspective, the Bank's cash management was planned and executed with precision. This enabled PABC to meet the critical cash requirements and balances as stipulated by the Central Bank of Sri Lanka.

Inward remittances indicated a marked improvement during the year 2006. A direct result of the innovative scheme introduced by the Bank "Gederata Mudal", whereby the customer is given the convenience of receiving foreign inward remittances, delivered to their door step at no extra cost.

During the year under review, the Bank opened a branch office at Dam Street, and a Customer Service Centre at Wellawatte. Plans are in place for the extension of the branch network in 2007, with the proposed opening of ten additional branch offices.

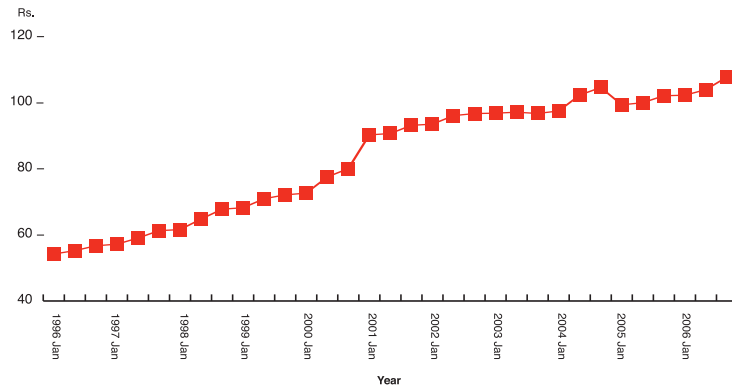
From a Risk Management perspective, the Bank's operational risk is attributed to unexpected losses due to human error, flawed management, technological failures, natural and other disasters and changes in the external environment. Operational risk is inherent in all business activities and PABC has successfully managed these risks by appropriate monitoring and a sound risk management frame work.

TREASURY

High market volatility created the impetus for a challenging operational focus in Treasury activities. Excessively fluctuating markets during the period under review created a scenario of trying circumstances exacerbated by a lack of resources. Nevertheless, a progressive attitude prevailed, bringing together a spirited team driven to deliver despite odds.

Treasury operations include Money Market operations, Forex trading, Liquidity Management of the Bank, Trading in Fixed Income Securities amongst others. With its own conclusive mission to achieve the targets assigned by the Management, the Treasury team conducted operations intelligently, thereby achieving same for the financial year.

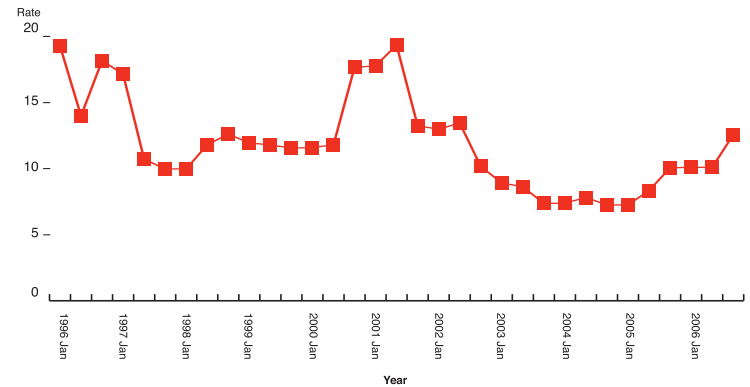
Exchange Rate Volatility from 1996 – 2006



The average USD - LKR movement for the past decade indicates a significant depreciation of the Rupee. At the beginning of 2006, USD/LKR commenced at 102 levels and reached 108.50 in December 2006, thereby indicating a spiraling depreciation of 5.88 % against the Dollar. From a macro perspective such a movement can pose an additional burden to the Balance of Payment deficit especially given the economy's dependence on imports.

PABC despite facing many limitations in Treasury operations recorded an 11% enhancement in profit from Foreign Exchange trading in 2006 against that of 2005. Similarly, the trade finance portfolio has recorded a growth due to increased levels of customer confidence and partiality towards our service levels. The department successfully realised additional revenue by trading in SWAPS and other market instruments; overcoming risks associated with market volatility through the adoption of proper planning and forecasting measures.

Three Months Treasury Bill Rate from 1996 – 2006



The Money Market showed symptoms of high volatility throughout the financial year. The 3 months weighted average Treasury Bill rate moved from 10.10% in the first week of January to 12.75% in the last week of December. The Inter Bank Call Money Market rates moved from 10.75% in January to 14.5% in December. Whereas in the October and November period it was at 20% when the market was highly illiquid, affecting both the Bank's borrowing cost and the Prime Lending Rate.

Inflation coupled with a shortage of liquidity in the market impinged negatively on the nation's economy. Inflation peaked to the highest ever recorded rate over a ten year period, during November 2006 recording 19.80%. The Central Bank of Sri Lanka (CBSL) statistics indicate that the Point to Point change in December 2005 was 8.0 % in comparison with 19.3% during December 2006. With the hope of addressing this issue, CBSL tightened the Monetary Policy by rescheduling its policy rates four times in a calendar year by 125

Progressive operations

basis points. The global economy too experienced inflationary pressure due in part to soaring oil prices. The Japanese economy, as a result, was affected by inflation for the first time in four years. During this period, as control procedures, the United States Federal Reserve, European Central Bank together with the Bank of England tightened monetary policies by increasing policy rates.

PABC managed the rate volatility by edging the Bank's requirement with long term borrowing at reasonable rates and by maintaining a stable lending policy. This provided an opportunity to add more value to shareholder wealth.

Successful implementation of 1:1 Rights Issue together with retained earnings saw total shareholder funds increased up to Rs. 1,235.12 million aiding the Bank to overcome obstacles in the foreign currency trading market as well as creating a solid foundation for an increased trading volume in 2007. Introduction of technology enabled the Bank's trading platform to be further enhanced during the year in review. Progress in all quarters including in the mind-set of our Treasury team heralds a good financial year for 2007.

LEASING

The year 2006 has been a remarkable and significant year for Leasing at PABC Bank. Upon re-structuring the Division during the latter part of 2005, the leasing portfolio grew by 83% in 2006. This displays the effectiveness of the strategies adopted by the Bank and the degree of "focus" the Bank has placed on the product. Distribution channels were further strengthened and 'customer friendly' procedures were introduced during the year in review. Flexibility,

optimum usage of the branch network and educating and enlightening the staff involved in Leasing, are some of the attributable reasons for the positive surge in the division's efforts and its healthy growth. Revenue from the portfolio also recorded a sound growth of 87% during the year 2006.

The Leasing division, whilst concentrating on increasing the present portfolio by 100% during 2007, has taken all possible proactive measures to mitigate the risk factors which have engulfed the industry.

PAWNING

Pawning, which was branded as "Ranshakthi" in 2005, has shown a steady growth during 2006. However the income from Pawning activities also increased substantially, which signifies not only the amount of attention paid to enhance the revenue from retail business, but also the effectiveness of strategies implemented to maximise the revenue.

During 2007, the Bank will embark on a market penetration strategy to enhance the pawning portfolio further. The Bank foresees a better demand for this product with the increasing cost of living and relatively high inflation rates prevalent in the economy.

IT DEPARTMENT

The year 2006 was a challenging and fruitful year for the Bank's IT Department. A considerable investment was made by PABC to improve its IT infrastructure. Across the Bank's branch network, standardisation of IT hardware and software was implemented.

Provisioning new hardware with the latest configurations and carrying out significant upgrades of existing computers to match a standard requirement enabled the Bank to provide a greater orientation towards customer service. Attributes of speed, efficiency and greater precision are now evident in the overall functioning of the Bank.

Supplementing the PC upgrades, the Bank invested significantly on upgrading the IT server room to a fully standard, secured and refined status.

For online bill payments, PABC partnered with Dialog GSM via the Bank's delivery channels. This is considered a value added service both to our customers as well as Dialog GSM subscribers.

Recognition of its capabilities in 2006, gave the Bank's IT department an impetus to strive for greater achievements in the future. The Bank's intranet 'PABCNET' - designed and developed by the IT department, won the accolade of a "Gold Award" in the In-house developed applications category at the National Best Quality Software Awards - 2006, conducted by the British Computer Society, Sri Lanka.

Equipping itself to face the challenges of technological advancements, the Bank made a concerted decision to upgrade its core banking system - Globus to the latest release T24 - Release 6. By upgrading to T24, the downtime of the system is expected to be reduced coupled with the advantage of additional new features that will facilitate the automation of banking operations, further.

CREDIT MONITORING AND RECOVERIES

The Bank has continued to arrest the migration of accounts to the non-performing segment through perpetual credit supervision and aggressive recovery activities through interaction with the Management and the Board of Directors. This has contributed towards expediting the decision making process to realise of collateral. As a result we were able curtail the total net exposure of the non-performing segment to Rs. 702.16 million; accordingly the non-performing ratio has been reduced to 8.47%.



Progressive offering

STARS - INVESTMENT PLANNER ACCOUNT

The product offers a choice to the investor who could determine how much is needed to be set aside monthly, based on what the lump sum investment should be in either 5 or 10 years. This helps the investor to plan the future requirement.

It is a progressive Savings Planner with constant high returns that caters to any contractable age group. For example a person aged 50 years can look to investing with an idea of having a lump sum to enjoy retirement; where as a young executive could save for the marriage or to purchase a car or any assets. Likewise parents of a new born child could save for their child's school admission or middle aged parents could look at saving for their child's higher education or maybe child's wedding.

LAHIRU SPECIAL CHILDREN'S SAVINGS ACCOUNT

The product was launched with the objective of attracting deposits from parents looking for high interest returns. The product offers a rate of 15% for the first year of deposit. This rate is much higher than the highest annual Fixed Deposit rate. From the second year it pays 2% above the normal savings rate throughout the period until the account holder reaches the age of 18. This facility is in addition to the Children's hospitalisation cover offered to all account holders with balances exceeding Rs. 20,000/-.

LAHIRU + MINOR SAVING ACCOUNT

In addition to the attractive interest on this account, we offer a wide range of gifts for our Lahiru + Minor savings account holders. This account also offers a free Children's Health policy. Children upto the

age of 14 years can open an account. The depositor also can opt for a 10% cash credit to their account instead of gifts.

GEDARATA MUDAL

Gedarata Mudal is the best way to remit cash to loved ones back home for regular expenses. A risk free, speedy service designed to save money, time and the hassle of visiting a Bank, all at an affordable price. The money is delivered to the door step of the recipient.

SMS BANKING

Banking at your fingertips - a convenient mode of doing banking from anywhere at any time through your mobile phone. Account balance inquiries, mini statements, cheque book requests, fund transfers, third party transfers, credit card settlement, balance alert & much more can be obtained at a nominal cost.

CREDIT CARDS

The PABC credit card is an international credit card. The card is issued in affiliation with Master card International and comes with a number of features and benefits such as one with the most competitive interest rates in the industry, personal accident insurance cover to the value of Rs. 150,000/-, Safetynet Insurance Scheme which guarantees full settlement of a card member's outstanding in the event of death or permanent disablement, debt buying facility which enables a customer with good record to transfer the debt from other credit cards to the PABC credit card where they will enjoy a better interest rate, emergency personnel cheque encashment facility etc. The card products currently marketed are the Master Regular card, Master Gold card and the Master Side card. Of these products range, the Master Side card which is part of the range of new mini card products entering the card industry, is 33% smaller than a regular or conventional card and was the first ever mini card product to be introduced into not only Sri Lanka but the entire South East Asian region.

SAMMANA (SENIOR CITIZENS ACCOUNT)

A product designed with an understanding of servicing our senior citizens through an eye of social service. Special rates of interest, value added benefits and the unique benefit of monthly interest delivered to the doorstep of the account holder.

LEASING

Leasing at PABC provides a friendly and efficient service with competitive rates. The brand name of this product is "PABC Leasing"

Leasing facilities can be obtained for brand new vehicles, unregistered (re-conditioned) and registered vehicles. Such lease facilities will be considered on flexible repayment terms, depending on the customer's requirements.

Recently, PABC Bank introduced a scheme to grant new lease facilities within '24 hours' which will be counted from the time that the customer hands over the required documents to the branch.

PAWNING

Pawning service at PABC Bank has been branded as "Ranshakthi" pawning service. Any customer can pawn their gold articles, bars, biscuits, gold coins etc. and obtain cash instantaneously, at any of our branches.

We offer the highest quantum of advance for gold in the market today. Assay of gold is done using the 'densimeter' without scraping the articles.

Customers can redeem their articles by making part payments depending on their ability. Another feature is that customers can renew the advance for a further period of one year, by merely paying the interest for the previous year.

PABC Bank assures 100% security and secrecy for the valuable gold articles with a personalised service.

Progressive ethos

OUR CSR FOCUS

Operating in the financial services sector, our role as a responsible corporate citizen is an extension of our corporate objectives to empower the people of the nation. However, in acceptance of the fact that our Bank is a fledgling in the industry and one that has undergone tremendous pressures, our focus on CSR has hitherto been inwardly oriented. A focus that has stemmed from our own need to strengthen, grow and reach a sustainable stance within the sector.

However, in 2006, we explored the peripherals of CSR, with an external orientation. We explored possible areas of focus which we opined were areas that would be justifiably appropriate in scope and scale to match the capabilities of the Bank. Acting small but conceptualising strategically, we identified three core areas - Arts and Culture, Sports and Care for elders - within community relations. Customer relations, employee relations and caring for the environment during the year in review grew from the Bank's

progressive outlook to achieve the best with limited resources. Our CSR ethos essentially imbibed the axiom "little drops of water make the mighty ocean", thus, our efforts are small but they nevertheless contribute, even in a small way, to the big picture of sustainability.

COMMUNITY RELATIONS

Arts & Culture

Arts and Culture reflect open society values and influence public attitudes. They articulate creative responses to social issues and promote civil cohesion. In promoting cultural and artistic collaboration the Bank strove to stimulate cultural activities and to nurture artistic capabilities. Recognising that assistance to a number of small, focused activities is more important and more in line with our own capabilities, than extending support to a few large scale initiatives, we supported the following:

- Sponsorship of SIGNIS Monthly Cine Forum , an association that promotes the production of movies and short tele-films.

- Sponsorship of the 30th anniversary celebratory performance of Visharadha Maya Damayanthi and Victor Vijayantha.
- Sponsorship of an All Island Art competition for school children organised by the Ceylon Art Academy.
- Co-sponsorship of a Photographic Exhibition held by renowned photographer Sri Lal Gomez.
- Co-sponsorship of Mihimadala, an All Island Photography competition organised by the Ceylon Association of Journalists.
- Co-sponsorship of Voice O Print, a musical performance by young and upcoming musicians.
- Co-sponsorship of CineOsca Reyak, a musical performance organised to raise funds and recognise young and upcoming musicians.
- Sponsorship of T-shirts for the Softball Cricket team of the Western Province.
- Co-sponsorship of a cycling race organised by the Ministry of Vocational & Technical Training.
- Co-sponsorship of a cricket event of the Panadura Cricket Club, a fund raising project for disbursement during the cricket season.
- Contributions towards an Under 19 Basketball tournament organised by the Convent of Our Lady of Victories.
- Co-sponsorship of an All Island Softball Cricket Tournament held in Kandy.

Sports

Sports is a very powerful cultural force in society. Our CSR efforts in sports were inspired by the knowledge that increased activity in this sphere will aide the development of a younger generation equipped with greater decision making, communication and interactive skills in the long term. Focusing predominantly on the youth from semi-urban and rural communities, our aim was to extend assistance to sporting events that would not only benefit the participating sportsmen/women but also the sports itself. The Bank was involved in:

- Sponsorship of a young team member of the National Basketball team.
- Co-sponsorship of a team member of the National Netball team that participated at the 5th Asian Youth Netball Championship held in India.
- Sponsorship of an All Island Basketball championship for the ages Under 15, organised by St. Joseph's Balika Vidyalaya, Nugegoda.
- Hosting of two hundred children from various orphanages to an evening of entertainment at the performance of the International Chinese Circus in Colombo.
- Contributed towards the organising of a blood donation campaign organised by the Young Men's Buddhist Association in Hendala.

Care for Elders

Our elders are our legacy. Their contribution to today's society is what each citizen of Sri Lanka enjoys today. In recognition of this the Bank made a concerted effort to invest our time and efforts to bring happiness to their lives, albeit for a few hours. The Bank organised a day of games and entertainment for the elders residing at the Lakhadhara home in Wellawatte whilst also bringing the joy of New Year to the elders of the Wattala region in collaboration with the Divisional Secretariat for the locality. In sponsoring a project organised by the Interact Club of Bishops College, the elderly and needy of Mattakkuliya area received free eye care and spectacles.

During the year, the Bank continued to carry out activities that supplemented our core CSR activities. These included but are not limited to the following:

- 01 A Sports Day for Elders at Lakhadharana home in Wellawatte
- 02 A Leadership programme conducted by the Bank for students in Five Negombo schools
- 03 Students participated in Mihimadala Photo Exhibition co-sponsored by the Bank
- 04 Hosting of 200 children from various orphanages at the performance of the International Chinese Circus



- Co-sponsorship of the Young Entrepreneur Convention held in Kandy.
- Co-sponsorship of the Woman Entrepreneur of the year Convention.
- Contributed towards a medical seminar organised by the Homeopathy Association of Sri Lanka.
- Donation of an Air-Conditioning Unit to the Dambulla Base Hospital.
- Funded a programme organised by the Royal College and Bishops College Interact Clubs aimed at entertaining children from an orphanage at a sports day.
- Contributed to the Key Personals Forum organised by the FCCISL in discussing the Role of the Central Bank in Stimulating Private Sector Development.
- Donation of a sewing machine to a budding entrepreneur in need of financial assistance.

CUSTOMER RELATIONS

Our customers are the cornerstones of our success. Believing in our capabilities and placing their implicit trust in us, they have lent us the strength and conviction to beat the odds. In appreciation, the Bank was actively engaged in creating platforms for greater social mobility amongst our customers. The Bank embarked on programmes that would assist them in developing themselves mainly from a business perspective. One of these initiatives included the hosting of a series of breakfast meetings where experts and specialists on a chosen subject area addressed the audience with interactive question and answer sessions. Similarly, relationship building activities and customer get-togethers are a common element in the calendar of events at branch level. During the year the Bank organised an event

aimed at educating our customer base on how to retain their own customers.

EMPLOYEE RELATIONS

The PABC team put its best foot forward during the year in review, working cohesively and with confidence to elevate the Bank and its service orientation. The veritable lifeline and backbone of PABC, our employees, have delivered beyond their call of duty to meet and overcome emerging challenges. The healthy turnaround evidenced by PABC this year is a direct result of this dedication. In turn, the Bank worked towards making each team member's future career paths sustainable and of promise. Embarking on professional development programmes, through internal and external training, the Bank uplifted the knowledge and skills of employees across the spectrum of functions to allow employees to grow beyond the present capabilities and skill levels. The Balanced Scorecard implemented in 2004 continued to record positive returns, the open door policy has created a culture of barrier-less communication both on a peer to peer and peer to superior level bringing creativity, innovation and constructive feedback to the fore.

Rewards and recognition played a key role in our employee relations initiatives and social interaction was emphasised as a bridging mechanism for fostering strong relationships.

ENVIRONMENT

As a banking institution our perspective on environmental sustainability differs vastly from that of other industries. Nevertheless, we recognise that environmental consciousness is a pre-requisite for all corporates. Whilst it is not mandatory for the Bank to adhere to environmental guidelines, we are consciously adopting measures and processes that create an environmentally-friendly work culture.

Progressive ethos

Garbage disposal systems and procedures, energy conservation and efforts to create a paperless work environment are key factors which we consider in creating a “green” culture. Pursuing recycling and clean and green activities to ensure that our branches , promotional areas and the general environs of the Bank are kept immaculate, we inculcate an ethos of clean and clutter free work spaces, regular recycling of plastics, appropriate disposal of garbage, shredding and recycling of paper as well as concerted cleaning programmes in and around our branch offices on a regular basis.

Energy continues to be a limited resource for our nation. Cost of energy, likewise, continuously escalates, driving cost of production of goods upwards and thereby contributing to a spiraling cost of living. Energy conservation, therefore, is carried out not only in the interest of the Bank but more so, in the interest of the nation. Utilising only the minimum required energy for the day to day functions, the Bank has inculcated in our employees a sense of responsibility to consciously limit their use of electricity for lighting, appliance and elevator usage.

With the intelligent use of technology we have created a workspace that is devoid of paper, therefore, positively contributing to the conservation of forests. It is our fervent hope that with more organisations thinking and acting with the same objective in mind it will result in a cumulative effect in decreasing de-forestation around the world. Email, Intranet and e-paper has replaced the conventional office documentation processes. Periodical shredding and recycling of paper is encouraged.

Progressive relations

Human Resources Development is a focal point within the Bank which aligns the important human asset to the core processing steps, which goes hand in hand to create value addition in our esteemed customer's eyes. The Bank seeks to create a work environment where all employees have the opportunity to maximise their personal potential. The Bank has determined to attract, develop and retain the best and to leverage the strengths their diversity brings. Therefore we have defined the HR vision based on the above.

VISION OF THE BANK'S HR DIVISION:

"Developing the skills of the employees to their full potential thereby enhancing the employees' competency towards achieving the Bank's corporate objective".

Our HR Vision imbues the need for us to build a confident management and an energetic workforce with sufficient skills and relevant experience to achieve the Bank's plan.

RECRUITMENT OF STAFF

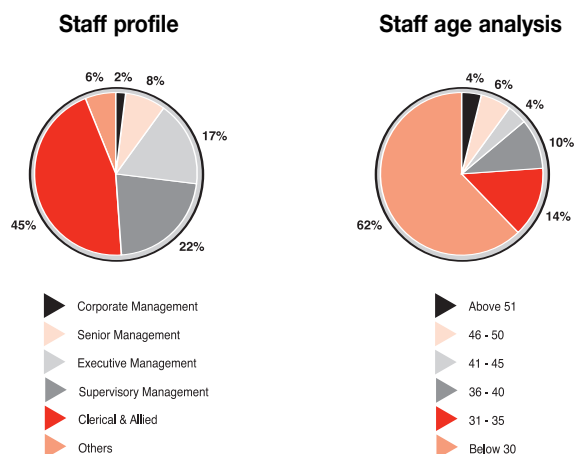
The existing recruitment and selection policy of the Bank is based on the following:

- Equal opportunities in selecting people to the Bank at entry level.
- Selecting job seekers keeping in mind the future Bank expansion programme.
- The need to balance staffing requirement in the cadre through the process of recruitment, promotions, job rotation and job enrichment.
- Maintaining consistency and transparency in the selection process.
- Selections made, conducting the Selection tests at entry level.

- 01 Childrens' Christmas Party - 2006
- 02 PABC Ball - 2006
- 03 Annual Staff Trip at the Palms - Beruwela
- 04 Staff at Credit Documentation training programme



Data analysis of staff



The staff strength during the year under review increased from 394 to 433.

PERFORMANCE ORIENTED CULTURE AND REWARDS

The Management process which is known as Performance Appraisal aims to provide the employees with an honest and consistent assessment of the performance and identify the strengths and areas to be improved. The Bank is of the view that every employee remains on goal expectation, values, objectives and aspiration. Therefore through the existing Performance Appraisal System we aim to recognise Performance Excellence. This evaluation also links to increments, promotions and mapping out of career paths and training etc. of the employees.

In order to implement the above, at the beginning of the year, the Management with the relevant Managers and Department Heads agreed on their targets/goals annually. A review was conducted on a monthly basis and in the event the targeted goals were not met both parties worked out strategies to initiate remedial measures. The

Performance Appraisal System has created a very positive mind set among the officers concerned, persuading them to work towards goals which has seen an optimistic impact on the performance of the Bank in total.

The concept, “Balanced Scorecard” is being implemented for the branches as part of the strategic management process emphasising on the employees to get into the performance culture of achieving the set objectives/targets. The task force which was appointed to implement this concept within the branches identified the measures that would lead to achievement of higher level strategy objectives along with related targets and these measures have been categorised under four perspectives namely Finance, Customer, Process and Staff.

This process is directly linked to the Vision and Mission of the Bank and correlated to Finance, Customers’ satisfaction, Process and Human resources results. The “Best Branch” on quarterly basis was selected and the winning branches have been rewarded with cash awards along with commendation and recognition.

TRAINING & DEVELOPMENT

Our Training & Development programmes are reviewed every year to give our team the best training opportunities with the objective of continuously feeding them with knowledge and skills to meet the upward expectation of the management.

In-house Training

A Training Plan for the year has been formulated based on the Training Needs Analysis and the training programmes are conducted In-house with the well experienced internal resource personnel who have a wide knowledge of the subject concerned. Thus by the end of the year a total number of 22 programmes were conducted, covering 714 participants all selected from our staff, with some staff members participated in more than one programme. These programmes were

Progressive relations

based on staff induction, technical training on special business lines and specialised areas of Management development, Credit analysis, Product awareness, Cross selling, International trade, Leasing and Information Technology etc.

At the conclusion of the training programme an evaluation was obtained which added up the content adequacy and efficiency, process variety, learner participation & challenge, quality of training material as well as the quality and resourcefulness of the trainer.

In view of the Bank embarking on an ambitious expansion plan for the year 2007, twenty Trainee Banking Assistants were recruited to the Bank and are now under the wing of continuous Training and Development.

External Training

A streamlined process of nominating staff for training in External Institutions has been a regular practice at the Bank. Such trainings are based on the needs of the Bank and individual development. As many as 212 employees were nominated for such programmes during the year.

Overseas Training

In order to update the knowledge in cutting edge information security technology development and building a relationship in the industry as the Bank's Mail gateway, Web servers, DNS server, Proxy server and Intranet server are managed and maintained by our IT Team. Three staff members were identified for overseas training in Bangkok mainly focusing on IT System Security, Threat Management, Coping with Security Challenges, Managing Security Infrastructure and best practices in IT security.

Training Programmes held

	Number
In-house Training	22
External Training	105
Overseas Training	2
Total	129

EMPLOYEE WELL BEING AND SATISFACTION

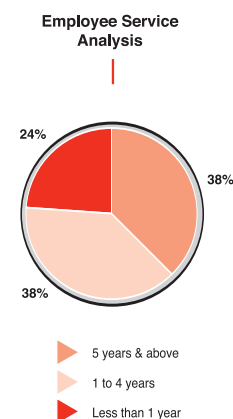
The Bank makes every effort to foster team spirit through recreational activities. Therefore staff welfare activities were further strengthened by organising a variety of entertainment. Amongst them was a weekend outing at the Palms - Beruwala, the usual annual Christmas party for the children of staff members and the Dinner dance.

The Bank staff spent a day with the less privileged fellow citizen at the Sri Lankadhara Home for children/elders by providing entertainment and enjoying a day's meal.

The Bank also promotes sporting activities among the employees and for the first time in the Bank's history was able to sponsor a team for the Mercantile open Netball championship. The Bank was also able to field a team to represent the MFA League Tournament conducted by the Mercantile Football Association and represented the Mercantile Cricket Association in the "F" Division.

Staff members reaching the 10 year milestone in the Bank were annually felicitated since 2005 and in the year 2006, three staff members were honoured by awarding with a Gold Medal in recognition of their services completing 10 years.

The Bank also conducted an inter Department / Branch Quiz competition for the employees encouraging them to develop different aspects of knowledge and test their exposure in technical banking as well as contemporary development and



current affairs. The response from the staff members at Head Office Departments and Branches in participating at this competition was enormous.

Another achievement of the year was well demonstrated by winning the National Best Quality Software “Gold Award” for the year 2006 under the in-house application for the product “PABC Net” conducted by the British Computer Society, Sri Lanka division.

As a special initiative to assess the level of satisfaction and motivation among the staff an Employee Satisfaction survey was carried out and this exercise enabled us to analyse the existing work culture and potential for enhancing the performance based work ethic of the Bank.

Reviews of benefits were carried out and the Bank was able to revise many loan schemes and reimbursements enjoyed by our team members in order to pave the path for our employees to upgrade their standard of living. In view of encouraging the employees to pursue their academic career in “Banking” and to enhance their knowledge, we also revised the honorarium paid to the employees on completion of a stage in the Diploma in Banking.

Employee Productivity

	(Rs.’000)		
	2004	2005	2006
Total Income Per Employee	2,784	3,108	3,649
Profit Before Tax Per Employee	148	386	578
Profit After Tax Per Employee	111	275	378
Total Assets Per Employee	24,391	27,541	29,159

Progressive governance

At PABC Bank we lay great emphasis on adhering to internationally accepted principles of good governance. Committing to the highest standards of transparency, integrity, disclosure and accountability, we believe, are the primary means by which we are able to better serve the interests of our customers, employees, shareholders and the community at large.

THE BOARD OF PABC BANK

Board Size

The Board endeavours to maintain its number of Directors between seven and fifteen in accordance with the Articles.

Present Composition / Board Balance

The Board consists of eleven Directors presently, all of whom are Non Executive, except for the Managing Director/GM/CEO. Directors are of various disciplines covering Banking, Legal, Management & Finance with business acumen.

Board Meetings

19 Meetings were held during the year under review.

Board role and responsibility

- As representatives of Shareholders, ensures the Bank's overall performance.
- Formulates strategies and policies whilst monitoring the implementation.
- Appointment of the CEO and the Senior Management team, plans for succession of Senior Management roles.
- Ensures the implementation of an effective internal control system.
- Ensures compliance with ethical and legal standards.
- Maintains an effective Risk Management system.
- Approval of credit facilities beyond the down delegated authority.

- Decides on and approves major capital expenditure.
- Approval of the Annual Budget and the Corporate Plan.
- Reviewing monthly financial statements.
- Approval of quarterly and annual financial statements for publication.

Independent Advice

The Board sub-committees advises the Board on various matters under their purview. In addition, the Board also obtains independent professional advice from external sources whenever it deems necessary.

Independent Judgement

Directors are committed to make independent judgements in the decision making and carry out their duties free from any undue influence.

Dedication of time for Board Decision making

The Board dedicates adequate time for making decisions for the Bank. They attend the regular monthly Board meetings and Board sub committee meetings. In addition, urgent matters are also referred to them by circulation, for approval.

Process for Director Selection

The Board is responsible for recommending Directors for election by the shareholders and for selecting Directors to fill casual vacancies until voted upon by the shareholders as provided for in the Articles. On behalf of the Board, an invitation to join the Board is extended in writing by the Company Secretary, after the Board has decided to appoint a specific Director.

Directors' Remuneration

Except for the Chairman and the Deputy Chairman, the Directors are paid a fee & reimbursable expenses for each Board & Committee

Meeting they attend. The Chairman and the Deputy Chairman are paid a monthly fee. Directors' remuneration as a lump-sum is approved annually by the shareholders and the monthly fee is reviewed by the Board from time to time within the limits approved by the shareholders.

Share Ownership of Directors

As per the Articles of Association, it is not mandatory for the Directors to own shares. Two of the major shareholders are Directors of the Board.

Directors' Tenure

There is no tenure limits for Directors. Due to this, the Bank's Directors who have gained valuable knowledge and experience concerning the operations of the Bank with tenure over time has given them an important perspective on long term strategies and initiatives of the Bank.

CHAIRMAN AND CEO

Division of responsibility

The positions of Chairman and the MD/GM/CEO have been separated with a clear division of responsibility in keeping with accepted principles of Corporate Governance.

The Chairman's Role

- Conducts Board proceedings in a proper manner by ensuring effective participation of all Directors.
- Provides effective leadership in formulating the Board's strategy.
- Ensures the minutes of meetings and decisions reached are accurately actioned.
- Chairs all Shareholders' Meetings.

The Managing Director / General Manager / Chief Executive Officer

The MD/GM/CEO is responsible for the effective running of the Bank

Progressive governance

and the implementation of the Board's policies. He keeps the Board inform of threats and business opportunities and strategies, so as to aid the Board in making effective decisions. In addition he provides all relevant information relating to the operational matters of the Bank.

The Management

The day to day running of the Bank is carried out by the Corporate and Senior Management team headed by the MD/GM/CEO. Their responsibility is to identify various risks and issues so as to bring them to the notice of the Board through the MD/GM/CEO. They also have to ensure the achievement of the targets on time within the agreed budgets and adhere to the laid down policies and standards in carrying out their duties.

Supply of information

A well streamlined Management Information System is in place. All relevant information to be discussed and decided by the Board are made available to the Directors well in advance. If the information provided is not sufficient to make a decision, additional information is provided in a brief and proper manner.

RELATIONSHIP WITH SHAREHOLDERS

Building up relationships with shareholders

The Bank at all times welcomes the ideas and the suggestions of the shareholders and implements them wherever possible. The Board encourages the active participation of shareholders in the Annual General Meetings and any Extra Ordinary General Meetings. As such these are deemed as constructive opportunities to share ideas and exchange information between shareholders and the Board.

Notice of Shareholder Meetings

Twenty one days notice is given to the shareholders in terms of the provisions in the Companies Act and the Articles of Association of the Bank, before any meeting.

Enhancing Shareholder Value

The main objective with which the Board functions are to enhance the returns for the shareholders, with an increase in profits. The Bank carries out all its activities to keep in line with the said objective.

ACCOUNTABILITY AND AUDIT

Financial reporting

The financial statements are prepared in accordance with the Sri Lanka Accounting Standards and adhered to the accounting formats and other procedures laid down by the Central Bank and Colombo Stock Exchange. The quarterly and annual results are published on a timely basis. Media of publication include printed materials, news papers and the web site of the Bank.

Internal Controls

An effective internal control system is in place in order to minimize operational risks and to comply with legal, banking and other regulations. Periodic audits are carried out at branch and department levels and the findings are discussed in detail at meetings of the Board Audit Sub-Committee. Regular meetings are held with operational staff to discuss operational issues in detail and to take possible preventive measures on risk areas highlighted at these meetings. 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.

Board Sub Committees composition :

All principal Committees of the Board are comprised entirely of independent Directors.

The principal Board Sub Committees and the members are given as follows :

Committees

Name of Director	Audit	Credit Review	Salary
Mr. W. M. Abeyratne Bandara		✓ *	
Mr. K. D. Dhammika Perera		✓	
Mr. A. W. Hathiramani			
Mr. Ravi Hathiramani - Alternate Director			
Mr. S. K. M. Nandasena	✓		✓
Mrs. H. V. Amarasekera	✓		✓
Mr. A. G. Weerasinghe	✓ *		✓ *
Mr. J. A. S. S. Adhihetty		✓	
Mr. R. Hewavitharana			
Mr. L. Wickremarachchi		✓	
Mr. J. D. C. Coonghe			

* Chairman of the Committee

The MD/GM/CEO attends all Board Sub Committee Meetings.

The Board does not require mandatory rotation of Committee Chairs.

AUDIT COMMITTEES AND AUDITORS

Availability of an Audit Committee

An active Board Audit Sub-Committee is in place and comprises of 3 Non-Executive Directors of the Bank. It approves the Bank's audit plans in advance and provides a forum for discussion of issues highlighted by the internal auditor and external auditors in their Audit Report and the Management Letter. Remedial measures are taken whenever necessary.

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

Auditor's Independence

The Bank maintains an appropriate relationship with the External

Auditors, M/s Ernst & Young to ensure their independence. During the year, their provision of non audit services to the Bank was limited to tax consultancy work.

Credit Sub Committee

The Board Credit Sub Committee which was formed in the year 2001 to monitor the proper implementation of the Bank's Credit Policy has immensely contributed to a healthy credit portfolio.

Taking a further step towards expediting the credit process, the Internal Credit Committee meets on a frequent basis chaired by the Chairman. This has resulted in delivering credit faster and delighting customers in a competitive environment.

Salary Review Committee

Considering the future Branch Expansion Programme of the Bank and in view of retaining experienced and loyal employees of the Bank the Salary Review Committee met on two occasions to review the salary and recommended salary revisions to its employees. The committee considered the rapid increase in the cost of living in the recent past and after studying the salary scales of the competitor Banks, proposed a general salary revision for the employees to be implemented from January 2007.

Corporate Governance

In keeping with good governance practices, the Bank identifies any improvements and suggestions and implements them whenever found necessary. Bank adheres to the code of good governance for Banks as proposed by the Central Bank of Sri Lanka and the Corporate Governance Best Practices of the Institute of Chartered Accountants of Sri Lanka.

The extent to which the Bank has complied with Corporate Governance principles is given as above in this report.

Report of the directors

GENERAL

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 2006.

PRINCIPAL ACTIVITIES

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

PROFIT AND APPROPRIATION

The Bank's profits and appropriations were as follows :

	2006 Rs. 000	2005 Rs. 000
Profit before taxation	250,167	152,229
Taxation	(86,430)	(43,900)
Profit after taxation	163,737	108,329
Retained profit/(loss) brought forward	(83,100)	(186,060)
Transfer to Reserve Fund	(8,190)	(6,500)
Transfer from Revaluation Reserve	40	1,131
Un-appropriated profit/(loss) to be carried forward	72,487	(83,100)

PROVISION FOR TAXATION

Total taxable profit was charged at 33.33%, except Off-Shore operation profit of Foreign Currency Banking Unit was charged at 20%. With revision of Sri Lanka Accounting Standards, Deferred tax was calculated based on the Balance Sheet liability method.

CAPITAL EXPENDITURE

Expenditure on Property, Plant & Equipment at cost amounted to Rs. 363,175,997/- during 2006, details of which are given in Note 23 to the Audited Accounts.

PROFIT AND RESERVES

The Bank's Reserves as at 31st December 2006 stood at Rs. 128,711,860/-. This comprises a Statutory Reserve Fund of Rs. 20,461,000/-, Revaluation Reserve of Rs. 35,763,197/- and Revenue Reserve of Rs. 72,487,663/-. The movement in Reserve Fund and Revaluation Reserve are shown in Note 31 & 32 to the Audited Accounts respectively.

AUTHORISED SHARE CAPITAL

The authorised share capital of the Bank is Rs. Five Billion (Rs. 5,000,000,000/-) divided into Five Hundred million (500,000,000) shares of Rupees Ten (Rs.10/-) each.

ISSUED SHARE CAPITAL

The total issued and paid up share capital as at 31st December 2006 was Rs. 1,106,404,070/- consisting of 110,640,407 ordinary shares, paid up value Rs. 10/- per share.

RIGHTS ISSUE

The issued and paid up share capital of the Bank increased from Rs. 555,718,830/- divided into 55,571,883 shares of Rs. 10/- each to Rs. 1,106,404,070/- divided into 110,640,407 shares of Rs. 10/- each, increasing the capital by Rs. 550,685,240/- by way of a Rights Issue. A total of 55,068,524 shares in the proportion of one (01) share for each one (01) share held, were issued to the shareholders.

TURNOVER / INCOME

The Bank's main income is Interest Income, which comprises over 81% of the total income. The income for the year was Rs. 1,580,840,844/- as against Rs. 1,224,658,123/- for the previous year.

STATUTORY PAYMENTS

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

DONATIONS / CONTRIBUTIONS

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

1. Miss. J. M. T. M. Perera	Rs. 100,000
2. PABC Sports Club	Rs. 300,000
Total	<u>Rs. 400,000</u>

SHAREHOLDING

The number of registered shareholders of the Bank as at 31.12.2006 was 1,494 compared to 1,205 as at 31.12.2005. The schedule indicating the shareholders' analysis is on pages 93 and 94.

TOP 20 SHAREHOLDERS

The Top 20 shareholders of the Bank is given on page 95 with their names and the shareholding.

DIRECTORS

Following were the Directors of Pan Asia Banking Corporation Ltd., during the year ended 31st December 2006 and 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 (<i>Resigned w.e.f. 29.09.2006</i>)
Mr. S. K. M. Nandasena	- Director
Ms. H. V. Amarasekera	- Director
Mr. A. G. Weerasinghe	- Director
Mr. J. A. S. S. Adhihetty	- Director
Mr. R. Hewavitharana	- Director
Mr. L. Wickremarachchi	- Director (<i>appointed w.e.f. 26.07.2006</i>)
Mr. J. D. C. Coonghe	- Director (<i>appointed w.e.f. 27.12.2006</i>)
Mr. R. Nadarajah	- MD/GM/CEO/Director

* 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. S. K. M. Nandasena and Mr. R. Hewavitharana.

Directors retiring under Article 100 are :-

Mr. L. Wickremarachchi
Mr. J. D. C. Coonghe

Report of the directors

DIRECTORS' INTEREST IN SHARES

Ordinary Shares held by the Directors, their alternates and spouses are as follows :

	31.12.2006	31.12.2005
Mr. W. M. Abeyratne Bandara	200,000	50,000
Mr. K. D. D. Perera	33,181,058	8,295,500
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	20,000	-
Mr. L. Wickremarachchi	20,000	-
Mr. J. D. C. Coonghe	11,052,976	3,266,212
Mr. R. Nadarajah	25,000	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 Notes 36 & 37 to the Audited Accounts, which have been disclosed and declared at the meeting of Directors.

BOARD SUB COMMITTEES

In keeping with good Corporate Governance, practices, transparency and accountability, the Board has formed several Board Sub Committees of which the information is given in the Corporate Governance Report on page 42.

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 Audited Accounts, that warrants adjustments or disclosure to the Financial Statements.

BUSINESS DEVELOPMENT

Two Products, the “STARS” Investment Planner Account and “LAHIRU” Special Children’s Savings Account were launched to coincide with the 11th Anniversary of the Bank held in October, 2006.

“Stars”

A progressive Investment Planner with high returns that caters to any age group. The product offers a choice to the investor and who could determine how much is needed to set aside monthly based on what the lump sum investment would be in either 5 or 10 years.

“Lahiru” Special Childrens’ Savings Account

This product was launched with the objective of attracting deposits from parents looking for high interest returns. The product offers a rate of 15% for the first year of deposit.

NEW BRANCHES

During the year under review a Customer Service Centre was opened in Wellawatte, Dam Street Trade Desk was upgraded to a fully fledged branch and Ratnapura branch was relocated.

GOING CONCERN

The Board is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future.

MEETINGS OF DIRECTORS

The Directors of the Bank met twice or once a month for the regular Board Meetings in the year 2006.

CORPORATE GOVERNANCE

The main corporate governance practices of the Bank are given on page 42 of this Report.

RE-APPOINTMENT OF AUDITORS

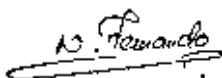
A resolution proposing the re-appointment of the Auditors of the Bank will be proposed at the Annual General Meeting and authorising the Directors to determine their remuneration.

ANNUAL GENERAL MEETING

In complying with good governance practices, the Annual General Meeting is held as soon as possible after the end of the financial year and after the completion of the external audit.

The 12th Annual General Meeting of the Bank will be held at the Penthouse of Pan Asia Banking Corporation, 450, Galle Road, Colombo 03 on 26th April, 2007 at 10.00 a.m. The Notice of the 12th Annual General Meeting is on page 103 of this Report.

By order of the Board



N. Fernando
Company Secretary

PAN ASIA BANKING CORPORATION LTD

Colombo
22 February 2007

Risk management

The intensity of Risk Management in a Bank should match up to its penchant for portfolio and profitability growth. Pre-empting any potential risks, and mitigating and managing them throughout is critical for long term sustenance of profit and stability. Risks are multi-pronged of which the most pronounced and overt is the credit risk. Managing risks effectively helps the Bank to widen its comfort zones, in any eventuality. It is essential that a risk culture is developed throughout the Bank, so that its Management will be highly sensitive and responsive to any potent vulnerability. Risk Management is not a one way controlling mechanism, but a balanced trade - off between potential risks and calculated returns. PABC does this by placing well defined policies, procedure and internal controls which will lead to minimising the risks and balancing the control mechanism. The Internal Audit Department performs a continuous Audit of Branches and Business Units to confirm the adequacy of controls.

CREDIT RISK

This refers to the Risk that losses will be incurred if a borrower does

not honour his repayment obligations of capital / interest in full or part in a timely manner. Among all potential risks, the credit risk stands tall. Therefore, the Bank pays a higher attention to manage this risk.

A credit rating system which is subject to periodic review and refinement forms an integral part of evaluation of credit proposals and assists the approving authorities to assess the credit worthiness of the Borrower. Approving authority levels too have been structured to facilitate group decision making. The entire credit portfolio is regularly reviewed by harnessing Management Information Systems, to monitor any industry concentrations, delinquencies, security coverage on advances, interest yields etc.

Frequent Internal Credit Committee Meetings are held to discuss and approve credit proposals to confirm quality credit and to avoid delays. Internal Credit Committee periodically arranges to have one to one meetings with Branch Managers on all credit exceptions where it is deemed necessary to review and discuss any credit quality

deterioration. On a fortnightly basis the “Board Credit Committee” reviews all credit approved by the Internal Credit Committee.

A Credit Control Unit (CCU) was newly established to independently evaluate large credit propositions prior to disbursement. The functions of this unit includes monitoring of security in a perspective of marketability, proper grading of advances, credit compliances etc.

Further, to strengthen the quality of credit, a Credit Auditor was appointed to physically check that all credit facilities in excess of Rs. 5 million are properly disbursed. Periodic branch credit inspections, follow-up of insurance on assets mortgaged and stock statements are key responsibilities of the Credit Auditor.

The Board of Directors pay a great deal of attention to the quality of credit by scrutiny of monthly reports and lay down the Bank's credit policy guidelines. Strong emphasis has been laid on security based lending.

BORROWER RISK RATING SYSTEM

A Borrower risk rating system to indicate the quality of a Borrower was introduced. This process enables the Management to make an assessment on how likely a particular borrower is to repay the funds borrowed and also how safe it is to continue to increase the Bank's exposure and the probability of loan losses. The process identifies the Borrowers' strengths and weaknesses in the repayment capacity, financial conditions, industry and management quality. The use of the risk rating mechanism contributes towards a better quality credit decision making process.

MARKET RISK

It is the risk that will have an adverse effect due to changes in market conditions such as interest rates, exchange rates etc. In order to mitigate such risks, the Board has approved limits for trading activities and monitoring is assigned to the Assets & Liability Committee (ALCO) of the Bank. ALCO Meetings are held twice a month In order

to monitor compliances and analysis of market interest rates and exchange rates. Timely re-pricing of products and hedging of exposures are done by preparing Gap Analysis.

LIQUIDITY RISK

Liquidity risk arises due to a mismatch in Assets and Liabilities of the Balance Sheet. The Bank must always ensure free access to arrange enough funds to meet financial obligations, whilst having sustained growth in high income earning Assets.

The Chief Executive Officer chairs the ALCO Meetings and thereby manages the cash flows to meet all financial commitments through prudent and hands-on liquidity management. The maturity profile of Assets and Liabilities are regularly monitored and appropriate action will be taken if any further gaps are identified.

The Bank maintained a healthy liquidity ratio throughout the year above the stipulated 20% and had comfort levels in liquidity.

OPERATIONAL RISKS

It is the Risk that internal process, people and systems are not capable or sophisticated to detect frauds or human / technological errors.

The Bank has placed a Disaster Recovery Plan for continuation of operations and is presently in the process of codifying a “Business Continuity Plan”. Management believes this is capable of arresting any losses that could occur from a breakdown in the IT System. The Corporate Management meets fortnightly to review and refine the process flows, internal controlling mechanisms, business models, compliances, internal audit functions etc., to mitigate possible risks.

Pro-active regular Internal Audits (Functional and Operational) - are conducted to evaluate and strengthen internal controls placed in the business of banking. Any further developments and suggestions are highlighted accordingly.

Risk management

System Reviews are initiated by the Top Management, over a particular aspect of any departments' performance and / or operations. Management is regularly briefed on the status of internal controls and process systems in key areas of operations.

Also, periodic Information Systems Audits are conducted in order to evaluate the adequacy of controls in computer systems to safeguard information and assets, maintain data integrity and to operate the system efficiently and effectively.

Special Audits - Unscheduled forensic investigations are performed to forestall possible irregular activities that are beyond the normal scope of regular audits and special reviews.

REPUTATIONAL RISKS

The Bank wishes to maintain its stature and reputation as a good corporate citizen, practicing ethical standards and nurturing good corporate governance practices.

The Bank ensured adherence to all supervisory regulations at all times and facilitated training of staff to win the trust and the confidence of valuable customers and regulatory authorities.

Anti Money Laundering and "Know Your Customer" guidelines were repeated and circulated to Branches as reminders to instill importance. Further to strengthen the control on reputations etc. Information Systems were frequently audited by external experts to mitigate fraud through use of externally accessed delivery channels such as ATM's, Internet Banking and SMS Banking etc.

LEGAL RISKS/COMPLIANCE

The Bank has a policy of strict observance of legal requirements to minimise the risks that may arise from non adherence to legal impositions and has adopted a three pronged approach in handling it. The Bank, as a responsible corporate entity, ensures conformity with

all statutory and regulatory requirements by disseminating internally via circulars / meetings etc. the responsibilities cast on it under such requirements at each level and follows it through by:

- Having each Unit / Branch of the Bank acting in terms of the responsibility cast in relation to their operational work.
- Advising and monitoring by a compliance officer of the need to fulfill the legal requirements by the Units / Branches of the Bank.
- Overall monitoring of compliance at the level of the Board of Directors via special committees.

ADOPTING AND WAY FORWARD TO BASEL - II

Test computation of Capital Adequacy under Basel II is implemented, for which the regularity requirement is effective in year 2008. The Bank is in the process of developing Information Technology capabilities to handle one of the Capital Adequacy yard sticks "Internal Credit Rating" based approach.

PABC is concerned about the Assets mix and the volume growth in the risk - assets portfolio, since the credit risk mainly depends on the same. Extra emphasis will be given for Operational Risks, which are expected to have a significant impact.

Management is concerned about the improvement of credit quality and overall risk management practices to reap the full benefit of Basel II.

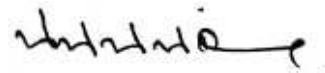
Audit committee report

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 publish 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 and Bank reputation are safeguarded and the financial position and 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, 2007 subject to the approval of shareholders at the Annual General Meeting.



Mr. A. G. Weerasinghe

Chairman

Audit Committee

Colombo

22 February 2007

Directors' responsibility for financial reporting

Under section 143 of the Companies Act No. 17 of 1982, Directors of the Bank have responsibility for maintaining the proper books of accounts of all transactions and preparing financial statements that give a true and fair view of the state of affairs.

Accordingly, the Board of Directors has instituted effective and comprehensive internal control systems, which comprise internal check, internal audit, financial and other controls required to carry out the business of banking effectively, accurately and in a reliable manner. Regular Audit Committee meetings are held and report of the committee is given on page 53 of this report.

The Board of Directors at their regular meetings, reviews the monthly financial statements. Therefore, Directors consider that financial statements exhibited on page 60 to 85, are prepared in accordance with the Sri Lanka Accounting Standards and provide the information required by the Companies Act No. 17 of 1982, the Banking Act No. 30 of 1998 and amendments thereto. Directors are also of the opinion that the Bank will continue to be in operation for the foreseeable future.

The Bank Supervision Department of Central Bank carries out periodic examinations of the records and the affairs of the Bank as deemed necessary to ensure conformity with the Banking Act and other regularity requirements. It also checks the effective implementation of internal control systems too. They monitor off site surveillance reports sent by the Bank.

M/s Ernst & Young the auditors appointed by the shareholders have examined the financial statements made available by the Board of Directors together with all financial records, related data, and minutes of shareholders and directors meetings. Audit opinion from the examination is given on page 59 of this report.

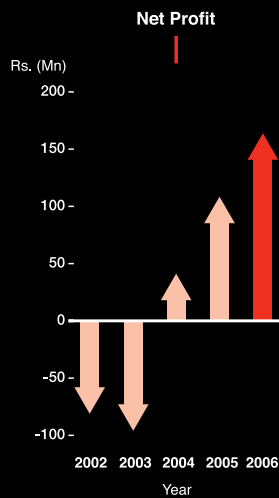
By Order of the Board



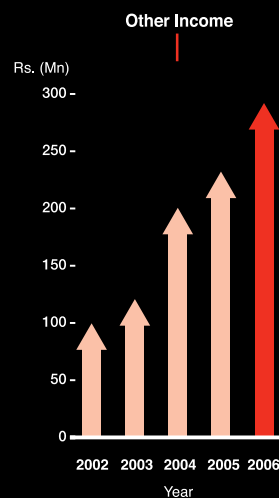
N. Fernando
Company Secretary

Colombo
22 February 2007

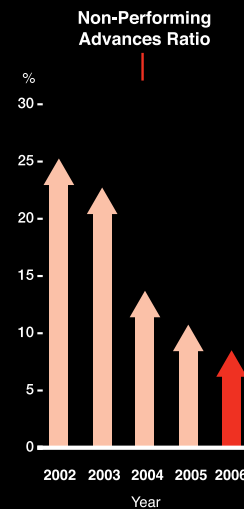
Financial review



PABC recorded Rs. 250 million as Profit before Tax and Rs. 164 million as Net Profit. Achievement marks a growth of 64.34% and 51.15% respectively compared to previous year.

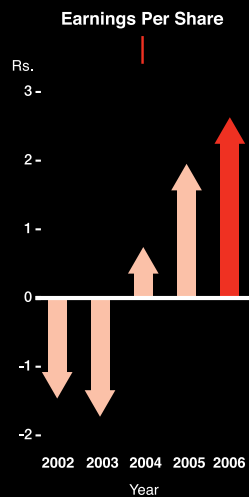


Other Income for the year 2006 was Rs. 292 million compared to Rs. 232 million in year 2005, which resulted in an upward growth of 25.96%.

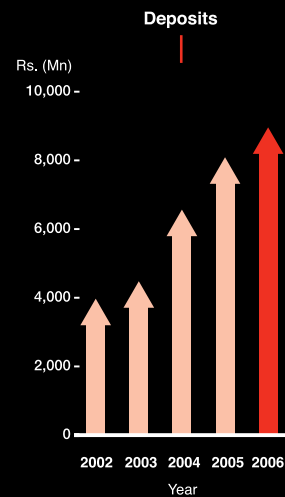


The Non Performing Advances ratio declined from 10.73% in 2005 to 8.47% in year 2006, indicating an improvement in the credit quality.

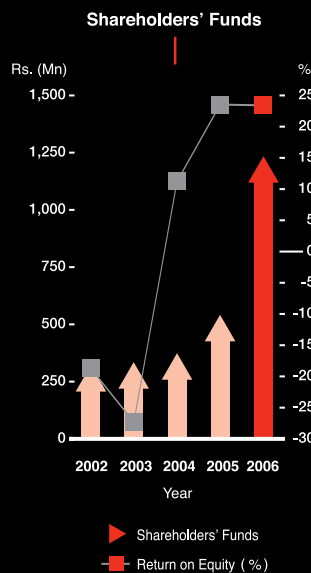
Financial review



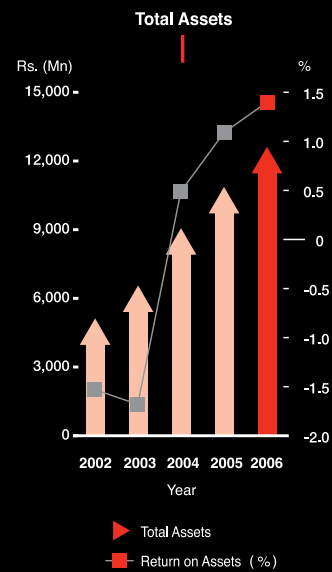
For the year 2006 the Earnings Per Share was Rs. 2.63, whereas it was Rs. 1.95 in year 2005.



Customer Deposits for 2006 and 2005 recorded as Rs. 8,962 million and Rs. 8,100 million respectively. Deposit base Increased in year 2006 by Rs. 862 million, which resulted a growth of 10.64%.



Shareholders' funds reported Rs. 1,235 million as at year end 2006 with a significant growth of Rs. 695 million. However a slight decrease was experienced in ROE, due to the Rights Issue of shares.



Total Assets of the Bank stood at Rs. 12,625 million as at year end reflecting a growth of 16.35% over the year 2005. As a result a remarkable growth was reflected in ROA from 1.09% in 2005 to 1.44% in 2006.



Financial

reports & accounts

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Financial Calendar - 2006

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

Financial Calendar - 2007

1st Quarter Results 2007	April 2007
2nd Quarter Results 2007	July 2007
3rd Quarter Results 2007	October 2007
Annual Report for 2007	March 2008
13th Annual General Meeting	April 2008

Report of the auditors



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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, 2006 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 60 to 85.

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, 2006 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, 2006 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 36 & 37 to the Financial Statements.

Colombo

February 22, 2007

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

Income statement

Year ended 31 December 2006

	Note	2006 Rs.	2005 Rs.
Gross Income	6	1,580,840,844	1,224,658,123
Interest Income	7	1,289,077,847	993,028,535
Interest Expense	8	(753,995,657)	(565,950,710)
NET INTEREST INCOME		535,082,190	427,077,825
Other Income	9	291,762,997	231,629,588
Net Income		826,845,187	658,707,413
LESS : NON INTEREST EXPENSES			
Operating Expenses		155,211,723	122,888,054
Personnel Costs		170,167,687	147,507,797
Premises, Equipment & Establishment Expenses		186,183,544	172,965,042
Provision for Staff Retirement Benefits		5,212,371	5,354,640
Other Overhead Expenses		2,736,657	2,913,558
PROFIT BEFORE PROVISIONING FOR LOSSES		307,333,205	207,078,322
Add/(Less) :			
Loan Loss (Provision)/Reversals/Recoveries		14,562,151	(3,540,299)
(Provision)/write back for other Losses		(2,127,985)	(12,808,795)
PROFIT BEFORE VALUE ADDED TAX	10	319,767,371	190,729,228
Less : Value Added Tax		69,599,880	38,500,000
PROFIT BEFORE INCOME TAX		250,167,491	152,229,228
Less : Tax Expense	11	86,430,000	43,900,000
PROFIT FOR THE YEAR		163,737,491	108,329,228
Earnings Per Share - Basic	12	2.63	1.95

The accounting policies and notes on pages 64 through 85 form an integral part of the financial statements.

Colombo
February 22, 2007

Balance sheet

As at 31st December 2006

	Note	2006 Rs.	2005 Rs.
ASSETS			
Cash & Short Term Funds	13	863,852,441	780,643,386
Statutory Deposit with Central Bank of Sri Lanka	14	704,060,252	609,080,423
Government Treasury Bills/Bonds	15	1,947,684,248	1,865,805,422
Bills of Exchange	16	467,295,097	485,170,554
Loans & Advances	17	6,896,692,280	6,009,653,276
Interest Receivable	18	111,326,925	87,155,071
Lease Rentals Receivable	19	699,415,008	377,795,191
Investment Securities	21	1,140,000	1,140,000
Other Assets	22	404,486,767	432,215,068
Property, Plant & Equipment	23	511,097,414	202,681,160
Intangible Assets	24	18,829,652	-
TOTAL ASSETS		12,625,880,084	10,851,339,551
LIABILITIES			
Deposits	25	8,962,892,836	8,100,716,491
Borrowings	26	1,163,030,415	1,078,495,421
Due to Foreign Banks		118,889,346	64,014,126
Other Liabilities	27	763,324,191	789,132,373
Debentures	28	303,789,000	253,789,000
Taxation Payable		44,758,366	25,218,941
Deferred Tax Liability	29	34,080,000	-
Total Liabilities		11,390,764,154	10,311,366,352
SHAREHOLDERS' FUNDS			
Share Capital	30	1,106,404,070	555,718,830
Statutory Reserve Fund	31	20,461,000	12,270,909
Revaluation Reserve	32	35,763,197	55,083,561
Accumulated Profit/(Losses)		72,487,663	(83,100,101)
		1,235,115,930	539,973,199
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS		12,625,880,084	10,851,339,551
Commitments & Contingencies	33	1,733,704,427	1,769,465,360

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

Signed for and on behalf of the Board by



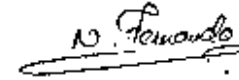
Chairman



Deputy Chairman



Director/CEO



Company Secretary

The accounting policies and notes on pages 64 through 85 form an integral part of the financial statements.

Colombo

February 22, 2007

Statement of changes in equity

Year ended 31 December 2006

	Note	Share Capital Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Accumulated Profit/(Losses) Rs.	Total Rs.
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	31	-	6,500,000	-	(6,500,000)	-
Surplus on Revaluation of Property, Plant & Equipment	32	-	-	55,083,561	1,130,735	56,214,296
Balance as at 31 December 2005		<u>555,718,830</u>	<u>12,270,909</u>	<u>55,083,561</u>	<u>(83,100,101)</u>	<u>539,973,199</u>
Rights Issue of 55,068,524 shares at Rs. 10/- each for cash consideration during the year	30	550,685,240	-	-	-	550,685,240
Profit for the Year 2006		-	-	-	163,737,491	163,737,491
Transfer to Reserve Fund	31	-	8,190,091	-	(8,190,091)	-
Realisation of Revaluation Reserve	32	-	-	(40,364)	40,364	-
Effect on transitional liability on adoption of Revised SLAS 14 relating to Revaluation Reserve	32	-	-	(19,280,000)	-	(19,280,000)
Balance as at 31 December 2006		<u>1,106,404,070</u>	<u>20,461,000</u>	<u>35,763,197</u>	<u>72,487,663</u>	<u>1,235,115,930</u>

The accounting policies and notes on pages 64 through 85 form an integral part of the financial statements.

Colombo
February 22, 2007

Cash flow statement

Year ended 31 December 2006

	Note	2006 Rs.	2005 Rs.
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest Received		1,264,905,993	983,372,792
Fees & Commission Received	9	193,371,466	158,382,010
Interest Payments		(689,110,287)	(523,248,670)
Exchange Income	9	90,878,303	58,704,350
Receipts from Other Operating Activities	9	7,513,228	14,543,228
Cash Payments to Employees & Suppliers		(323,256,892)	(290,271,904)
Payments on Other Operating Activities		(227,548,259)	(164,301,612)
Operating Profit before changes in Operating Assets		316,753,552	237,180,194
(Increase)/Decrease in Operating Assets			
Bills of Exchange		6,936,960	(106,113,106)
Loans and Advances		(864,818,256)	(649,257,046)
Other Assets		28,328,978	(185,925,265)
Lease Rentals Receivable		(318,339,915)	(107,689,006)
Money at Call and Short Notice		(180,456,312)	(21,493,959)
Treasury Bills / Bonds / Reverse Repos		(84,607,488)	(439,084,216)
		(1,096,202,481)	(1,272,382,404)
Increase/(Decrease) in Operating Liabilities			
Deposits		862,176,345	1,543,530,397
Other Liabilities		(90,693,549)	254,196,150
Borrowings		84,534,994	(117,288,290)
Net Cash from Operating Activities before Income Tax		(240,184,691)	408,055,853
Taxation Paid		(52,090,574)	(17,245,191)
Net Cash from Operating Activities		(292,275,265)	390,810,662
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of Property, Plant & Equipment	23	(363,175,997)	(24,155,252)
Acquisition of Intangible Assets	24	(2,394,904)	-
Proceeds from Sale of Property Plant & Equipment		18,278	1,944,260
Net Cash Flows Used in Investing Activities		(365,552,623)	(22,210,992)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from Debentures	28	50,000,000	-
Right Issue of Shares	30	550,685,240	-
Net Cash Used in Financing Activities		600,685,240	-
Net Increase/(Decrease) in Cash and Cash Equivalents		(57,142,648)	368,599,670
Cash and Cash Equivalents at the beginning of the year		1,066,632,585	698,032,915
Cash and Cash Equivalents at the end of the year		1,009,489,937	1,066,632,585
		2006 Rs.	2005 Rs.
Reconciliation of Cash & Cash Equivalents			
Cash & Short Term Funds		424,319,031	521,566,288
Balances with Central Bank of Sri Lanka		704,060,252	609,080,423
Due to Foreign Banks		(118,889,346)	(64,014,126)
		1,009,489,937	1,066,632,585

The accounting policies and notes on pages 64 through 85 form an integral part of the financial statements.

Notes to the financial statements

Year ended 31 December 2006

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.

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

1.2 Principal Activities and Nature of Operations

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

1.3 Approval of Financial Statements

The Financial Statements were authorised for issue by the Board of Directors on 22nd February 2007.

2. GENERAL POLICIES

2.1 Basis of Preparation

The Financial Statements of the Bank are prepared on a historical cost basis. No adjustment has been made for inflationary factors affecting the Financial Statements except that Office Equipment, Computer Hardware and Furniture & Fittings are stated at valuation as explained in Note 23 to the Financial Statements. Assets and Liabilities are grouped by nature and listed in an order that reflects their relative liquidity. These Financial Statements are

prepared in Sri Lankan Rupees unless otherwise stated. Where appropriate the Significant Accounting Policies are disclosed in the succeeding notes.

2.2 Statement of Compliance

The Financial Statements of the Bank are prepared in accordance with the Sri Lanka Accounting Standards and therefore present fairly the financial position, financial performance and cash flows of the Bank.

2.3 Format of Financial Statements, prior year figures and phrases

The Financial Statements of the Bank are presented in accordance with the format of accounts prescribed by the Central Bank of Sri Lanka.

Certain prior year figures and phrases are rearranged whenever necessary to conform to the current year's presentation.

2.4 Changes in Accounting Policies

The accounting policies adopted are consistent with those of the previous financial year except as follows. The Bank has adopted the revised Sri Lanka Accounting Standards (SLASs') that are applicable in the current financial year. The Financial Statements of 2006 have been prepared in accordance with the relevant transitional provisions in the respective SLAS as listed below.

SLAS 3 (Revised)	Presentation of Financial Statements
SLAS 10 (Revised)	Accounting Policies, Changes in Accounting Estimates and Errors
SLAS 12 (Revised)	Events after the Balance Sheet Date
SLAS 14 (Revised)	Income Taxes
SLAS 18 (Revised)	Property Plant and Equipment
SLAS 30 (Revised)	Related Party Disclosures

The SLASs' that have a significant impact on the preparation and presentation of the Financial Statements are as follows:

SLAS 14 (Revised) Income Taxes

The adoption of revised SLAS 14 requires deferred tax to be provided using the liability method on temporary differences at the Balance Sheet date between the tax bases of Assets and Liabilities and their carrying amounts for reporting purposes.

In accordance with the transitional provisions of the Standard, the Bank has determined its transitional liability for deferred income tax as at 1st January 2006, as the difference between the deferred income tax liability calculated based on the revised standard and the deferred income tax liability as accounted and disclosed in the Financial Statements and the resulting increase/decrease of the deferred tax asset/liability is recognised on straight line basis over two years commencing from 1st January 2006.

SLAS 18 (Revised) Property Plant and Equipment

Revised SLAS 18 requires the review of the residual value and the useful life of an asset at least annually and expects the depreciation of an asset to begin from when it is available for use. Accordingly, all assets excluding land acquired from 01 January 2006 are depreciated by the Bank commencing from the month the asset is available for use.

SLAS 30 (Revised) Related Parties

Revised SLAS 30 requires additional disclosure on related party transactions and outstanding balances, together with the names of any parties who can control the reporting entity. Additionally, it requires the disclosure of

compensation to key management personnel in total. The Bank has made the required disclosures under Notes 36 and 37 to these Financial Statements.

2.5 Foreign Currency Translation

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

2.5.1 Transactions and Balances

Transactions in foreign currencies are initially recorded using the middle exchange rate of the functional currency ruling at the date of the transaction.

Monetary Assets and Liabilities denominated in foreign currencies are translated at the closing middle exchange rate of the functional currency ruling at the Balance Sheet date. All differences are taken to Income Statement.

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

2.6 Going Concern

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

2.7 Taxation

a) Current Taxation

Current tax Assets and Liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted by the Balance Sheet date. Accordingly, provision for taxation is made on the basis of the profit

for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 38 of 2000 and the amendments thereto, at the rates specified in Note 11 to the Financial Statements.

b) Deferred Taxation

Deferred tax is provided on temporary differences at the Balance Sheet date between the tax bases of Assets and Liabilities and their carrying amounts for financial reporting purposes.

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

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

Deferred tax Assets and Liabilities are measured at the tax rates that are expected to apply in the year when the assets are realised, or the liabilities are settled, based on tax rates and tax laws that have been enacted or substantially enacted at the Balance Sheet date.

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

Deferred tax Assets and Liabilities are set off if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

The impact from the application of the Sri Lanka Accounting Standard No.14 (Revised 2005) on Income Taxes is disclosed in Note No. 29 to the Financial Statements.

c) Value Added Tax

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

d) Economic Service Charge (ESC)

As per the provisions of the Economic Service Charge Act No 13 of 2006, ESC is payable on the liable income at specified rates. ESC paid is deductible from the income tax liability. Any unclaimed liability can be carried forward and set off against the income tax payable for a further two years.

2.8 Events after the Balance Sheet Date

All material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements, where necessary.

3. ASSETS AND BASES OF THEIR VALUATION

3.1 Advances to Customers

- (a) 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.
- (b) 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.

- (c) A general provision is maintained, in addition to the specific provisions, to cover potential bad debts which are inherent in the loan portfolio but not yet identified. The provision is estimated after deducting facilities secured against cash, gold, government securities and Non-Performing Advances which are specifically provided. The Central Bank of Sri Lanka in its direction dated 21, November 2006, has made it mandatory that all Banks make this provision, with time being given to build up the required provision over 10 quarters, at the rate of 0.10% per quarter.

3.2 Finance Leases

(a) Lease Rental Receivable

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.

(b) Provision for Lease Rental Receivable

Provisions are same as 3.1 (a), (b) & (c).

3.3 Credit Card receivable

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

- (b) Provisions are same as 3.1 (a), (b) & (c).

3.4 Investments

(a) Investment in Treasury Bills/ Bonds

Investment in Government of Sri Lanka Treasury Bills/Bonds, Government Securities and Central Bank Securities are purchased primarily with the intention of holding to maturity and are stated at cost with discounts/premiums on purchase which are dealt through the income on a straight line basis over the periods to maturity.

Treasury Bills / Bonds held with the intention of sale are stated at cost less provision for fall in value of such investments.

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.

(b) Investment Securities

All investments in unquoted shares are stated at cost.

3.5 Property, Plant and Equipment

(a) Cost and Valuation

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

When an asset is revalued, any increase in the carrying amount is credited directly to a revaluation surplus unless it reverses a previous revaluation decrease relating to the same asset, which was previously recognised as an expense. In these circumstances the increase is recognised as income to the extent of the previous write down. When an asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised as an expense unless it reverses a previous increase relating to that asset, in which case it is charged against any related revaluation surplus, to the extent that the decrease does not exceed the

amount held in the revaluation surplus in respect of that same asset. Any balance remaining in the revaluation surplus in respect of an asset, is transferred directly to Accumulated Profits on retirement or disposal of the asset.

(b) Restoration Cost

Expenditure incurred on repairs or maintenance of Property, Plant and Equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance, is recognised as an expense when incurred.

(c) Depreciation

The provision for depreciation is calculated by using a straight line method on the cost or valuation of all Property, Plant and Equipment other than freehold land, in order to write off such amounts over the estimated useful lives. The principal annual rates used are:

Buildings	2.5% per annum
Office Equipment	16.67% per annum
Computer Hardware	16.67% per annum
Furniture & Fittings	10% per annum
Motor Vehicles	20% per annum

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

Commencing from 01 January 2006, the assets residual values, useful lives and method of

depreciation are reviewed, and adjusted if appropriate at each financial year end.

3.6 Intangible Assets

3.6.1 Basis of Recognition

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 37 on Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation and accumulated impairment losses.

3.6.2 Computer Software

Computer Software is stated at cost less accumulated amortisation. Amortisation is done at 12.5% per annum on cost.

3.6.3 Subsequent Expenditure

Subsequent expenditure on Intangible Assets is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

3.6.4 Amortisation

The useful lives of Intangible Assets are assessed to be either finite or infinite. Intangible Assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an Intangible Asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as

appropriate and are treated as changes in accounting estimates. The amortisation expense on Intangible Assets with finite lives is recognised in the Income Statement.

3.6.5 Impairment

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

3.7 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 Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

4.2 Commitments and Contingencies

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

4.3 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.

4.4 Provisions for Liabilities

A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligations, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

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 recognised is reversed when accounts if any become Non Performing (3 months arrears). 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/Bonds and Central Bank Securities is recognised on an accrual basis. Discounts/Premium 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) Recovery of Non-performing Loans and Advances

Interest recovered from Non-Performing Loans and Advances is recognised as income on a cash basis.

(e) 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.

(f) Interest and Fees receivable on Credit Cards

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

5.4 Cash Flow Statement

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

Notes to the financial statements

Year ended 31 December 2006

	2006 Rs.	2005 Rs.
6. GROSS INCOME		
Gross Income	1,580,840,844	1,224,658,123
Interest Income (Note 7)	1,289,077,847	993,028,535
Other Income (Note 9)	291,762,997	231,629,588
	<u>1,580,840,844</u>	<u>1,224,658,123</u>
7. INTEREST INCOME		
Loans & Advances	1,019,522,409	781,320,462
Treasury Bills/Bonds & Placements with Other Banks	179,043,244	163,565,739
Interest from Leases	78,182,711	41,873,813
Other Interest Income	12,329,483	6,268,521
	<u>1,289,077,847</u>	<u>993,028,535</u>
8. INTEREST EXPENSE		
Customer Deposits	587,086,307	430,958,570
Borrowings - Banks	65,519,123	25,566,035
- Others	101,390,227	109,426,105
	<u>753,995,657</u>	<u>565,950,710</u>
9. OTHER INCOME		
Fee & Commission Income	193,371,466	158,382,010
Net Foreign Exchange Gain	90,878,303	58,704,350
Others	7,513,228	14,543,228
	<u>291,762,997</u>	<u>231,629,588</u>
10. PROFIT BEFORE VALUE ADDED TAX		
Stated after charging/(crediting)		
Directors' Emoluments	5,316,836	3,507,884
Auditors' Fees & Expenses - Current Year	1,250,000	1,063,966
- Under/(Over) Provision in respect of Previous Year	179,759	16,050
Depreciation	31,008,829	35,011,586
Amortisation of Intangible Assets	7,213,575	-
Expenses on Litigation	2,050,330	1,505,484
Defined Contribution Costs - EPF & ETF	20,638,025	17,752,961
Defined Benefit Plans - Gratuity	5,212,371	5,354,640
Advertising and Business Promotion	6,494,579	10,702,909
	<u>71,630,000</u>	<u>43,900,000</u>
11. TAX EXPENSE		
Tax based on Profits for the year (Note 11.1)	71,630,000	43,900,000
Charge/(Reversal) in respect of Deferred Taxation (Note 29.1)	14,800,000	-
	<u>86,430,000</u>	<u>43,900,000</u>

Notes to the financial statements

Year ended 31 December 2006

	2006 Rs.	2005 Rs.
11.1 Reconciliation between Current Tax Expense and the product of Accounting Profit		
Accounting Profit (Profit before Tax)	250,167,491	152,229,228
Aggregate Disallowed items	397,605,247	239,563,672
Aggregate Allowable Expenses	(300,536,494)	(161,067,117)
Income not subject to Tax	(8,834,712)	(5,592,367)
Taxable Profit	338,401,532	225,133,416
Tax Losses Brought Forward and Utilised	(118,440,536)	(78,796,696)
	219,960,996	146,336,720
Statutory Tax Rate %	20%-33.33%	20%-30%
Current Income Tax Expense	71,630,000	43,900,000
Carried forward Tax Losses (Provisional)	(164,737,700)	(283,178,236)

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.

	2006 Rs.	2005 Rs.
Amount Used as the Numerator:		
Net Profit attributable to ordinary shareholders for basic Earnings Per Share	163,737,491	108,329,228
	2006 Number	2005 Number
Number of Ordinary Shares Used as Denominator:		
Weighted Average number of ordinary shares in issue applicable to basic Earnings Per Share	62,361,153	55,571,883
	2006 Rs.	2005 Rs.

13. CASH & SHORT TERM FUNDS

Local Currency in Hand	320,341,330	245,056,204
Foreign Currency in Hand	35,158,605	51,061,316
Balances with Foreign Banks	68,819,096	225,448,768
Money at Call & Short Notice	439,533,410	259,077,098
	863,852,441	780,643,386

Notes to the financial statements

Year ended 31 December 2006

14. STATUTORY DEPOSITS 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.

	2006 Rs.	2005 Rs.
15. GOVERNMENT TREASURY BILLS/BONDS		
Treasury Bills/Bonds	830,856,272	937,872,878
Treasury Bills/Bonds held under repurchase agreements	1,119,556,638	927,932,544
	1,950,412,910	1,865,805,422
Less: Provision for fall in value of Bonds held for trading	(2,728,662)	-
	1,947,684,248	1,865,805,422

15.1 The market value of Treasury Bonds held to maturity as at 31 December 2006 amounts to Rs. 1,457,188,700/-.

	2006 Rs.	2005 Rs.
16. BILLS OF EXCHANGE		
Export Bills	220,204,673	269,396,471
Import Bills	171,484,624	148,916,624
Local Bills	148,344,484	127,614,109
	540,033,781	545,927,204
Less : Provision for unpaid bills (Note 20.2)	(13,287,000)	(2,627,000)
General Provision (Note 20.2)	(278,502)	-
Interest in Suspense (Note 20.2)	(59,173,182)	(58,129,650)
	467,295,097	485,170,554
	2006 Rs.	2005 Rs.

17. LOANS AND ADVANCES

Sri Lanka Rupees Overdrafts	3,436,839,249	2,981,172,037
Import Loans	459,331,515	345,919,582
Foreign Currency Overdrafts	33,405,300	135,425,950
Foreign Currency Loans	11,971,337	1,614,859
Export Loans	289,656,729	314,181,531
Term Loans, Pledge Loans	2,700,068,668	2,401,882,777
Pawning Loans	309,215,279	225,824,206
Staff Loans	125,134,062	92,338,193
Credit Card Advances	175,910,060	114,332,391
	7,541,532,199	6,612,691,526
Less : Provision for Non-Performing Loans & Advances (Note 20.2)	(206,626,256)	(260,123,672)
General Provision (Note 20.2)	(4,248,305)	-
Interest In Suspense (Note 20.2)	(433,965,358)	(342,914,578)
	6,896,692,280	6,009,653,276

Notes to the financial statements

Year ended 31 December 2006

	2006 Rs.	2005 Rs.
18. INTEREST RECEIVABLE		
Import Bills	259,964	239,019
Import Loans	845,837	382,265
Foreign Currency Loans	-	1,267
Export Loans	2,336,086	2,115,656
Term Loans	13,098,991	9,436,328
Pawning Loans	18,429,389	10,387,882
Staff Loans	136,506	110,410
Payment Due Loans	10,239,315	9,849,773
Money Builder Loan	25,467	91,463
Money Market Placements	613,509	153,049
Treasury Bills & Bonds	65,341,861	54,270,556
Reverse Repo Agreements	-	117,403
	<u>111,326,925</u>	<u>87,155,071</u>
	2006 Rs.	2005 Rs.
19. LEASE RENTALS RECEIVABLE		
Gross Investment in Finance Leases	913,344,279	480,532,832
Less : Unearned Income	<u>(203,727,572)</u>	<u>(92,891,392)</u>
	709,616,707	387,641,440
Less : Provision for Non- Performing Leases (Note 20.2)	<u>(5,902,418)</u>	<u>(9,846,249)</u>
General Provision (Note 20.2)	<u>(663,929)</u>	-
Interest in Suspense (Note 20.2)	<u>(3,635,352)</u>	-
	<u>699,415,008</u>	<u>377,795,191</u>
19.1 Lease Rentals Receivable within One Year		
Total Lease Rentals Receivable	913,344,279	480,532,832
Lease Rentals Receivable after One Year from Balance Sheet Date (Note 19.2)	<u>(593,453,235)</u>	<u>(297,017,279)</u>
	319,891,044	183,515,553
Lease Rentals Receivable within One Year from Balance Sheet Date	<u>(69,858,580)</u>	<u>(34,274,152)</u>
Unearned Lease Income	<u>250,032,464</u>	<u>149,241,401</u>
19.2 Lease Rentals Receivable after One Year		
Lease Rentals Receivable after One Year from Balance Sheet Date	593,453,235	297,017,279
Unearned Lease Income	<u>(133,868,992)</u>	<u>(58,617,240)</u>
	<u>459,584,243</u>	<u>238,400,039</u>

Notes to the financial statements

Year ended 31 December 2006

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

	Provision and Interest Suspended against Loans and Advances, Bills of Exchange and Lease Rentals Receivables			
	General	Specific	Total	Suspended Interest
	Rs.	Rs.	Rs.	Rs.
As at 01.01.2006	-	272,596,921	272,596,921	401,044,228
Provision during the year (Note 20.1)	5,190,736	3,836,752	9,027,488	-
Amounts written off	-	(50,617,999)	(50,617,999)	-
Interest in Suspense net of recoveries during the year	-	-	-	125,501,664
Interest in Suspense reversals during the year	-	-	-	(29,772,000)
As at 31.12.2006 (Note 20.2)	5,190,736	225,815,674	231,006,410	496,773,892

20.1 Provision for Loan Losses during the year

	2006 Rs.	2005 Rs.
Total Provision during the year	88,841,516	104,275,299
Recoveries/Reversals/Transfers during the year	(79,814,028)	(100,735,000)
	9,027,488	3,540,299
Recovery of Loan losses written off previously	(23,589,639)	-
Reversal net of provision for the year	(14,562,151)	3,540,299

20.2 Analysis of provision for Loan Losses and Interest in Suspense

	Loan Loss Provision General Rs.	Specific Rs.	Interest in Suspense Rs.
Bills of Exchange (Note 16)	278,502	13,287,000	59,173,182
Loans and Advances (Note 17)	4,248,305	206,626,256	433,965,358
Lease Rentals Receivable (Note 19)	663,929	5,902,418	3,635,352
	5,190,736	225,815,674	496,773,892

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:

	2006 Rs.'000	2005 Rs.'000
Bills of Exchange	88,075	95,139
Loans and Advances	1,083,895	1,037,378
Lease Rentals Receivable	26,959	35,315
	1,198,929	1,167,832
Less: Provision for Loan Loss (Note 20.2)	(231,006)	(272,597)
Interest in Suspense (Note 20.2)	(496,774)	(401,044)
	471,149	494,191

Year ended 31 December 2006

20.4 Concentration of Credit Risk

Sectorwise analysis of the 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 Lease Rentals Receivables.

	2006 Rs.	2005 Rs.
Food, Beverages and Tobacco	178,646,966	104,515,951
Agriculture, Agro Business and Fisheries	160,913,498	139,298,919
Textiles and Wearing Apparel	156,420,498	35,061,584
Rubber and Leather Products	28,502,796	27,793,728
Metal, Chemicals and Engineering	347,397,177	230,260,954
Hotels	138,970,820	138,300,044
Services	211,924,308	297,548,133
Others (*)	7,568,406,624	6,573,480,857
	<u>8,791,182,687</u>	<u>7,546,260,170</u>
* Others include the following sectors		
Exports	746,823,611	842,787,822
Imports	1,522,879,017	1,549,835,599
Trading	1,740,442,800	1,287,887,605
Financial	234,459,815	188,695,628
Housing	96,698,672	69,377,885
Consumption	1,260,481,943	998,871,645
Miscellaneous	1,966,620,766	1,636,024,673
	<u>7,568,406,624</u>	<u>6,573,480,857</u>
Loans and Advances (Note 17)	7,541,532,199	6,612,691,526
Bills of Exchange (Note 16)	540,033,781	545,927,204
Lease Rentals Receivable (Note 19)	709,616,707	387,641,440
	<u>8,791,182,687</u>	<u>7,546,260,170</u>

21. INVESTMENT SECURITIES

	2006 Rs.	2005 Rs.
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)	1,000,000	1,000,000
	<u>1,140,000</u>	<u>1,140,000</u>

Notes to the financial statements

Year ended 31 December 2006

	2006 Rs.	2005 Rs.
22. OTHER ASSETS		
Deposits & Prepayments	55,454,994	51,562,037
Other Debtors	357,625,962	393,461,826
	<u>413,080,956</u>	<u>445,023,863</u>
Less : Provision in respect of Other Debtors	(8,594,189)	(12,808,795)
	<u>404,486,767</u>	<u>432,215,068</u>

23. PROPERTY, PLANT & EQUIPMENT

23.1 Gross Carrying Amounts At Cost	Balance As at 01.01.2006 Rs.	Additions Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2006 Rs.
Land	-	183,969,895	-	183,969,895
Building	-	154,029,105	-	154,029,105
Office Equipments	16,159,656	8,005,463	(17,964)	24,147,155
Computer Hardware	18,038,678	11,449,359	-	29,488,037
Computer Software	104,055,207	-	(104,055,207)	-
Furniture & Fittings	22,037,452	5,633,405	-	27,670,857
Motor Vehicles	3,105,352	88,770	-	3,194,122
	<u>163,396,345</u>	<u>363,175,997</u>	<u>(104,073,171)</u>	<u>422,499,171</u>
At Valuation				
Office Equipments	28,195,726	-	(55,000)	28,140,726
Computer Hardware	86,957,100	-	-	86,957,100
Furniture & Fittings	35,908,842	-	(54,000)	35,854,842
	<u>151,061,668</u>	<u>-</u>	<u>(109,000)</u>	<u>150,952,668</u>
Total Value of Depreciable Assets	<u>314,458,013</u>	<u>363,175,997</u>	<u>(104,182,171)</u>	<u>573,451,839</u>

Year ended 31 December 2006

23.2 Depreciation At Cost

	Balance As at 01.01.2006 Rs.	Charge for the year Rs.	Disposals/ Transfers Rs.	Balance As at 31.12.2006 Rs.
Building	-	320,894	-	320,894
Office Equipments	1,864,130	2,689,142	-	4,553,272
Computer Hardware	2,183,161	2,956,575	-	5,139,736
Computer Software	80,406,884	-	(80,406,884)	-
Furniture & Fittings	1,466,652	2,258,126	-	3,724,778
Motor Vehicles	3,101,071	1,070	-	3,102,141
	<u>89,021,898</u>	<u>8,225,807</u>	<u>(80,406,884)</u>	<u>16,840,821</u>
At Valuation				
Office Equipments	4,699,288	4,699,288	(13,573)	9,385,003
Computer Hardware	14,487,283	14,492,850	-	28,980,133
Furniture & Fittings	3,568,384	3,590,884	(10,800)	7,148,468
	<u>22,754,955</u>	<u>22,783,022</u>	<u>(24,373)</u>	<u>45,513,604</u>
	<u>111,776,853</u>	<u>31,008,829</u>	<u>(80,431,257)</u>	<u>62,354,425</u>

23.3 Net Book Values

	2006 Rs.	2005 Rs.
At Cost	405,658,350	74,374,447
At Valuation	<u>105,439,064</u>	<u>128,306,713</u>
	<u>511,097,414</u>	<u>202,681,160</u>

23.4 Office Equipments, Computer Hardware 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 are as follows:

Class of Asset	Cost Rs.	Cumulative Depreciation If assets were carried at cost Rs.	Net Carrying Amount 2006 Rs.
Office Equipments	43,354,385	38,232,952	5,121,433
Computer Hardware	131,850,696	97,645,065	34,205,631
Furniture & Fittings	91,520,227	69,794,352	21,725,875
	<u>266,725,308</u>	<u>205,672,369</u>	<u>61,052,939</u>

23.5 Property, Plant and Equipment include fully depreciated assets amounting to Rs. 3,100,000/- (2005 - Rs. 324,320/-).

Notes to the financial statements

Year ended 31 December 2006

	2006 Rs.
24. INTANGIBLE ASSETS	
Computer Software	<u>18,829,652</u>
24.1 Summary	
Cost	
As at the beginning of the year	104,055,207
Incurred during the year	<u>2,394,904</u>
As at the end of the year	<u>106,450,111</u>
Amortisation	
As at the beginning of the year	80,406,884
Provided during the year	7,213,575
Impairment Loss Recognised	-
Amortised as at the end of the year	<u>87,620,459</u>
Net book value	
As at the beginning of the year	<u>23,648,323</u>
As at the end of the year	<u>18,829,652</u>

24.2 Amortisation Methods

Computer Software is being amortised over 8 years on a straight line basis. The amortisation of Intangible Assets are included under the Operating Expenses in the Income Statement.

	2006 Rs.	2005 Rs.
25. DEPOSITS FROM CUSTOMERS		
Local Currency Deposits		
Current Accounts Deposits	1,407,646,138	1,140,216,133
Savings Deposits	805,864,669	697,340,643
Time Deposits	4,381,463,205	4,139,001,485
Certificates of Deposits	1,003,051,323	785,427,533
Savings Certificates	-	11,682
Margin Deposits	<u>297,095,581</u>	<u>244,572,375</u>
	<u>7,895,120,916</u>	<u>7,006,569,851</u>
Foreign Currency Deposits		
Current Accounts Deposits	74,078,388	177,647,272
Savings Deposits	439,995,991	489,722,339
Time Deposits	548,905,346	422,412,723
Margin Deposits	<u>4,792,195</u>	<u>4,364,306</u>
	<u>1,067,771,920</u>	<u>1,094,146,640</u>
	<u>8,962,892,836</u>	<u>8,100,716,491</u>

Year ended 31 December 2006

	2006 Rs.	2005 Rs.
26. BORROWINGS		
Call Money Borrowings	-	100,000,000
Borrowings under Repos	1,119,556,640	927,932,546
Other Borrowings From Banks	43,473,775	50,562,875
	<u>1,163,030,415</u>	<u>1,078,495,421</u>
	2006 Rs.	2005 Rs.
27. OTHER LIABILITIES		
Cheques Pending Realisation	290,136,882	408,767,114
Accrued Expenditure & Interest	226,202,123	168,636,745
Claims Payable	147,640,364	144,309,931
Provision for Gratuity	18,751,628	15,828,525
Other Creditors	80,593,194	51,590,058
	<u>763,324,191</u>	<u>789,132,373</u>
	2006 Rs.	2005 Rs.
28. DEBENTURES		
Unsecured Redeemable Subordinated Unlisted Debentures (Note 28.1)	253,789,000	253,789,000
Unsecured Redeemable Subordinated Unlisted Debentures (Note 28.2)	50,000,000	-
	<u>303,789,000</u>	<u>253,789,000</u>
28.1 Terms of Debentures		
Par Value	: 1,000	
Tenure	: 5 Years (2003 to 2008)	
Interest Rate	: 3% per annum above the weighted average of six months Treasury Bill rate	
Interest Payment	: Biannually	
Trustee	: Commercial Bank of Ceylon Limited	
28.2 Terms of Debentures		
Par Value	: 1,000	
Tenure	: 5 Years (2006 to 2011)	
Interest Rate	: 3% per annum above the weighted average of one year Treasury Bill rate	
Interest Payment	: Quarterly	

Notes to the financial statements

Year ended 31 December 2006

	2006 Rs.
29. DEFERRED TAX LIABILITY	
29.1 Movement in Deferred Taxation	
Balance as at the beginning of the year	-
Charge/(Reversal) net of effect of transitional liability/(asset) (Rs. 8,635,000/-) on adoption of Revised SLAS 14	14,800,000
Effect of transitional liability on adoption of Revised SLAS 14 charged to Equity (Revaluation Impact)	19,280,000
Balance as at the end of the year	34,080,000

	2006 Rs.
29.2 Deferred Tax Liability / (Asset)	
Accelerated depreciation allowances for tax purposes - Lease Rentals Receivable	39,546,189
Accelerated depreciation allowances for tax purposes - Property, Plant & Equipment	24,816,477
Accelerated depreciation allowances for tax purposes - Intangible Assets	6,590,378
Accelerated depreciation allowances for tax purposes - Revaluation Reserve	19,280,000
General Provision for Loans and Advances, Bills of Exchange and Lease Receivables	(1,816,757)
Defined Benefit Plan Liability	(8,064,211)
	80,352,075
Effect from Carried Forward Tax Losses	(54,907,075)
	25,445,000
Unamortised effect on transitional Liability/(Asset) on adoption of Revised SLAS 14	8,635,000
Net Deferred Tax Liability	34,080,000

29.3 Tax Losses are available indefinitely to offset against future taxable profit of the Bank subject to the limit of 35% of taxable profit in one year of assessment.

30. SHARE CAPITAL

	2006 Number	2005 Number
Authorised		
Number of Ordinary Shares of Rs. 10/- each	500,000,000	200,000,000
	Rs.	Rs.
Nominal Value of Ordinary Shares	5,000,000,000	2,000,000,000
Issued & fully paid		
Balance as at the beginning of the year	555,718,830	555,718,830
55,571,883 shares at Rs. 10/- each		
Rights issue of 55,068,524 shares at Rs. 10/- each for cash consideration	550,685,240	-
Balance as at the end of the year		
110,640,407 Ordinary Shares of Rs. 10/- each	1,106,404,070	555,718,830

Notes to the financial statements

Year ended 31 December 2006

	2006 Rs.	2005 Rs.
31. STATUTORY RESERVE FUND		
Balance as at the beginning of the year	12,270,909	5,770,909
Transferred during the year		
5% of Net Profit after Taxation	8,190,091	6,500,000
Balance as at the end of the year	<u>20,461,000</u>	<u>12,270,909</u>
	2006 Rs.	2005 Rs.

32. REVALUATION RESERVE

On: Property, Plant & Equipment

Balance as at the beginning of the year	55,083,561	-
Transfer of surplus during the year	-	56,214,296
Deferred Tax effect on Revaluation Reserve	(19,280,000)	-
Realised surplus on Disposal Transferred to Accumulated Profit	(40,364)	(1,130,735)
Balance as at the end of the year	<u>35,763,197</u>	<u>55,083,561</u>

33. COMMITMENTS & CONTINGENCIES

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

	2006 Rs.	2005 Rs.
Guarantees	1,193,416,416	1,295,168,783
Documentary Credit	540,270,994	474,292,251
Forward Exchange Contracts (Net)	17,017	4,326
	<u>1,733,704,427</u>	<u>1,769,465,360</u>

33.1 Pending cases against the Bank

The Bank had issued a guarantee to Telecommunication Consultants India Ltd., (TCIL) on behalf of Nipuna Telecommunication (Pvt) Limited (Nipuna) on which a claim of Rs. 8,964,428/- was made to the Bank. Nipuna obtained an Enjoining order from the District Court of Colombo enjoining the Bank from honouring the claim. The case took many years and finally Nipuna and TCIL by joint motion withdrew the case and the enjoining order was not extended.

The Bank believed as there were grounds for collusion between Nipuna and TCIL to defraud the Bank, the payment was not made. Subsequently, TCIL filed papers against the Bank in the High Court of Colombo (exercising Civil Jurisdiction) and by order dated 02/06/2006 the Court allowed the application of the plaintiff as prayed for.

The Bank has already filed papers in the Supreme Court appealing against the said Order.

34. POST BALANCE SHEET EVENTS

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

Notes to the financial statements

Year ended 31 December 2006

35. 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.	Over 5 Years Rs.	Total Rs.
Interest Bearing Assets						
Bills of Exchange	425,382,107	41,912,990	-	-	-	467,295,097
Loans & Advances	1,468,442,664	1,637,729,676	2,649,212,882	809,833,499	331,473,559	6,896,692,280
Lease Receivable	56,090,775	161,503,470	363,439,946	118,380,817	-	699,415,008
Balances with Foreign Banks	68,819,096	-	-	-	-	68,819,096
Short Term Funds (Placements)	439,533,410	-	-	-	-	439,533,410
Treasury Bills/Bonds/Reverse Repos	55,249,407	554,259,645	971,132,844	367,042,352	-	1,947,684,248
	<u>2,513,517,459</u>	<u>2,395,405,781</u>	<u>3,983,785,672</u>	<u>1,295,256,668</u>	<u>331,473,559</u>	<u>10,519,439,139</u>
Non-Interest Bearing Assets						
Cash in Hand	259,514,953	56,879,990	21,329,996	17,774,996	-	355,499,935
Statutory Deposit with CBSL	366,931,014	216,916,090	95,066,017	19,058,716	6,088,415	704,060,252
Investment Securities	-	-	-	-	1,140,000	1,140,000
Property, Plant & Equipment	7,450,473	23,314,101	70,347,222	46,405,080	363,580,538	511,097,414
Intangible Assets	1,803,393	5,410,181	6,250,867	5,365,211	-	18,829,652
Other Assets & Interest Receivables	491,810,298	16,002,267	8,001,127	-	-	515,813,692
	<u>1,127,510,131</u>	<u>318,522,629</u>	<u>200,995,229</u>	<u>88,604,003</u>	<u>370,808,953</u>	<u>2,106,440,945</u>
TOTAL ASSETS	<u>3,641,027,590</u>	<u>2,713,928,410</u>	<u>4,184,780,901</u>	<u>1,383,860,671</u>	<u>702,282,512</u>	<u>12,625,880,084</u>
Interest Bearing Liabilities						
Deposits	3,241,080,629	2,345,632,451	1,278,228,311	238,233,950	76,105,192	7,179,280,533
Borrowings including due to Foreign Banks	1,189,225,161	48,692,897	527,928	-	43,473,775	1,281,919,761
Debentures	-	-	253,789,000	50,000,000	-	303,789,000
	<u>4,430,305,790</u>	<u>2,394,325,348</u>	<u>1,532,545,239</u>	<u>288,233,950</u>	<u>119,578,967</u>	<u>8,764,989,294</u>
Non-Interest Bearing Liabilities						
Deposits	768,301,313	790,087,608	225,223,382	-	-	1,783,612,303
Other Liabilities & Tax Payable	575,149,829	109,176,940	120,866,702	36,770,078	199,008	842,162,557
Shareholders' Funds	-	-	-	-	1,235,115,930	1,235,115,930
	<u>1,343,451,142</u>	<u>899,264,548</u>	<u>346,090,084</u>	<u>36,770,078</u>	<u>1,235,314,938</u>	<u>3,860,890,790</u>
TOTAL LIABILITIES	<u>5,773,756,932</u>	<u>3,293,589,896</u>	<u>1,878,635,323</u>	<u>325,004,028</u>	<u>1,354,893,905</u>	<u>12,625,880,084</u>

Year ended 31 December 2006

36. DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

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 Related Party / Parties	Name of Directors	Relationship	Nature of Transactions	Outstanding As at 31.12.2006 Rs.	Security Obtained
Vallibel Lanka (Pvt) Shipping Division	Mr. K.D.D. Perera	Chairman	Overdraft Term Loan	19,775,501 8,624,423	} Personal Guarantee, Shares, Mortgage over Vessel
Connaissance Holdings Ltd	Mr. K.D.D. Perera	Deputy Chairman	Term Loan Overdraft	1,131,704 9,521,350	
Vallibel Marine Management Ltd	Mr. K.D.D. Perera	Chairman	Shipping Guarantee	500,000	Cash Deposit
LB Finance Ltd	Mr. K.D.D. Perera Mr. W.M.A. Bandara Mr. J.A.S.S. Adhihetty	Director Director Managing Director	} Overdraft	3,616,795	} Property Mortgage
United Engineering Services (Pvt) Ltd	Mr. W.M.A. Bandara	Director	Letter of Credit	669,779	Cash Deposit
A. J. S.	Mr. J.D.C. Coonghe (Appointed to the Board of the Bank w.e.f. 27/12/2006)	Managing Partner	Overdraft Letter of Credit Letter of Guarantee Shipping Guarantee	67,468,085 17,438,895 1,560,000 33,685,290	} Cash Deposit

37. RELATED PARTY TRANSACTIONS

	31.12.2006 Rs.	31.12.2005 Rs.
37.1 Compensation to Key Management Personnel (*)		
Emoluments/Fees/Salaries	10,116,836	7,550,684
Ex-Gratia Payments	500,000	-
Post employment Benefits	625,860	537,444
Total compensation paid to key management personnel	11,242,696	8,088,128

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

37.2 Transactions, arrangements and agreements involving Key Management Personnel

	31.12.2006 Rs.	31.12.2005 Rs.
Directors and Officers		
Loans and Advances	2,521,249	3,672,821
Credit Cards	519,476	340,779

Capital adequacy

COMPUTATION OF RISK-WEIGHTED ASSETS

On Balance Sheet Items:

	Balance at end		Risk Weight (%)	Risk Weighted Balance at end	
	2006	2005		2006	2005
	Rs.'000	Rs.'000		Rs.'000	Rs.'000
ASSETS					
Cash, Statutory Deposit with Central Bank of Sri Lanka, Treasury Bills/Bonds Government and other Securities	3,341,334	3,149,636	0%	-	-
Loans secured by cash and guaranteed by Central Bank of Sri Lanka	2,113,563	2,193,860	0%	-	-
Loans guaranteed by SLECIC	69,683	77,195	50%	34,842	38,598
Loans guaranteed by Local / Foreign Commercial Banks - Maturity up to 1 year	61,175	-	20%	12,235	-
Loans secured by Primary Mortgage over Residential Property	101,165	69,378	55%/50%	55,641	34,689
Other Loans and Advances	5,569,472	4,404,571	110%/100%	6,126,419	4,404,571
Due from Banks abroad	68,819	285,806	20%	13,764	57,161
Due from local Banks including Development Financial Institutions	439,533	198,720	20%	87,907	39,744
Cash Items in the Process of collection	148,344	127,614	20%	29,669	25,523
Investments	1,140	1,140	100%	1,140	1,140
Property, Plant & Equipment	474,884	147,597	100%	474,884	147,597
Other Assets	181,725	140,737	100%	181,725	140,737
TOTAL	12,570,837	10,796,254		7,018,226	4,889,760

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

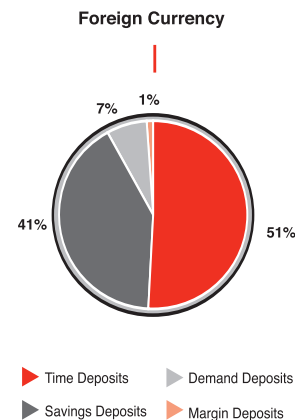
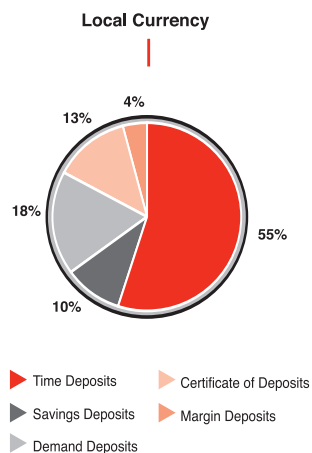
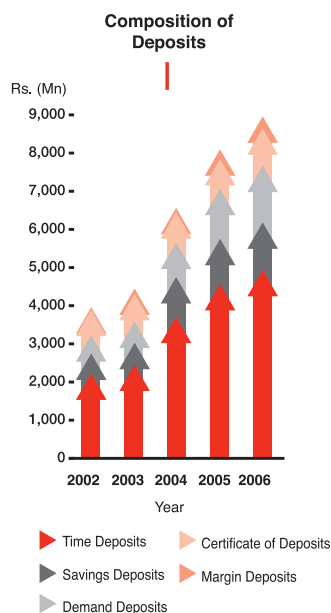
Off Balance Sheet Items:

	Balance 2006 Rs.'000	Credit Conversion Factor %	Credit Equivalent Amount	Risk Weighted Balance at end	
				2006 Rs.'000	2005 Rs.'000
INSTRUMENTS					
General Guarantees of Indebtedness & Others	407,053	100%	407,053	226,434	307,926
Performance Bonds, Bid Bonds & Warranties	178,329	50%	89,165	-	-
Shipping Guarantees	202,677	20%	40,535	14,551	31,910
Documentary Letters of Credit	540,270	20%	108,054	33,970	68,270
TOTAL	1,328,329			274,955	408,106

	2006 Rs.'000	2005 Rs.'000
COMPUTATION OF CAPITAL		
TIER 1 : CORE CAPITAL		
Paid up Ordinary Shares	1,106,404	555,719
Share Premium	-	-
Statutory Reserve Fund	20,461	12,271
Published Retained Profit/(Losses)	72,487	(83,100)
General and other Reserves	-	-
Total Tier 1 Capital	1,199,352	484,890
TIER 2 : SUPPLEMENTARY CAPITAL		
Revaluation Reserve	-	-
General provisions	5,190	-
Hybrid (debt / equity) Capital Instrument	143,960	148,043
Total Capital Base	1,348,502	632,933
Note : Revaluation Reserve is excluded		
Total Capital Charge for Market Risk	6,274	-
	2006 Rs.'000	2005 Rs.'000
COMPUTATION OF RATIOS		
Core Capital	1,199,352	484,890
Total Capital Base	1,348,502	632,933
Risk Weighted Assets		
Risk Weighted Assets - Credit Risk	7,293,181	5,297,866
Risk Weighted Assets - Market Risk (Capital Charge x 10)	62,740	-
Total Risk Weighted Assets	7,355,921	5,297,866
Core Capital Ratio - Tier I (Minimum Required Ratio is 5%)		
Core Capital _____ x 100	16.30%	9.15%
Total Risk Weighted Assets		
Total Risk Weighted Capital Ratio - Tier II (Minimum Required Ratio is 10%)		
Total Capital Base _____ x 100	18.33%	11.95%
Total Risk Weighted Assets		

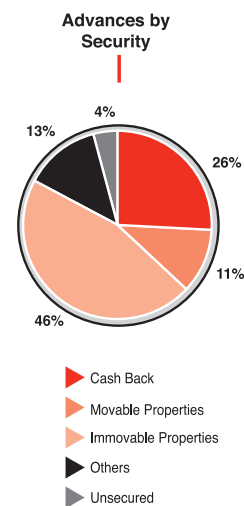
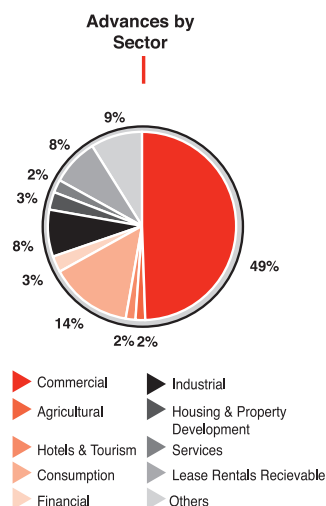
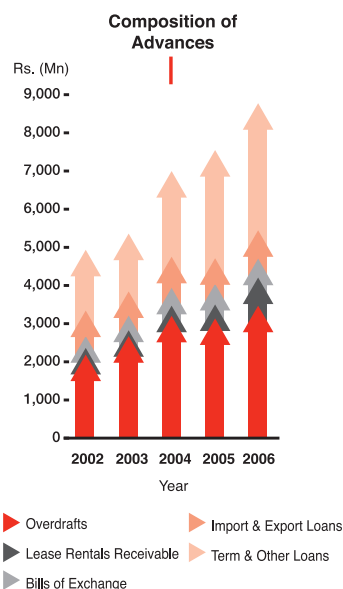
Analysis of deposits

	2006 Rs.	2005 Rs.	2004 Rs.	2003 Rs.	2002 Rs.
LOCAL CURRENCY DEPOSITS					
Current Account Deposits	1,407,646,138	1,140,216,133	706,757,941	503,155,294	447,801,786
Savings Deposits	805,864,669	697,340,643	607,961,639	346,358,612	336,039,461
Time Deposits	4,381,463,205	4,139,001,485	3,280,222,413	2,170,345,523	1,988,257,922
Certificate of Deposits	1,003,051,323	785,427,533	819,584,200	727,564,317	661,067,149
Savings Certificates	-	11,682	71,863	326,784	11,752,404
Margin Deposits	297,095,581	244,572,375	99,417,576	125,279,954	44,179,262
	7,895,120,916	7,006,569,851	5,514,015,632	3,873,030,484	3,489,097,984
FOREIGN CURRENCY DEPOSITS					
Current Account Deposits	74,078,388	177,647,272	181,739,717	46,862,572	42,314,641
Savings Deposits	439,995,991	489,722,339	430,984,673	233,495,449	167,148,305
Time Deposits	548,905,346	422,412,723	426,807,942	284,552,634	242,709,145
Margin Deposits	4,792,195	4,364,306	3,638,130	22,249,092	22,028,935
	1,067,771,920	1,094,146,640	1,043,170,462	587,159,747	474,201,026
Total Deposits	8,962,892,836	8,100,716,491	6,557,186,094	4,460,190,231	3,963,299,010



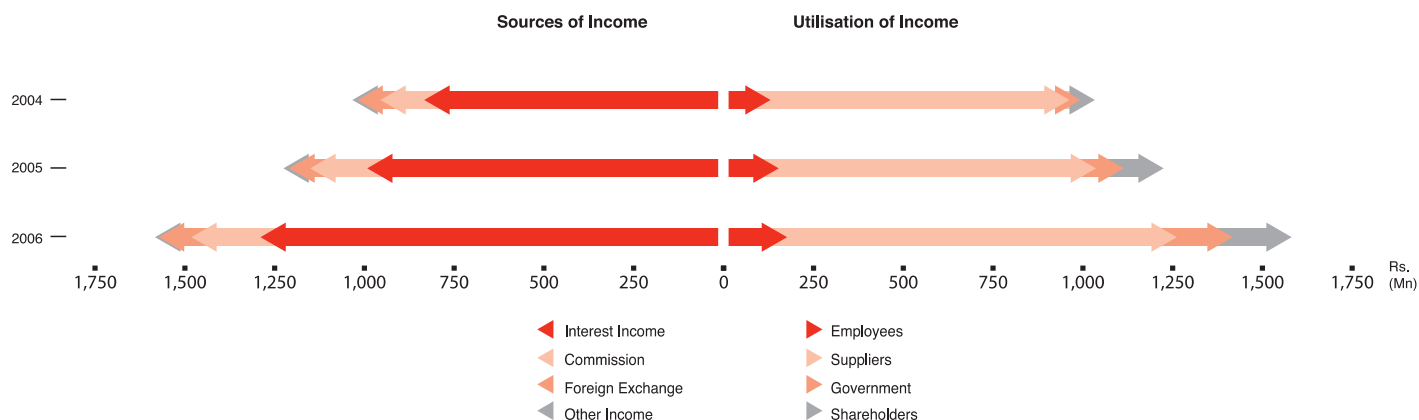
Analysis of advances

	2006 Rs.	2005 Rs.	2004 Rs.	2003 Rs.	2002 Rs.
LOANS AND ADVANCES					
Overdrafts	3,470,244,549	3,116,597,987	3,188,892,786	2,655,870,900	2,187,885,918
Import Loans	459,331,515	345,919,582	480,719,752	385,412,253	374,692,660
Export Loans	289,656,729	314,181,531	291,111,576	240,730,377	268,430,227
Short Term Loans	228,977,435	329,541,402	280,180,534	136,580,272	115,045,845
Term Loans	2,483,062,570	2,073,956,234	1,723,230,039	1,241,371,913	1,336,925,717
Pawning	309,215,279	225,824,206	118,826,507	83,340,312	55,151,641
Staff Loans	125,134,062	92,338,193	90,331,578	70,301,429	77,443,414
Credit Card Advances	175,910,060	114,332,391	72,190,886	-	-
	7,541,532,199	6,612,691,526	6,245,483,658	4,813,607,456	4,415,575,422
Bills of Exchange	540,033,781	545,927,204	468,309,788	407,401,941	332,100,961
Lease Rental Receivable	709,616,707	387,641,440	281,409,748	152,974,156	177,630,511
Total Loans and Advances	8,791,182,687	7,546,260,170	6,995,203,194	5,373,983,553	4,925,306,894



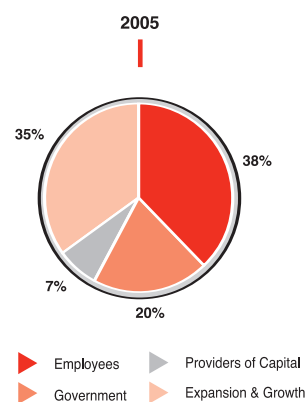
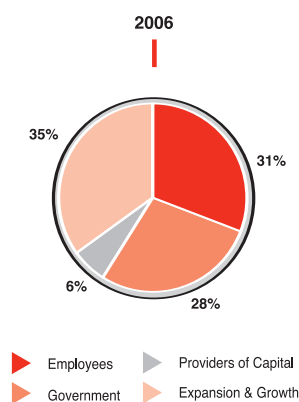
Sources & utilisation of funds

	2006 Rs.	2005 Rs.
SOURCES OF INCOME		
Interest Income	1,289,077,847	993,028,535
Commission	193,371,466	158,382,010
Foreign Exchange	90,878,303	58,704,350
Other Income	7,513,228	14,543,228
	<u>1,580,840,844</u>	<u>1,224,658,123</u>
UTILISATION OF INCOME		
Employees		
Salaries and other payments to Staff	175,380,058	152,862,437
Suppliers		
Interest Expense	753,995,657	565,950,710
Other Expenses	331,697,758	315,115,748
Government		
Value Added Tax	69,599,880	38,500,000
Tax Expense	86,430,000	43,900,000
Shareholders		
Dividends	-	-
Retained Profit	163,737,491	108,329,228
	<u>1,580,840,844</u>	<u>1,224,658,123</u>



Value added statement

	2006		2005	
	Rs.	Rs.	Rs.	Rs.
VALUE ADDED				
Income from Banking Services		1,580,840,844		1,224,658,123
Cost of Services		(1,023,643,015)		(801,862,955)
Value added by Banking Services		557,197,829		422,795,168
Reversals/Recoveries/(Provision) for Loan Losses		14,562,151		(3,540,299)
(Provision)/writeback for other Losses		(2,127,985)		(12,808,795)
		<u>569,631,995</u>		<u>406,446,074</u>
DISTRIBUTION OF VALUE ADDED				
To Employees				
Salaries Wages & Other Benefits		175,380,058		152,862,437
To Providers of Capital				
Dividends to Shareholders		-		-
Interest to Debenture holders		36,262,162		27,842,823
To Government				
Tax Expense	86,430,000		43,900,000	
Value Added Tax	<u>69,599,880</u>	<u>156,029,880</u>	<u>38,500,000</u>	<u>82,400,000</u>
To Expansion & Growth				
Retained Income	163,737,491		108,329,228	
Depreciation & Amortisation	<u>38,222,404</u>	<u>201,959,895</u>	<u>35,011,586</u>	<u>143,340,814</u>
		<u>569,631,995</u>		<u>406,446,074</u>



Quarterly statistics

<i>For the Quarter ended</i>	March 31,	June 30,	2006 September 30,	December 31,	2005 December 31,
BALANCE SHEET DATA					
Total Assets	10,956,794,798	11,110,484,705	11,437,708,320	12,625,880,084	10,851,339,551
Loans, Advances & Leases	6,999,633,844	6,989,626,785	7,615,382,587	8,063,402,385	6,872,619,021
Deposits	8,037,853,700	8,141,970,223	8,076,630,665	8,962,892,836	8,100,716,491
Debentures	253,789,000	253,789,000	303,789,000	303,789,000	253,789,000
Shareholders' Funds	563,692,902	597,912,835	640,248,589	1,235,115,930	539,973,199
Average assets	10,824,664,618	10,927,287,031	11,403,627,575	12,207,622,918	10,517,856,425
OPERATING RESULTS					
Net Interest Income	105,822,563	128,924,683	150,078,461	150,256,483	105,533,577
Foreign Exchange Income	17,643,139	21,549,551	17,323,388	34,362,225	16,484,524
Other Income	45,004,102	47,676,255	48,954,402	59,249,935	49,982,498
Total Revenue	168,469,804	198,150,489	216,356,251	243,868,643	172,000,599
Provision for Credit and Other Losses	(1,074,829)	(6,224,997)	5,790,361	13,943,631	29,907,491
Non-interest Expenses	(132,897,461)	(143,733,109)	(155,610,637)	(156,870,655)	(139,061,264)
Provision for Income tax	(10,777,811)	(13,972,451)	(24,194,664)	(37,485,074)	(18,626,438)
Net Profit after Tax	23,719,703	34,219,932	42,341,311	63,456,545	44,220,388

Information of shareholders

As at 31st December, 2006

ANALYSIS 1

Range of Shareholding	No. of Shareholders	Resident		No. of Shareholders	Non Resident		No. of Shareholders	Total	
		No. of Shares	% Share Holding		No. of Shares	% Share Holding		No. of Shares	% Share Holding
1 - 100	146	12,171	0.01	0	0	0.00	146	12,171	0.01
101 - 1,000	562	367,452	0.33	1	1,000	0.00	563	368,452	0.33
1,001 - 5,000	458	1,160,882	1.05	3	7,501	0.01	461	1,168,383	1.06
5,001 - 10,000	122	965,300	0.87	0	0	0.00	122	965,300	0.87
10,001 - 50,000	119	2,623,380	2.37	4	106,325	0.10	123	2,729,705	2.47
50,001 - 100,000	22	1,546,600	1.40	0	0	0.00	22	1,546,600	1.40
100,001 - 500,000	27	6,716,200	6.07	1	460,500	0.42	28	7,176,700	6.49
500,001 - 1,000,000	8	5,773,600	5.22	1	800,000	0.72	9	6,573,600	5.94
1,000,001 & ABOVE	15	78,336,797	70.80	5	11,762,699	10.63	20	90,099,496	81.43
TOTAL	1,479	97,502,382	88.12	15	13,138,025	11.88	1,494	110,640,407	100.00

ANALYSIS 2

Range of Shareholding	No. of Shareholders	Individuals		No. of Shareholders	Institutions		No. of Shareholders	Total	
		No. of Shares	% Share Holding		No. of Shares	% Share Holding		No. of Shares	% Share Holding
1 - 100	145	12,071	0.01	1	100	0.00	146	12,171	0.01
101 - 1,000	554	363,539	0.33	9	4,913	0.00	563	368,452	0.33
1,001 - 5,000	444	1,118,983	1.01	17	49,400	0.04	461	1,168,383	1.06
5,001 - 10,000	113	883,100	0.80	9	82,200	0.07	122	965,300	0.87
10,001 - 50,000	105	2,309,405	2.09	18	420,300	0.38	123	2,729,705	2.47
50,001 - 100,000	17	1,174,200	1.06	5	372,400	0.34	22	1,546,600	1.40
100,001 - 500,000	16	4,048,000	3.66	12	3,128,700	2.83	28	7,176,700	6.49
500,001 - 1,000,000	2	1,500,200	1.36	7	5,073,400	4.59	9	6,573,600	5.94
1,000,001 & ABOVE	11	70,525,408	63.74	9	19,574,088	17.69	20	90,099,496	81.43
TOTAL	1,407	81,934,906	74.06	87	28,705,501	25.94	1,494	110,640,407	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at 31.12.2006 was 59.780 %.

Information of shareholders

RESIDENT / NON RESIDENT

	31.12.2006			31.12.2005		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Resident Shareholders	1,479	97,502,382	88.12	1,187	45,890,858	82.58
Non Resident Shareholders	15	13,138,025	11.88	18	9,681,025	17.42
Total	1,494	110,640,407	100	1,205	55,571,883	100

INDIVIDUALS / INSTITUTIONS

	31.12.2006			31.12.2005		
	No. of Shareholders	No. of Shares	%	No. of Shareholders	No. of Shares	%
Individuals	1,407	81,934,906	74.06	1,138	38,496,982	69.28
Institutions	87	28,705,501	25.94	67	17,074,901	30.72
Total	1,494	110,640,407	100	1,205	55,571.883	100

SHARE TRADING

Market Prices	Rs.
Highest price	17.25
Lowest price	10.00
Last traded price as at 29.12.2006	10.50

Top twenty shareholders

MAJOR SHAREHOLDERS OF THE COMPANY

Year ended 31 December 2006

NAME OF SHAREHOLDER	2006	
	No. of Shares	Holding as a %
1. Mr. K. D. D. Perera	33,181,058	29.99
2. Mr. J. D. C. Coonghe	11,052,976	9.99
3. Mr. K. D. H. Perera	5,826,500	5.27
4. Mr. P. J. Tay	5,479,499	4.95
5. Mr. K. D. A. Perera	4,800,000	4.34
6. Michelangelo Footwear (Private) Limited	3,640,000	3.29
7. Pramuka Savings & Development Bank Ltd.,	2,782,000	2.51
8. Samurdhi Authority of Sri Lanka	2,557,188	2.31
9. Mr. M. Sritharan	2,091,300	1.89
10. Jayes Trading Co (Pvt) Ltd	2,015,900	1.82
11. First Capital Markets Ltd/ Mr. W. D. N. H. Perera	2,000,800	1.81
12. Elgin Investments Ltd	1,803,400	1.63
13. Mr. T. Senthilveri	1,740,200	1.57
14. Waldoek Mackenzie Ltd/ Mr. L. T. Samarawickrama	1,725,000	1.56
15. Mr. L. T. Samarawickrama	1,722,000	1.56
16. Mr. P. S. Ariyaratne	1,601,875	1.45
17. Mr. M. P. Jayasinghe	1,600,000	1.45
18. Sandwave Limited	1,549,800	1.40
19. Lizzola Holdings Limited	1,500,000	1.36
20. Mr. A. M. A. R. A. Zalalah	1,430,000	1.29
	90,099,496	81.44
Balance held by 1474 shareholders	20,540,911	18.56
Total No. of shares	110,640,407	100.00

MAJOR SHAREHOLDERS OF THE COMPANY

Year ended 31 December 2005

NAME OF SHAREHOLDER	2005	
	No. of Shares	Holding as a %
1. Mr. K. D. D. Perera	8,295,500	14.93
2. Mr. P. J. Tay	5,479,499	9.86
3. Mr. J. D. C. Coonghe	3,266,212	5.88
4. Mr. K. D. H. 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. Mr. K. D. A. Perera	2,400,000	4.32
8. Mr. M. Sritharan	2,189,100	3.94
9. Mr. L. T. Samarawickrama	1,725,000	3.10
10. Mr. P. S. Ariyaratne	1,601,875	2.88
11. Mr. M. P. Jayasinghe	1,600,000	2.88
12. Lizzola Holdings Limited	1,500,000	2.70
13. Mr. A. M. A. R. A. Zalalah	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

Ten year

statistical summary

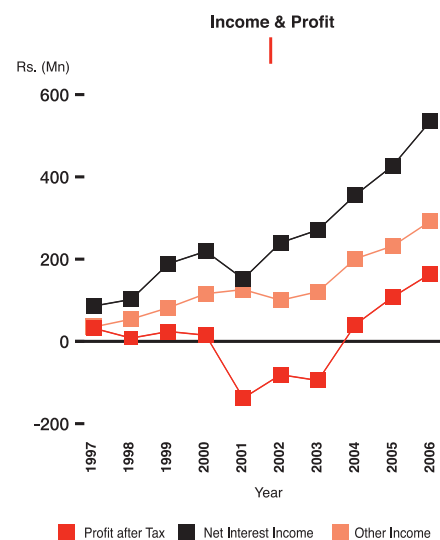
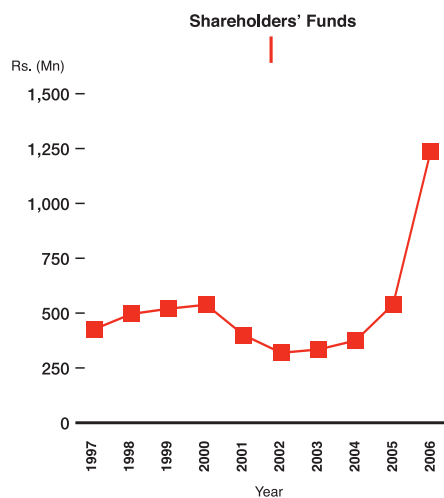
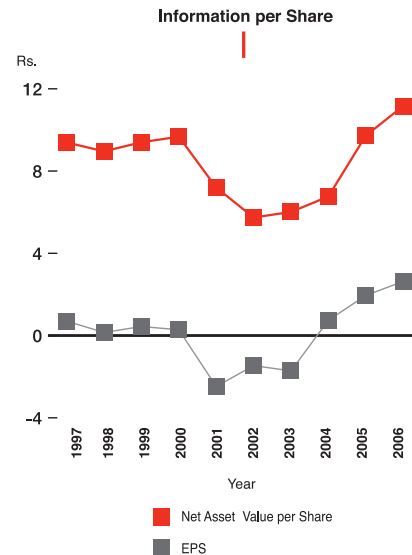
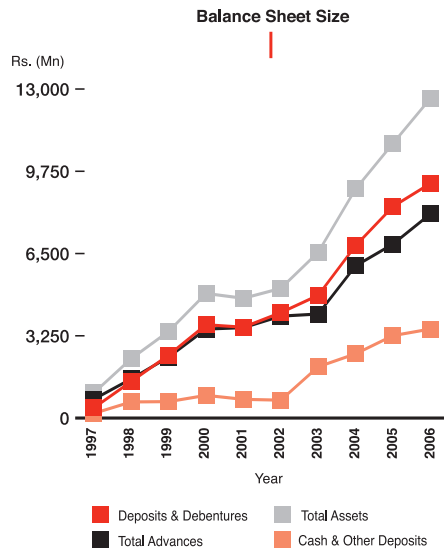
	2006 Rs.	2005 Rs.	2004 Rs.	2003 Rs.
OPERATING RESULTS				
Gross Income	1,580,840,844	1,224,658,123	1,033,031,269	752,529,483
Interest Income	1,289,077,847	993,028,535	832,410,256	631,831,665
Interest Expense	753,995,657	565,950,710	476,848,638	360,588,333
Net Interest Income	535,082,190	427,077,825	355,561,618	271,243,332
Exchange Income	90,878,303	58,704,350	61,488,900	32,565,025
Fee based Income	200,884,694	172,925,238	139,132,113	88,132,793
Profit/(Loss) before Provision & Tax	307,333,205	207,078,322	158,494,078	60,220,447
Profit/(Loss) before Income Tax	250,167,491	152,229,228	54,866,191	(95,345,785)
Income Tax on Profits	86,430,000	43,900,000	13,693,000	-
Profit/(Loss) after Income Tax	163,737,491	108,329,228	41,173,191	(95,345,785)
* Reversal of Timing Differences				
ASSETS				
Bills of Exchange (Net)	467,295,097	485,170,554	379,057,448	344,688,386
Loans / Advances & Leases (Net)	7,596,107,288	6,387,448,467	5,634,042,714	3,764,014,411
Investments in Commercial Papers	-	-	-	14,879,941
Cash, Bonds, S.Term & Other Statutory Deposits	3,515,596,941	3,255,529,231	2,536,844,010	2,025,683,296
Property Plant & Equipment	511,097,414	202,681,160	159,811,447	113,223,482
Intangible Assets	18,829,652	-	-	-
Other Assets	516,953,692	520,510,139	339,173,794	287,742,936
Total	12,625,880,084	10,851,339,551	9,048,929,413	6,550,232,452
LIABILITIES				
Customer Deposits	8,962,892,836	8,100,716,491	6,557,186,094	4,460,190,231
Borrowings & Due to Foreign Banks	1,281,919,761	1,142,509,547	1,370,290,461	1,041,064,658
Debentures	303,789,000	253,789,000	253,789,000	388,789,000
Other Liabilities	763,324,191	789,132,373	492,234,183	325,932,079
Taxation Payable	44,758,366	25,218,941	-	-
Deferred Taxation	34,080,000	-	-	-
Total	11,390,764,184	10,311,366,352	8,673,499,738	6,215,975,968
SHAREHOLDERS' FUNDS				
Share Capital	1,106,404,070	555,718,830	555,718,830	555,718,830
Reserves	128,711,860	(15,745,631)	(180,289,155)	(221,462,346)
Total	1,235,115,930	539,973,199	375,429,675	334,256,484
COMMITMENTS & CONTINGENCIES				
Guarantees	1,193,416,416	1,295,168,783	1,271,252,484	835,094,637
Documentary Credits	540,270,994	474,292,251	507,024,278	302,473,384
Others	17,017	4,326	390,878	1,095,772
Total	1,733,704,427	1,769,465,360	1,778,667,640	1,138,663,793
SHARE INFORMATION				
Earnings per Share	2.63	1.95	0.74	(1.72)
Net Asset Value per Share	11.16	9.72	6.76	6.01
OTHER INFORMATION				
No of Employees	433	394	371	289
No of Branches	19	18	18	16
Customer Service Centres	2	2	1	-

Ten year statistical summary

2002 Rs.	2001 Rs.	2000 Rs.	1999 Rs.	1998 Rs.	1997 Rs.
750,355,704	846,110,788	662,492,998	472,968,187	233,525,313	157,156,316
650,706,934	720,218,191	552,754,845	395,258,384	183,397,450	123,307,636
410,237,651	567,819,577	333,469,862	205,834,410	81,484,164	36,915,866
240,469,283	152,398,614	219,284,983	189,423,974	101,913,286	86,391,770
27,361,097	42,495,018	42,560,456	25,897,613	18,842,090	14,880,265
72,287,673	83,397,579	73,730,975	56,260,381	34,731,726	19,742,908
20,504,205	(59,776,678)	47,695,332	81,433,258	25,211,433	53,588,475
(81,144,071)	(166,859,947)	13,667,493	40,162,241	15,464,871	48,337,154
-	*29,150,500	*1,800,000	16,000,000	7,236,829	16,501,426
(81,144,071)	(137,709,447)	15,467,493	24,162,241	8,228,042	31,835,728
290,633,404	317,580,611	250,081,920	150,578,420	119,372,614	97,605,861
3,734,998,593	3,253,867,547	3,264,826,248	2,261,738,662	1,428,048,138	647,017,511
-	-	-	-	-	-
705,690,791	739,228,801	895,869,648	648,066,965	637,322,950	183,505,437
149,401,190	177,158,091	216,313,211	200,028,360	89,871,703	45,124,562
-	-	-	-	-	-
242,143,875	244,315,997	295,872,668	163,158,763	73,911,121	22,394,993
5,122,867,853	4,732,151,047	4,922,963,695	3,423,571,170	2,348,526,526	995,648,364
3,963,299,010	3,487,666,891	2,995,606,933	2,488,008,602	1,444,191,983	403,761,818
359,548,562	486,857,308	314,561,328	103,721,353	255,421,653	78,075,361
202,000,000	100,000,000	690,000,000	-	-	-
279,161,762	257,624,258	355,932,897	280,646,171	137,880,087	71,360,934
-	-	-	-	-	8,633,212
-	-	29,150,500	30,950,500	14,950,500	7,814,024
4,804,009,334	4,332,148,457	4,385,251,658	2,903,326,626	1,852,444,223	569,645,349
444,975,080	444,975,080	444,975,080	442,975,080	442,975,080	362,975,080
(126,116,561)	(44,972,490)	92,736,957	77,269,464	53,107,223	63,027,935
318,858,519	400,002,590	537,712,037	520,244,544	496,082,303	426,003,015
554,906,009	497,254,174	403,317,292	245,176,498	226,227,728	134,377,159
279,458,577	220,108,232	353,200,540	246,512,857	404,252,537	164,535,317
207,097	1,985,147	849,922	290,044	89,214,177	35,335,155
834,571,683	719,347,553	757,367,754	491,979,399	719,694,442	334,247,631
(1.46)	(2.48)	0.28	0.44	0.15	0.70
5.74	7.20	9.67	9.40	8.96	9.39
283	306	295	200	173	65
13	12	12	7	6	2
-	-	-	-	-	-

Graphical review

of ten year summary



Branch network

BAMBALAPITIYA

329, Galle Road, Colombo 04
General Tel : 2506822-4
Fax : 2506825
E-mail : mgr.bam@pabcbank.com
Manager's Dir Tel : 2506824
Mr. Harsha Kurukulasuriya

DAM STREET

22, Dam Street, Colombo 12
General Tel : 4621915
Fax : 2346052
E-mail : mgr.dam@pabcbank.com
Manager's Dir Tel : 2439839
Mr. S. Shivakumar

DEHIWELA

104, Galle Road, Dehiwela
General Tel : 2727660, 2730626
Fax : 2730624
E-mail : mgr.deh@pabcbank.com
Manager's Dir Tel : 2730624
Mr. Eardley Charles

GAMPAHA

95, Colombo Road, Gampaha
General Tel : 033-2220046-7
Fax : 033-2220048
E-mail : mgr.gam@pabcbank.com
Manager's Dir Tel : 033-2220045
Mr. Rajitha Silva

KANDY

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

KATUGASTOTA (Opened in 2007)

161, Madawala Road, Katugastota
General Tel : 081-2500360
Fax : 081-2500362
E-mail : mgr.ktu@pabcbank.com
Manager's Dir Tel : 081-2500361
Mr. Neil de Rose

KOLLUPITIYA

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

KOTAHENA

215, George R de Silva Mv, Colombo 13
General Tel : 4616851-2
Fax : 2346066
E-mail : mgr.kot@pabcbank.com
Manager's Dir Tel : 2346065
Mr. Noel Wijendran

KURUNEGALA

22, Suratissa Mawatha, Kurunegala
General Tel : 037-2221729-30
Fax : 037-2221731
E-mail : mgr.kur@pabcbank.com
Manager's Dir Tel : 037-2221728
Mr. Chrishanthi Jayasuriya

MATARA

32B, Anagarika Dharmapala Mawatha, Matara
General Tel : 041-2231361
Fax : 041-2231362
E-mail : mgr.mat@pabcbank.com
Manager's Dir Tel : 041-2231360
Mr. Nimal Ratnayake

METRO

Level 2, East Tower, World Trade Centre, Colombo 01
General Tel : 2346049-50
Fax : 2346053
E-mail : mgr.met@pabcbank.com
Manager's Dir Tel : 2346051
Mr. H. H. Li

NARAHENPITA (Opened in 2007)

526, Elvitigala Mawatha, Colombo 05
General Tel : 2368668
Fax : 2368667
E-mail : mgr.nra@pabcbank.com
Manager's Dir Tel : 2368666
Mr. Rabindranath Mudalige

NEGOMBO

90, St. Josephs Street, Negombo
General Tel : 031-2231257-8
Fax : 031-2231259
E-mail : mgr.neg@pabcbank.com
Manager's Dir Tel : 031-2231256
Mr. Saman Kularatne

NUGEGODA

132C, High Level Road, Nugegoda
General Tel : 2828225-6
Fax : 2828228
E-mail : mgr.nug@pabcbank.com
Manager's Dir Tel : 2828227
Mr. Naleen Edirisinghe

OLD MOOR STREET

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

PANCHIKAWATTA

221, Sri Sangaraja Mawatha, Colombo 10
General Tel : 2447456-7
Fax : 2447452
E-mail : mgr.pnc@pabcbank.com
Manager's Dir Tel : 2321447
Mr. Kenneth Mendis

PANADURA

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

PETTAH

64, Keyzer Street, Colombo 11
General Tel : 5363651-2
Fax : 4718995
E-mail : mgr.pet@pabcbank.com
Manager's Dir Tel : 2543550
Mr. S. Anandarajah

RAJAGIRIYA

468, Kotte Road, Rajagiriya
General Tel : 2887148
Fax : 2866823
E-mail : mgr.raj@pabcbank.com
Manager's Dir Tel : 2887149
Mr. Thushara Wijewardene

RATNAPURA

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

WATTALA

180, Negombo Road, Wattala
General Tel : 2945096
Fax : 2945095
E-mail : mgr.wat@pabcbank.com
Manager's Dir Tel : 2945097
Mr. Mahinda Samarasekera

Wellawatta Customer Services Centre

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

Wennappuwa Customer Service Centre

06, Chillaw Road, Wennappuwa
General Tel : 031-2249555
Fax : 031-2249556
E-mail : mgr.wen@pabcbank.com
Mr. Monindra Fernando

Correspondent banks

Australia

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

Austria

Creditanstalt Bankverein
Bank of Austria AG

Bangladesh

ANZ Grindlays Bank Plc
Standard Chartered Bank
Mashreq Bank
Bank of Asia Ltd
American Express Bank

Bahrain

Standard Chartered Bank
KOC Bank

Belgium

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

Brazil

ABN Amro Bank
Banco Bradesco SA

Bulgaria

Hebros Bank

Brunai

Standard Chartered Bank

Canada

Toronto Dominion Bank
Credit Lyonnais

Channel Islands

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

Cook Islands

ANZ Banking Group Ltd

Chile

ABN Amro Bank

China

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

Cyprus

National Bank of Greece
(Cyprus) Ltd
Hellenic Bank Ltd

Denmark

Den Danske Bank A/S
Unibank A/S

Egypt

Mashreq Bank

Fiji

ANZ Banking Group Ltd

Finland

Nordea Bank Finland plc,
Helsinki

France

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

Germany

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

Greece

ANZ Grindlays Bank PLC

Hongkong

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

Hungaria

ABN - Amro

India

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

Indonesia

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

Ireland

ABN Amro Bank N.V. - Dublin

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

Israel

Israel Discount Bank
Mercantile Discount Bank Ltd.

Japan

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

Jordan

ANZ Grindlays Bank PLC
Standard Chartered Bank

Kenya

Standard Chartered Bank
Habib Bank AG Zurich
Dubai Bank Kenya Ltd.

Korea

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

Kuwait

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

Lebanon

Inaash Bank SAL

Luxembourg

Deutsche Bank

Malaysia

Standard Chartered Bank
ABN Amro Bank
HSBC Bank

Maldives

Bank of Ceylon

Mauritius

Mauritius Commerce Bank,
Port Louis MV

Correspondent banks

Mexico

ABN Amro Bank

Nepal

Nepal Grindlays Bank Ltd

Netherlands

ABN-Amro Bank
Commerz Bank

Norway

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

New Zealand

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

Oman

Habib Bank A G Zurich
Standard Chartered Bank

Pakistan

Muslim Commercial Bank Ltd
Standard Chartered Bank
Mashreq Bank
Dawood Bank
Habib Bank AG Zurich

Papua New Guinea

ANZ Banking Group (PNG) Ltd

Philippines

ABN Amro Bank
Philippine Commercial Intl. Bank
ANZ Banking Group Ltd
Citi Bank NA.

Poland

Bank Handlowy W Warsza wie S.A.

Qatar

Mashreq Bank
Standard Chartered Bank
H S B C Bank

Russia

Rossiyskiy Kredit Bank
International Moscow Bank
Commerz Bank

Saudi Arabia

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

Singapore

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

Soloman Islands

ANZ Banking Group Ltd

South Africa

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

Spain

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

Sweden

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

Switzerland

UBS AG
Credit Lyonnais (Suisse)

Kingdom of Tonga

ANZ Banking Group Ltd

Taiwan ROC

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

Thailand

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

Turkey

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

UAE

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

UK

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

USA

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

Vanuatu

ANZ Bank (Vanuatu) Ltd

Vietnam

ANZ Banking Group Ltd
Citi Bank NA

Zambia

HBZ Durban - Zambia
Standard Chartered Bank

Zimbabwe

Standard Chartered Bank

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 weighted average number of ordinary shares outstanding during the year.

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 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 No. 30 of 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

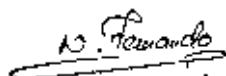
Value added is the wealth created by providing banking services less the cost of providing such services. The value added is allocated among the employees, the providers of capital, to government by way of taxes and retained for expansion and growth.

Notice of meeting

NOTICE IS HEREBY GIVEN that the TWELFTH 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 26th April, 2007 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 2006 with the Auditors Report thereon.
2. To re-elect Mr. S. K. M. Nandasena 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. R. Hewavitharana who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.
4. To re-elect Mr. L. Wickremarachchi 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. J. D. C. Coonghe who retires at the Annual General Meeting in terms of Article 100 of the Articles of Association as a Director.
6. To determine the remuneration of the Directors.
7. To approve donations/contributions made by the Directors during the year under review.
8. To re-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.

February 22, 2007

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.

This image shows a single sheet of white paper with horizontal ruling lines. The lines are evenly spaced and run across the width of the page. There are no margins, text, or other markings on the paper.

Form of proxy

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

- | | |
|---|---|
| <p>1. Weerakoon Mudiyanseelage Abeyratne Bandara
 Kulappuarachchige Don Dhammika Perera
 Arjandas Wassimal Hathiramani
 Siyaguna Kosgodage Malcolm Nandasena
 Harda Vimal Amarasekera
 Aratchige Gunaratne Weerasinghe
 John Anthony Sunil Sumith Adhihetty
 Ravindra Hewavitharana
 Leelananda Wickremarachchi
 Joseph Dharmar Chandra Coonghe</p> | <p>of Colombo or failing him
 of Colombo or failing him
 of Colombo or failing him
 of Colombo or failing him
 of Colombo or failing her
 of Colombo or failing him
 of Colombo or failing him
 of Colombo or failing him
 of Colombo or failing him
 of Colombo or failing him</p> |
|---|---|

2.
 NIC No.
 of as my/our* proxy
 to vote on my/our* behalf at the Twelfth Annual General Meeting of Pan Asia Banking Corporation Limited, to be held on 26th April, 2007 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 31st, 2006 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. Resolution No. 2 To re-elect Mr. S. K. M. Nandasena 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. R. Hewavitharana who retires by rotation at the Annual General Meeting in terms of Articles 93 & 94 of the Articles of Association as a Director.	<input type="checkbox"/>	<input type="checkbox"/>
4. Resolution No. 4 To re-elect Mr. L. Wickremarachchi 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. J. D. C. Coonghe 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 determine the remuneration of the Directors in terms of Article 84 of the Articles of Association.	<input type="checkbox"/>	<input type="checkbox"/>
7. Resolution No. 7 To approve donations/contributions made by the Directors during the year under review.	<input type="checkbox"/>	<input type="checkbox"/>
8. Resolution No. 8 To re-appoint the Auditors of the Bank until the conclusion of the next Annual General Meeting and to authorise the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>

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

.....
 Signature of shareholder

Form of proxy

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 24th April, 2007 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.

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	: 110,640,407 Ordinary Shares

