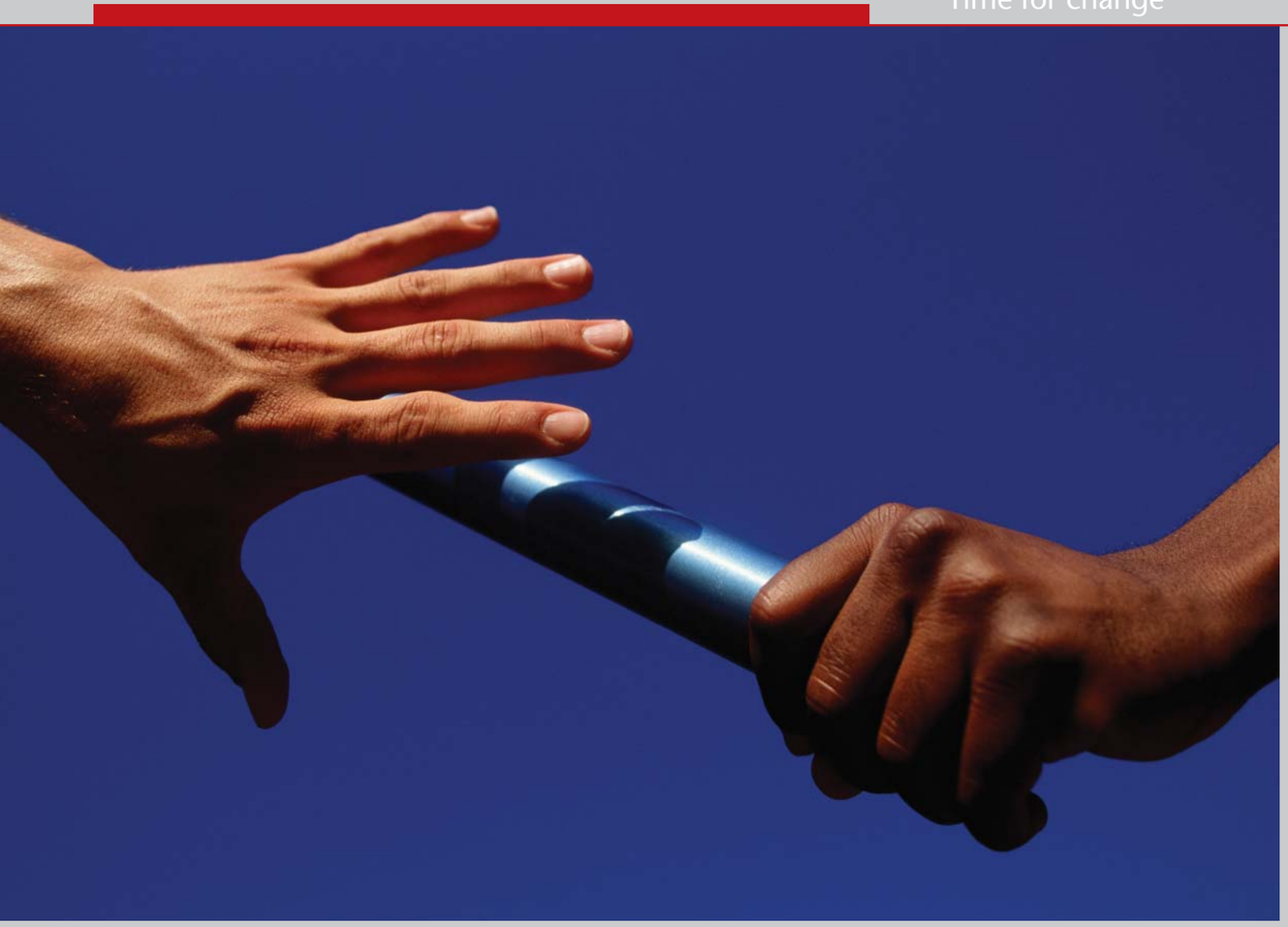
Time for change



Continuous change. Continuous growth

ලංකා බැංකුව இலங்கை வங்கி
BANK OF CEYLON

Annual Report 2005

Key Figures

	2005	2004
Profit Before Tax *(Rs. Mn)*	3,023	2,559
Gross earnings *(Rs. Mn)*	27,126	23,957
Operating Income *(Rs. Mn)*	15,159	14,937
Capital & Reserves *(Rs. Mn)*	16,183	15,348
Total Deposits *(Rs. Mn)*	232,622	205,219
Total Advances *(Rs. Mn)*	176,742	142,203
Total Assets *(Rs. Mn)*	319,504	266,399
No of Depositors	5,782,424	5,490,575
No of Advances	1,285,278	1,217,697
Return on Assets %	1.03	1.01
Return on Equity % - Before tax	19.18	17.25
Return on Equity % - After tax	12.83	13.28
Liquidity Ratio %	26.87	23.82
Capital Adequacy Ratio %	13.18	12.44
No of Employees	8,891	8,718
Local Branches	301	297
Foreign Branches	3	3
Fitch Rating	**AA (sri)**	**AA (sri)**

Corporate Philosophy

Vision
Bankers to the nation.

Mission
Customers
Foster most rewarding relationship with trust and reliability for our customers, exceeding their expectations.

Staff
We offer our staff, recognition and rewards to be the best team of achievers in service excellence.

Owners
As per expectations of our owners, be a catalyst in national development, with profitability.

Society
Extending banking service to larger society as a beneficial beacon in the country.

The Year's Highlights

'AA' Fitch Rating – Again !
We achieved 'AA(sri)' Fitch Rating for the second year in a row.

Record Breaking Online Network
133 Branches and 24 Extension Offices totaling 157 online access points are running online operations with 24-hour ATM services.

Widest Branch Network
BoC's Network of 304 Branches gives us the widest reach.

Information Technology
BoC IT Developments grow – for speedy customer-friendly banking transactions.

Largest Asset Base
BoC achieved a milestone in the Banking Industry in Sri Lanka by becoming the first commercial bank having assets in excess of Rs. 300 billion.

E-Cash & E-Bank
Facilitating new electronic money transfer system and e-banking.

Time for change

ලංකා බැංකුව இலங்கை வங்கி

Bank of Ceylon

Annual Report 2005

Continuous change. Continuous growth.

At Bank of Ceylon we are committed to excellence in all that we do, as we offer our products and services across the island to every Sri Lankan citizen.

Founded in 1939 we have grown strategically over the years to become a leading player in the industry - holding 24% of the banking assets of the nation and AA (sri) Fitch Rating. And with a 304 strong network of branches reaching across the nation, we are proud to offer fine banking services to the largest customer base of over five million people, reaching out to every region of the country.

2006 is a significant year for the Bank as we embrace a new, revitalized vision of long term success, involving change and growth towards greater efficiency, added value and service orientation - giving us the strength and confidence to meet the challenges of the years ahead.

Contents

Continuous change. Continuous growth.
The proficiency with which the baton changes hands, decides the result.

The Bank of Ceylon Story 4
Our Subsidiaries & Associates 6
Corporate Information 7
Products and Services 8
Chairman's Review 11
General Manager's Review 16
Graphical Review 21
About the Board 23
Corporate Management 24
Executive Management 25
Management Discussion & Analysis 27
Human Resources 33
A Year of Technological Transformation 34
Risk Management 35
Corporate Governance 37
Corporate Social Responsibility 40

Financial Information

Statement of Directors' Responsibilities in Relation to Financial Reporting 44
Directors' Report 45
Audit Committee Report 48
Auditor General's Opinion 49
Income Statement 50
Balance Sheet 51
Statement of Changes in Equity 52
Cash Flow Statement 53
Significant Accounting Policies 55
Notes to the Financial Statements 60
Capital Adequacy 98
Income Statement - US $ 100
Balance Sheet - US $ 101
Ten Year Statistical Summary 102
Value Added Statement 104
Corporate Offices & Overseas Branches 105
Province Offices & Branches 106
Glossary of Financial/Banking Terms 113
Notes 116

The Bank of Ceylon Story

From history

The Bank of Ceylon is presently celebrating the 66th Anniversary of its founding. The six decades of the Bank of Ceylon's existence has been of importance to Sri Lanka and its economic development. The genesis of the Bank of Ceylon goes back to the demand for the creating of a government sponsored indigenous bank to remove the disadvantages under which the Sri Lankan landowners and businessmen had to operate at the time. During the inception of Bank of Ceylon, the commercial banking in the island was the monopoly of foreign banks, mainly British banks. As far as the ability to avail of the credit facilities, the foreign banks presented a blank wall to Sri Lankan businessmen and landowners. Perforce, they had no alternative but to turn to the Natucottai Chettiars who carried on a flourishing money-lending business in Pettah, mainly Sea Street and New Chetty Street and at exorbitant interest rates.

The establishment of Bank of Ceylon is only one means by which the Government of this country hopes to evolve a structure which will assist the country in its many sided activities. However, the key areas of interest during its inception had being Agriculture, Industry and Trade.

Continuously monitoring global trends

A gist of the present status quo

From fledgling status, the Bank of Ceylon rose to great heights to become the country's leading bank. The Bank

of Ceylon at present, is the largest financial institution in Sri Lanka with a permanent cadre strength of 8,891 employees and a network of 304 branches throughout the island including 3 overseas branches. Recently, the BoC acquired the coveted AA (sri) rating and was ranked amongst the best 1,000 banks in the world. No other Sri Lankan bank has ever come within this range.

With the advent of the open economy, at present, there are 22 banks competing with Bank of Ceylon, most of them trans-nationals and 10 are indigenous banks. When a public sector bank is pitted against the competition of a multitude of private sector banks, the adoption of certain fundamental policies become strategically necessary for the very survival of the institution.

Being a state owned enterprise, the Bank of Ceylon recognises the important role it has to play within the scope of its national commitment and social responsibility. The Bank of Ceylon management spearheaded reforms with the visionary zeal necessary to transform it from a monopolistic bank to a contemporary, vibrant organization that could meet the competition offered by a trans-national bank, on an equal footing.

Supported by the largest asset base in the local banking industry, (surpassing the Rs. 300 billion mark), the Bank is gathering momentum for further successes.

Some noteworthy proactive initiatives -

- Strongest on-line branch network automation project - *133 branches including the Head Office and 24 extension offices are already connected with plans to link the remaining branches during 2006.*
- Widest ATM network of 211 under the LEAP Scheme
- Modernization and refurbishing of premises with attractive interior décor work already commenced
- A massive investment in employee training - with the establishment of a training complex at Maharagama, with residential facilities and year-round training programmes.

"...the largest deposit base, over five million customers and the most far-reaching branch network give us an unmatched competitive advantage..."

- The Bank of Ceylon extends our full backing and cooperation to the Government's new approach towards accelerated national development. *The introduction of novel schemes viz. "Gamata Naya" (Credits to Village), "Sookshma" (a new Micro Credit Scheme) and "Naya Gewamu" (Lets Pay Loans - Recovery Programme) are producing excellent results, country-wide.*
- The Bank also engages in the diversification of its business towards non-banking financial services - insurance, leasing, pawn broking, financial advisory services, credit cards, share market operations, unit trusts and investment advisory services.
- Under our Corporate Governance regulations, the Bank has always acted with transparency in all its activities and believes in fair play in the market both local and global. The Bank will also continue its strict adherence to state requirements, monetary legislations and international accounting practices

As a local commercial bank, our principal aim is to provide a wide range of domestic and global financial products and services. The Bank also seeks to be a catalyst to the rapid growth and development of the nation, whilst striving for its own growth offering profitability, professionalism and excellence in all that we undertake.

The Bank of Ceylon treasures its status as the 'Banker to the Nation' and we shall continue to extend our influence across the nation and the region, now and in the years to come.

BOC's Old Pettah Branch

Today the Bank is based at Echelon Square

Our Subsidiaries & Associates

BOC Group

Subsidiary Companies	Principal activities	% Holding
Quoted		
Merchant Bank of Sri Lanka Limited	Merchant banking	76
Property Development Limited	Property development	93
Unquoted		
BOC Management & Support Services (Private) Limited	Management services	100
BOC Property Development & Management (Private) Limited	Property development	100
BOC Travel (Private) Limited	Travel related services	100
Ceybank Holiday Homes (Private) Limited	Maintaining Ceybank rests	100*
Ceybank Securities Limited *(Liquidated)*	Primary dealer	
Ceylease Financial Services Limited	Leasing	50
Hotels Colombo (1963) Limited	Hotel operations	98
Merchant Credit of Sri Lanka Limited	Finance	88*

Associate Companies	Principal activities	% Holding
Quoted		
Capital Development & Investment Company Limited	Investment banking	24
Unquoted		
Lanka Securities (Private) Limited	Stock broking	42*
Mireka Capital Land (Private) Limited	Property development	40
Ruhuna Venture Capital Company Limited	Venture capital funding	42
Transnational Lanka Records Solutions (Private) Limited	Data warehousing	25
Unit Trust Management Company (Private) Limited	Fund management	20

*The % holding in subsidiaries & associates includes indirect holding as well

Managers meet clients requiring advice on credit facilities

Quick processing

Corporate Information

Name of the Institution
Bank of Ceylon

Legal Form
A Banking corporation domiciled in Sri Lanka on 01st August 1939 duly incorporated under the Bank of Ceylon Ordinance No.53 of 1938.

A licensed commercial bank established under the Banking Act No. 30 of 1988.

Registered Office
No. 4, Bank of Ceylon Mawatha, Colombo 1, Sri Lanka

Head Office
No 4, Bank of Ceylon Mawatha, Colombo 1, Sri Lanka
Tel: +94 11 2446790-811 (22 lines)
+94 11 2338741-55 (15 lines)
Telex: 21331 BOCST CE
SWIFT Code: BCEYLKLX
Website: www.boc.lk

Tax Payer Identification Number - (TIN)
409000070

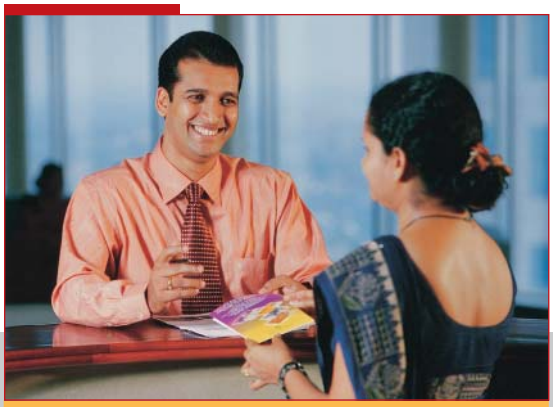
Board of Directors
Mr. Udayasri Kariyawasam *(Chairman)*
Mr. S. Abeysinghe
Mr. G.K.A. Chaminda Kumara Kularatne
Mr. Gunaratna Gallage
Mr. R. Sivaraman
Dr. B. Kaluarachchi

Board Secretary
Mrs. Janaki Senanayake Siriwardane

Audit Committee
Mr. R.Sivaraman *(Chairman)*
Mr. G.K.A. Chaminda Kumara Kularatne
Mr. Gunaratna Gallage
Dr. B. Kaluarachchi

Auditor
The Auditor General
(In terms of the provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka)

Credit Ratings
The Bank has received AA (sri) credit rating from Fitch Ratings Lanka Limited.


The Bank places high priority on customer service

Continuous improvement meetings

Products and Services

Pioneering new products and services

DEPOSITS

LOCAL CURRENCY DEPOSIT ACCOUNTS

Normal Savings

- Ran Kekulu Childrens Savings
- 14+ Teen Savings
- 18+ Youth Savings
- Sisu Saviya Savings
- Kantha Ran Ginum
- Senior Citizens Savings

Special Purpose Savings Accounts

- Ran Govi Thenpathu
- Ranaviru Ran Ginum
- Samurdhi Savings
- TECO Savings

Maturity Deposits

- 7 Days Call Deposits
- Savings Certificates
- Normal Fixed Deposits
- Senior Citizens Fixed Deposits

FOREIGN CURRENCY DEPOSIT ACCOUNTS

NRFC Accounts

- Normal NRFC Savings
- NRFC Fixed Deposits

RFC Accounts

- Normal RFC Savings
- RFC Fixed Deposits

Other Accounts

- Ethera Thilina Savings
- Ran Kekulu Foreign Currency Childrens Savings
- Resident Non National Foreign Currency Accounts
- Export Foreign Currency Accounts

TREASURY

PRIMARY DEALER UNIT

- Treasury Bills
- Treasury Bonds
- REPO's
- Reverse REPO's

FOREX & FUND MANAGEMENT

- Forwards
- SWAPS
- Import Export Financing
- Custodian Services
- Money Market Lending & Borrowing
- Interest Rate Swap

SPECIAL SERVICES

Cash Services

- ATM Services
- 365 Days Banking
- Cheque Encashment
- SLT Direct Debit
- Foreign Currency
- RTGS Fund Transfer

Funds Transfer
- Inter-Branch Money Transfers
- SWIFT
- SLIPS
- Telegraphic Transfers
- Mail Transfers
- Door to Door Express Remittance
- Issuing and Encashing Foreign Drafts

Travel Services
- Bureau de Exchange
- Travellers Cheques

Value Added Services
- Gold Shop
- Safe Custody Vault
- Insurance Desk
- Left handers' Cheque Book
- Ran Kekulu Gift Vouchers
- Money & Banking Museum
- Small Entrepreneur Consultancy
- Trade Information and Help Desk
- E-Channelling
- SMS Banking

LENDING

PERSONAL LENDING
- Overdraft Facilities
- Term Loans
- Cheque Purchase Facilities
- Ran Surekum Naya Seva (Pawning)
- Pre-departure Loans for Migrant Workers
- RanSaviya Loans for NRFC A/c Holders
- Motor Cycle Loans for Government Employees
- Home Loans

CREDIT CARDS
- Visa Credit Cards
- Master Credit Cards
- Apsara Ladies Credit Cards
- Master Card Acquiring Services
- Visa Electron Debit Cards

CORPORATE LENDING
- Revolving Facilities (Term/OD)
- Project Financing
- Syndicate Loans
- Commercial Paper
- Packing Credit
- Bank Guarantees
- Foreign Currency Loans
- Fixed Rate Advances
- Floating Rate Advances
- Leasing

TRADE FINANCE
- Letters of Credit
- Pledge Loans
- Trust Reciept Loans
- Hypothecation Loans
- Export Finance
- Bills Purchases
- Bills Discounting
- Shipping Guarantees
- Documentary Collection

DEVELOPMENTAL LENDING

Crop Lending
- New Comprehensive Rural Credit Scheme (NCRCS)
- Tea Development Project Credit Scheme (TDP)
- Coconut Development Loan Scheme (KAPRUKA)
- Second Perennial Crops Development Project Credit Scheme
- Loan Scheme for Improvement of Locally Produced Rice to International Standards

Fisheries sector Assistance
- Aquatic Resources Development and Quality Improvement Project (ARDQIP)
- Credit Scheme for Small Scale Fishermen
- Credit Scheme for Insulated Trucks for Transportation of Fish

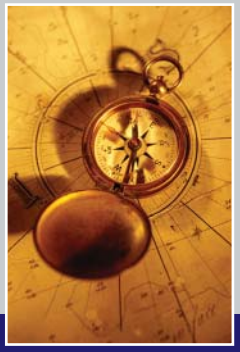
Facilities for SMI
- Comprehensive Credit Scheme for Small Enterprise Development (SED)
- Surathura Diriya Credit Scheme
- Small & Medium Industries Leader Entrepreneur Promotion Scheme (SMILE II & III)
- Credit Scheme for the Purchase of Three Wheel Auto Rickshaws
- Financial Assistance for Geuda Heat Treaters & Lapidarists
- Susahana Credit Scheme for Tsunami Rehabilitation
- E-Friends II Facilities

Regional Development Schemes
- Integrated Rural Development Project (IRDP) Sabaragamuwa
- Southern Province Regional Economic Advancement Project (DASUNA)
- Estate Sector Self Employment Revolving Fund Credit Scheme

A wide range of fine products and services

Continuous change. Continuous growth.

Management Reports



Continuous change.
Continuous growth.
The compass changes indicating a new course, a new way forward.

Chairman's Review

It gives me great pleasure to present you the Annual Report of the Bank for the year ended 31 December 2005. I have had the privilege of being the Chairman since December 2005. Hence, this Annual Report largely reflects the stewardship of my immediate predecessor. My challenge is to continue the tradition of leadership not only through excellence in execution of the core functions of the Bank, but also through the quality of ideas.

The Bank strives to ensure a sustainable growth in its corporate values by providing high quality and innovative financial services and maintaining its position as the strongest Bank in Sri Lanka. By achieving these goals, the Bank aims to retain the trust of its customers, and thereby achieve its mission of being a major influence in developing the economy of the country.

It is the view of the Board and the Management that the Bank should reposition itself quickly to capitalize the emerging opportunities out of the Government's firm commitment to the peace process and the national economic policy envisaged in the "Mahinda Chinthanaya" and enunciated in the budget proposals for the year 2006.

World Economy

The world economic growth rate for 2005 was estimated at 4.3 percent and forecast at the same rate for 2006. The negative effects to this forecast would arise from risks in high dependence on US consumption, high price levels of housing and the volatility in oil prices, which could escalate even higher, with adverse consequences to the global economy. The unexpected hike in oil prices caused more problems to developing economies with adverse effects on balance of payments, inflation and exchange rates. However, the oil producing countries with their increased wealth are extensively investing to give a boost to the world economy in 2006.

"The Bank of Ceylon, its Subsidiaries and Associate Companies recorded a pre-tax profit of Rs.3,092 Mn for 2005 compared to Rs. 2,077 Mn in 2004..."

Friendly customer care and professional services

The expiry in 2004 of World Trade Organisation's (WTO) Agreement on Textile and Clothing (ATC), ended the quota based regime among its members and exposed the Garment Industry to more intense international competition. However, duty concession by EU countries with the GSP+ scheme and trade restrictions on China helped developing countries to continue to enjoy the preferential tariffs. The WTO has been supporting competitive market practices for its members and the controversy on subsidies for agricultural production in developed countries adversely affecting the poorer nations remains unresolved.

The Sri Lankan Economy

The Sri Lankan economy's expected growth rate is 5.9 percent for the year 2005 despite devastation caused by the Tsunami thereby demonstrating the resilience of the economy. Post reconstruction and rehabilitation activities continued throughout the year 2005 benefiting from favourable weather and healthy international economic developments.

The rising trend in inflation reversed at the end of the first half of 2005, due to falling food prices, but a substantial demand pressure prevails. Hence, monetary policy is being effectively directed at containing the demand pressure on prices, and the end-year inflation is expected to be around 10-11 percent. International trade improved significantly with a 10.2 percent growth in exports, and a 10.8 percent growth in imports while services and remittances increased substantially during 2005.

The improved agricultural output led by the increased paddy production has satisfactorily contributed to the economy. Arising from recent economic developments, the Central Bank has maintained interest rate policy at current levels and also continued with the conduct of open market operation aimed at bringing down the monetary expansion. Aided by financial flows to the Government, debt relief and the high growth in remittances and other inflows, the overall balance of payments has turned to a surplus of around US Dollars 500 million by the end of 2005. The fiscal consolidation process continues, and the budgetary performance is in line with the revised estimates made in the Budget 2005.

Prospects for 2006 are promising, with economic growth estimated to reach 8 percent in the medium term, inflation moderating with the implementation of the required monetary and fiscal policy measures and external trade and the balance of payments continuing to improve. The financial system will strengthen further, while providing the necessary services for the development of real sectors of the economy, such as agriculture, industry and services.

Financial Sector

The favourable, global and domestic macro economic environment stabilized the financial market, resulting in the financial services sector being benefited. The Central Bank of Sri Lanka further stabilized the sector, inter-alia, with the enhancement of the capital requirements for commercial banks to Rs.2.5 billion by 2007.

Bank's Performance

The Bank of Ceylon, its Subsidiaries and Associate Companies recorded a pre-tax profit of Rs.3,092 million for 2005 compared to Rs.2,077 million in 2004, which reflects a growth of Rs.1,015 million or 48.9 percent despite severe competition in the areas of core activities of the Group.

The increase in net interest income and stringent recovery processes adopted during the year under review have been the main factors behind the improved performance. The net interest income showed an increase of Rs.1,093 million or 12.12 percent over the previous year figure of Rs.9,014 million.

The Group's net fee-based income also showed an increase of Rs.135 million, an increase of 8.9 percent compared to

the previous year. However, the foreign exchange profit recorded a notable decline due to the appreciation of Rupee against US Dollar from Rs.104.705 at end 2004 to Rs.102.055 at end 2005. This has resulted in reducing the foreign exchange profit to Rs.1,014 million from Rs.1,781 million in 2004.

In spite of special allocation to staff retirement benefit schemes that rose from Rs.1,385 million in 2004, to Rs.2,062 million (a growth of 48.9 percent), mainly due to increase in contributions to the defined benefit plans, the Group had good control over its operating expenditure. During the year, the Group was able to reduce the provision for loan losses to Rs.1,651 million, a decrease of 44.7 percent in comparison to Rs.2,986 million made in 2004.

The deposits rose from Rs.207 billion as at 31 December 2004 to Rs.234 billion as at 31 December 2005, which represented a growth of Rs.28 billion or 13.3 percent.

Over the years, Bank built up the confidence of Sri Lankans working abroad to such an extent that it has become the clear market leader in inward foreign remittances, way ahead of all competitors.

In 2005, Bank crossed the Rs. 109 billion mark, with a massive 66% market share.

The Group operates in both the corporate and retail sectors offering a diversified portfolio of services, island-wide. Net loans, advances and leases rose from Rs.136 billion as at 31 December 2004 to Rs.172 billion as at 31 December 2005, a growth of Rs.36 billion or 26 percent.

The Group's assets reached Rs.325 billion at end 2005, reflecting a growth of Rs.55 billion or by 20.4 percent achieving a milestone in the Banking Industry in Sri Lanka by becoming the first commercial bank having assets in excess of Rs.300 billion.

During the year, Bank paid a sum amounting to Rs.2,178 million to the Government of Sri Lanka, the sole shareholder of the Bank, by way of dividends and taxes including VAT on financial services. This is equivalent to 62.98 percent of operating profit on ordinary activities before charging corporate tax and VAT on financial services.

While recording sound profits, the Bank retained AA(sri) national rating, awarded by Fitch Ratings Lanka Ltd, signifying its strong financial position.

Growing Retail Presence

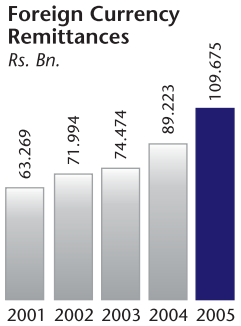
The local branch network, strategically located island-wide, increased by 4 to 301 offering efficient banking services. Also, 7 new Pawning Centres and 6 new Extension Offices were opened during the year making a total of 8 and 44, respectively, as at end of 2005. There were 9 re-location of branches in 2005. Further, there are 211 ATMs including 107 of the Sampath Bank, under Lanka Electronic Access Points (LEAP) Scheme for the use of our customers. This is expected to be increased by a further 100 within the next 3 months by linking with the Hatton National Bank. The Bank also offers retail customers SMS banking whilst corporate customers are provided with both SMS and internet banking facilities.

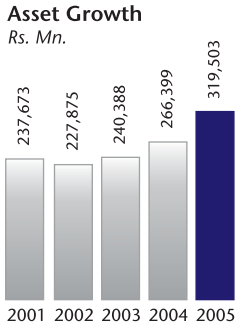
New Products

The Bank continues to offer new products and value addition to the existing products to its customers. The Bank has been the pioneer in introducing new products and it continues to do so in keeping with the changing needs in the market place. Some of the new products launched by the Bank were Moving Rates Fixed Deposits, SMILE 3, E-Friends and Value Added Credit Cards.

Our IT Strategies

Bank continues to invest in technology and the implementation of the new software solutions for key banking areas, viz. Core Banking, Trade Finance and





"The Bank strives continually to enhance its corporate governance with the fundamental premise of increasing transparency and soundness of its management."

Fine banking services in a modern environment

Treasury, is proceeding satisfactorily. This Core Banking system is extremely user friendly in a well secured IT environment. The Bank has migrated more than 100 branches to the centralized system, capacity of which has been upgraded to host up to 200 branches with a state of the art Disaster Recovery Site. Currently 133 branches and 24 extension offices, totaling 157 on-line access points are running on-line operations with 24-hour ATM services. This will provide true `Anywhere Banking' for customers of these branches resulting in enabling connectivity among all the branches. The Bank has introduced E-Banking service facilitating expatriates to transfer funds online thereby the customers receive funds into their accounts, immediately.

Risk Management

The Bank remains firmly committed to ensuring sound risk control and reporting systems. The Bank recognizes that different types of risks are interlinked and uses an integrated approach in overall risk management though specific risk types are studied separately. We intend to set up a bank-wide integrated, independent Risk Management Department to have a holistic approach in managing risks by competent staff.

Corporate Social Responsibility

As `Bankers to the Nation' and responsible corporate citizens in the communities we live and work in, we supported many social initiatives which are listed out in detail on pages 40 and 41 of this Annual Report.

The Bank of Ceylon, as the premier bank in the country, has already embarked on several projects to achieve this objective. It participates in Government sponsored lending programmes as well as other relief and rehabilitation programmes initiated by the Government and by itself including the `Susahana Loan Scheme' introduced by the Central Bank in January 2005 to assist the Tsunami affected industries and small business enterprises.

Good Corporate Governance

The Bank strives continually to enhance its corporate governance with the fundamental premise of increasing transparency and soundness of its management. The Board considers the introduction of modern risk based auditing system is imperative to maintain the appropriate levels of supervision. The Board consists of non-executive directors who bring a wide range of skills, experience and a network of contacts to the Board. Each brings in independent judgement and considerable knowledge to perform their roles, effectively. The practices it has adopted are the ones that best suit its objectives reckoning the political, economic and social aspects of the environment it operates in.

Looking Ahead

The new opportunities – agriculture, small and medium enterprises, emerging with the implementation of the new economic policy of the Government, the Bank is

Monitoring and regulation

Improving technology in order to offer better service

poised to take off with optimism and would strive hard for a significant growth in terms of profitability and market share. There will be greater focus on prompt attention to customer satisfaction and the Bank has declared this year as "Customer Care Year" to achieve excellence.

We aim to attract more depositors in various sectors via special programmes. An aggressive plan will be implemented to increase the number of BoC Credit Card holders in 2006 with more value addition while growing our advance portfolio with prudence. A new loan scheme "Gamata Naya" will be introduced to provide capital for projects with an investment not less than Rs.30 million at low interest rate. In addition, the Bank will launch "Sookshma", a new micro-loan scheme to promote home based enterprises, based on the pro-poor strategy specified in new budget for 2006. Loans upto Rs.250,000 will be given to encourage rural and skilled cottage industries.

The Government, when announcing the budget 2006, laid emphasis on the development of Small and Medium Enterprises, a sector that could substantially contribute to the rural economic growth of the country, capitalizing on tax benefits given to financial institutions who lend capital for investments outside Colombo and Gampaha Districts. The tax and other incentives proposed in the budget would catalyse regional industrialization which would eventually alleviate poverty in the rural sector.

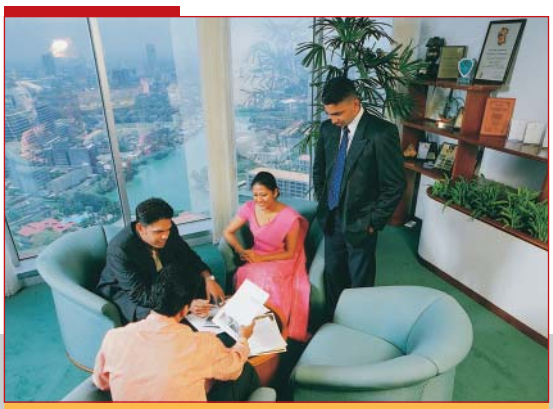
Although we expect the business environment to remain challenging, we do expect to have a successful year with substantial accomplishments whilst contributing immensely in the implementation of new Government Economic Policy. Finally, we are committed to leadership and teamwork within our organization that will drive improved performance in terms of both profitability and market share thereby enhancing shareholder value.

Gratitude

I take this opportunity on behalf of my predecessor to convey his gratitude to the Board of Directors for the excellent job done and the support extended to him during the past year. I also thank on his behalf the staff, customers and other stakeholders for their dedication, loyalty and support in making the year a rewarding one. I extend his appreciation to the Government, the former Minister of Finance & Planning - Hon. Dr. Sarath Amunugama, and the former Chairman of SEMA - Mr. Mano Tittawella and his officials. I also wish to extend my sincere appreciation to the new Minister of Finance, His Excellency the President Mahinda Rajapakse, the Minister for State Banks Development, Mr. Wijedasa Rajapakse, P.C., Deputy Minister of Finance, Mr. Ranjith Siyambalapitiya, Secretary to the Ministry of Finance and Planning - Dr. P. B. Jayasundera and his officials, the Governor of the Central Bank - Mr. Sunil Mendis and his officials, for their guidance and support.

Udayasri Kariyawasam
Chairman

16 March 2006
Colombo.



Personal attention and client friendly operations

Looking into every detail

General Manager's Review

Bank of Ceylon completed another successful year in 2005 despite the setback the country's economy suffered due to escalating oil prices, political uncertainty and the dire consequences of the Tsunami disaster in December 2004. The Bank's profit before taxes increased by Rs. 465 million or 18.15 percent to Rs. 3,023 million and contributed Rs. 2,178 million as dividends and taxes to the Government for the year 2005.

The Bank successfully continued to maintain its leading and pre-eminent position and attached a high degree of priority to face up to the unprecedented challenges that have today emerged in the banking sphere. In a landmark transaction the Bank was able to arrange the largest ever syndicate loan raised by any Sri Lankan Bank in the International market equivalent to US Dollars 130 million. The most significant feature of the issue was the attractive pricing linked to the London Inter-Bank Offered Rate reflecting the confidence of the international financial community on the risk profile of the Bank and the country. This is the lowest rate ever paid by any Sri Lankan Bank in raising US$ syndicate loans from the International market. We availed ourselves of every single opportunity to intensify our existing relationships and added to the fine quality of our service with modern banking technologies.

The Bank continues to maintain its leadership position in regard to foreign currency remittance from Sri Lankans abroad having a market share over 60 percent in the year 2005. To facilitate the customers, a web based electronic fund transfer system named "BoC E-cash" was introduced during 2005. The Bank also joined "X Press Money", a network of speedier, low cost money transfer facility offered by UAE Exchange Centre in Middle East.

While maintaining its leading and pre-eminent position, the Bank continues to maintain and endeavour to improve its AA(sri) national rating awarded by Fitch Ratings Lanka Ltd. for the year 2005 as well.

Financial Performance

Pre-tax profit of the Bank rose from Rs.2,559 million in 2004 to Rs.3,023 million in 2005, maintaining the Return on Average Assets (ROA) at 1.03 percent which is above the industry norm of one percent.

The Bank also established a milestone in the banking industry by achieving Rs.233 billion in deposits in the year under review, reflecting an increase of Rs.28 billion or a growth of 13.34 percent, demonstrating the trust and confidence of the depositors in the Bank.

The Bank has the largest capital base among the commercial banks in Sri Lanka. The Bank maintained its Capital Adequacy Ratio (CAR) well above the Central Bank's minimum requirement of 10 percent throughout the year and it stood at 13.18 percent as at end of the year 2005 - the highest CAR among peer banks. This indicates the Bank's strong financial position giving confidence and comfort for safety of our depositors while ensuring good returns to them.

The Bank having the largest Single Borrower Exposure limit among its peer banks, continues to play a major role in financing the growing needs of the economy. The Bank's advances portfolio reflected a substantial growth rate of 24 percent during the year. The strong credit culture coupled with effective credit risk management, improvement in post-sanction monitoring enabled the Bank to reduce its non performing advances ratio to 7.1 percent as at end of 2005 from 9.8 percent as at end of 2004.

The Bank made adequate provisions including the additional provisions more than the minimum required by the Central Bank under "Hair Cut Rule", for classified loans and advances. As at end of 2005, provision coverage was 83 percent (77 percent in 2004) - the highest coverage among peer banks. The debt exposure in credit has reduced to 1.2 percent as at end 2005 from 2.2 percent in 2004. Furthermore, the net exposure in credit as a percentage of capital employed

MIRIDIYA SAMPATH Credit scheme in progress at Senanayaka Samudra

Agricultural Project funded by BOC

was 13.5 percent at end 2005 (20 percent in 2004), which signifies a remarkable improvement in mitigating risk associated with credit.

Corporate Social Responsibility

The year began with an uncertain macro-economic environment. The Tsunami tidal waves struck the Sri Lankan coastal area and nearly 75 percent of the coastal area of Sri Lanka was devastated, losing numerous lives and destruction of property and livelihood of many people.

The Bank played a leading role to provide relief for tsunami victims by participating in the rehabilitation programme implemented by the Government of Sri Lanka. The Bank donated Rs.25 million to the Government's Tsunami Assistance Fund as the initial step and took immediate action to establish a special unit to provide relief packages including credit to affected customers, businesses and the staff. The Bank actively engaged in the relief provided by the Government of Sri Lanka through its branch network and through the new scheme of the Central Bank of Sri Lanka launched under the name "Susahana Loan Scheme" with low interest rate with substantial grace period in addition to postponing the repayment of the facilities of the existing customers who were affected by Tsunami. Nearly Rs.800 million worth of loans were disbursed to nearly 3,000 victims.

The Bank, as in the past, continued to be a catalyst in the National Development in the country and has participated under the Government "Dahasak Maha Wew" programme to reconstruct/rehabilitate tanks and anicuts; in conducting training programmes for small entrepreneurs to impart knowledge on technical feasibility, financial viability to undertake viable income generating projects; sponsored documentary programme telecast on the National TV, and renovating one of the oldest Ayurvedic Institutes in the country. The Bank also participated in providing financial assistance for up-gradation of the Jaffna Teaching Hospital/ Faculty of Medicine.

Internal Control and Compliance

Internal controls were mainly focused on system operations and processes to ensure adherence to internal & external regulatory requirements by deploying Audit Teams on the basis of risk exposure at branches of different grades under an Annual Audit Plan.

The Audit Committee chaired by one of the Directors of the Bank meets regularly and reviews the management of risk/exposures through effective operational controls. The committee also directs and sets out necessary policy guidelines for the Internal Audit Division. The External Auditors independently report to the Board of Directors and Audit Committee, which closely follows up and monitors the rectification process.

In view of the increased use of Information Technology in the Bank, the area under IT Systems is undertaken by

"The Bank, as in the past, continued to be a catalyst in the National Development of the country..."

Farmers benefit from Cultivation Loans under the NCRC Scheme

Observation of fishing activities

Credit Schemes for small scale farmers

"The Bank continued its responsibility as a development banker in all spheres of agriculture, fisheries, dairy development, micro enterprise development and tea small holders."

a specialized Information System Audit Unit, comprising personnel trained on information systems auditing. The objective of this unit is to ensure that systems security controls and IT related operational risks are adequately managed and controlled by the Bank in order to safeguard its assets.

Development Banking

The Bank continued its responsibility as a development banker by providing financial assistance to sectors such as agriculture, fisheries, dairy development, micro enterprise development and tea small holders.

Training of Branch Managers and Credit Officers to maximize their knowledge on development lending had been undertaken during the year and 540 officers were trained in 12 districts. In addition to that, a beneficiary training for small enterprises were conducted where more than 1,000 small entrepreneurs were trained at branch level.

The present agriculture lending strategy has enabled the Bank to extend timely and adequate finance to the needy farmers with a comprehensive package consisting of production, processing, packaging, transporting and marketing etc. The marketing linkage under the Forward Sales Contract Agreement has become popular and beneficial for both the farmer-borrowers and buyers, mainly paddy millers. Credit facilities amounting to Rs.958 million was granted to paddy millers and paddy traders for the purchase of paddy from the farmers during 2005.

Credit facilities have been extended under Aquatic Resources Development and Quality Improvement Project to upgrade inland fisheries, transportation and processing etc.

The Bank has significantly contributed to solve unemployment problem in the country by offering financial assistance under various credit schemes especially to educate unemployed youths to engage themselves in gainful occupation.

Financial assistance has been extended on a special project basis to dairy farmers in Naula, Dambulla, Galaha and Rikillagaskada for the purchase of cattle. The Dairy Co-operative Societies in these areas have entered into an agreement with the dairy farmers to collect and remit the proceeds to their accounts with the branches, thus ensuring the repayment of loans granted.

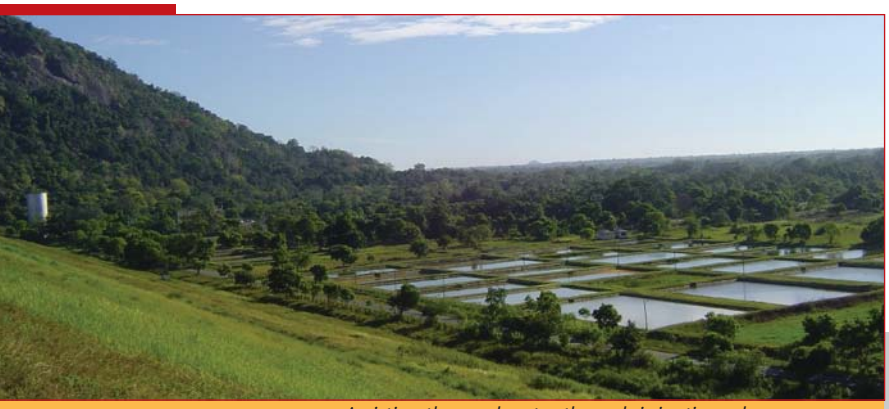
Bank of Ceylon participated in the national development with financial allocation of Rs.25 million to reconstruct/ rehabilitate village tanks and anicuts. This programme is still in progress.

Technology

There has been increased investment in technology and the implementation of the new software solutions for key banking areas viz. Core Banking, Trade Finance and Treasury.

Major activities completed by the Bank during the year 2005 are as follows:-

- Rollout International Comprehensive Banking System (ICBS) to our branch network and as at 31st December 2005, 133 Branches and 24 Extension offices have already been brought under ICBS operations, thereby making available 157 online delivery points to the clients. Approximately, 3.0 million client accounts of BoC now enjoy online banking facilities.
- Holiday Banking Facility from 16 online branches and 365 Day Banking Facility from 03 online branches.
- Conversion of 61 NRFC Units in branches to ICBS. This includes the largest NRFC Unit in Colombo, which has approximately 68,000 customer accounts.



Assisting the rural sector through irrigation schemes

Bringing our services to every region through our branches

- Introduction of Web based fund transfer facility (E-cash) from Middle East exchange houses to ICBS customers in BoC branches.

- Provision of special services to corporate clients in the private/public sector such as Fund Management facilities.

Retail Banking – Domestic & Offshore
The Bank has introduced a series of new products and facilities to meet the challenging needs of retail sector which has shown a significant growth. To coincide with the commemoration of the Bank's 66th Anniversary, we have offered a special incentive for Ran Kekulu Accounts opened for babies born on 1st August 2005. SMILE 3 and E–Friend are two new products launched by the Bank during the year under review.

The Bank's international operations during the year 2005 showed continuous growth. The cordial relationship that we maintain with our global network of correspondent banks of international repute not only assisted us in meeting the needs of the International Banking community but also offered opportunities to our staff for overseas training and exposure in sophisticated banking practices.

The aggressive marketing campaign undertaken by the Bank to promote inward foreign remittances from Sri Lankan expatriates with our dedicated team of representatives in reputed banks and exchange companies in the Middle East was another success story for us in 2005.

Our international banking relationship and our achievements in this sphere of activities will assume a new dimension in the coming years.

Human Resources
The Bank recruited 557 Staff Assistants and 23 Audit Assistants during the year 2005. Besides, 43 Trainee Staff Assistants to cater to the needs of the Northern and Eastern Provinces will be recruited shortly.

The training programmes for year 2005 have expanded not only in number but also in respect of quality and diversity, based on the needs identified by the Management and the Board of Directors. Accordingly, 189 programmes have been conducted at Central Training Institute (CTI) and in the provinces and have trained 6,529 staff, approximately.

As part of our "Reward and Recognition" scheme, a large number of staff were promoted during the year 2005 to higher grades, thus motivating personnel for better performance.

The process of revised Human Resources Policies were initiated and continued in stages viz. Transfer Policy, Performance Management System, Extensions of Service, Promotion Scheme etc. in order to optimize the efficiency and productivity of the Bank. New policy in respect of extension of service was successfully implemented during the year. Revision of Performance Management Policy was given much attention and was discussed at various forums with a view to ensure balanced and objective evaluation.

Central Back Office
ICBS stands as a testimonial to the Bank's technological orientation towards providing an "all under one roof service" to the customers. Centralization is through an integrated on-line real-time network which is the backbone of ICBS and the operations of Central Back Office (CBO), assures a superior customer service, enabling the Bank to make considerable savings on overhead cost through economies of scale and rationalization of branches.

Around 11 identified back office functions have been centralized at CBO and more functions are to be added along with the ICBS expansion programme. Centralized operations will also enable the Bank to introduce new IT backed products.

Centralized operations at CBO, backed by cost efficiency, performance excellence and superior service quality will no doubt strengthen the Bank's future performances.

Challenges for the year 2006
The Government's development plan enunciated in the Budget Proposals for the year 2006 lay emphasis in developing the small and medium enterprises. The Bank in its role as a catalyst in the national development has launched a new credit scheme "SOOKSHMA" to finance such enterprises to generate employment and alleviate poverty in the less developed regions in the country. The enterprises set up in these regions would attract preferential rates of interest in view of the tax concessions extended to the Bank which would stimulate rural industrialization and reduce regional imbalances in keeping with the Government Policies.

The Bank has also allocated Rs. 1,000 million to the paddy sector for the forthcoming Maha season.

In response to His Excellency the President Mahinda Rajapakse declaring 2006 as the Children's Year, the Bank introduced additional benefits to Ran Kekulu Children's Savings Schemes. According to these new schemes if a Ran Kekulu account is opened for a child born on any day from February 4 to February 28, the BoC will contribute an amount equivalent to the opening deposit up to a maximum of Rs, 1,000/-. The number of Grade V scholarships (each valued at Rs. 10,000/-) offered will be increased from 500

to 1,000 students islandwide, provided there is a minimum balance of Rs.2,500/- in the Ran Kekulu account as at the date of Grade V examination.

The Bank has also declared 2006 as the "Customer Care Year" to focus on special attention to delight customers and also to expand marketing plans to increase the BoC credit card base in 2006 with greater value addition. "Gamata Naya" – a new loan scheme to create employment in the suburban and rural areas is to be implemented in the year 2006. This scheme will provide financial assistance up to 70 percent of the total project cost at preferential interest rates for investments not less than Rs.30 million.

The Corporate Plan of the Bank targets significant growth with prudence over the next few years. The Bank will focus on aggressive deposit mobilization, growth in quality loan portfolio, additional investments on Information Technology system, investment in human resource – all aimed at generating additional revenue to improve Return on Capital Employed (ROCE) and Return on Assets (ROA).

The Bank has taken steps to develop a strong management information system to meet the capital adequacy requirement in Basel II in the year 2008.

With the new collective agreement for the period 2006 – 2008 the Bank would be faced with a challenge in managing its cost/income ratio which is already in excess of the industry average.

The current tax rates, which absorbs almost 60 percent of the profit on ordinary activities, and the payment of dividends to the Government would reduce the retained earnings, the primary source of capital, thus limiting the future expansion of the Bank.

Appreciation

I take this opportunity to express my appreciation and thanks for the dedicated and loyal contributions made by the employees at all levels and the Trade Unions in the Bank and look forward to their continued commitment and support in the years ahead.

I wish to express my sincere thanks to our valued customers, business partners and other global representatives whom we deal with.

I am grateful for the advice and guidance received from the Chairman and other members of the Board of Directors.

My appreciation is also extended to the Secretary to the Treasury and his officials, the Governor of the Central Bank of Sri Lanka and his officials, for their guidance and assistance, the Auditor General and his officials and the Attorney General and his officials for their professional advice.

S N P Palihena
General Manager

16 March 2006
Colombo.

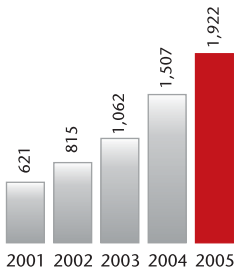
Conducting a workshop for small scale entrepreneurs

Providing support to the small scale dairy farmer

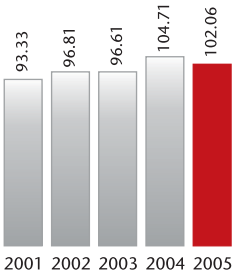
Graphical Review

Economic Indicators

All Share Price Index

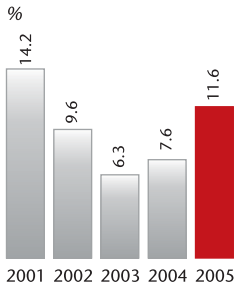


USD/LKR Rate



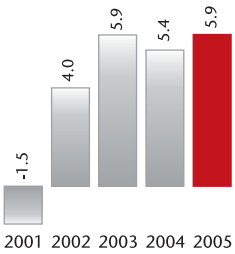
Inflation

%



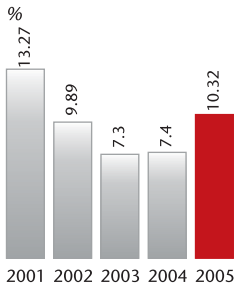
Real GDP Growth

%

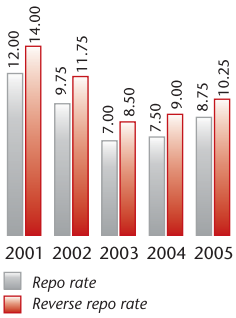


TB Rate (6 Months)

%



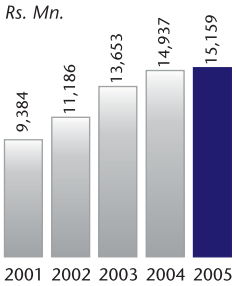
Repo Rate/Reverse Repo Rate *%*



BoC Key Figures

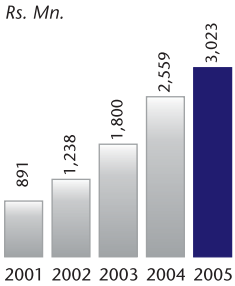
Operating Income

Rs. Mn.



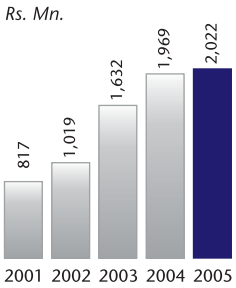
Profit Before Tax

Rs. Mn.



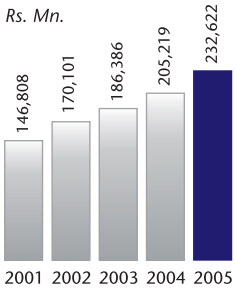
Profit After Tax

Rs. Mn.



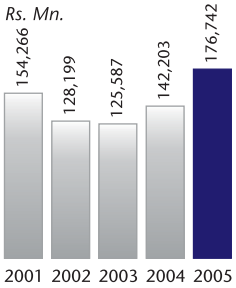
Total Deposits

Rs. Mn.



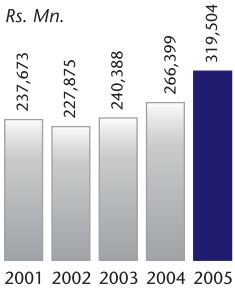
Total Advances

Rs. Mn.



Total Assets

Rs. Mn.



Continuous change. Continuous growth.

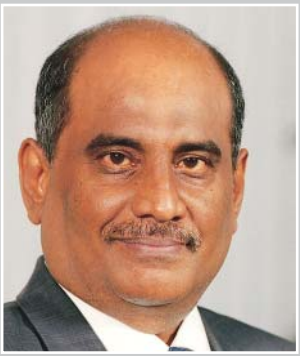
The Board of Directors

Udayasri Kariyawasam
Chairman

Sumith Abeysinghe
Director

Chaminda Kumara Kularatne
Director

Gunaratna Gallage
Director



Raju Sivaraman
Director

Dr. Buddhadasa Kaluarachchi
Director

"The Bank of Ceylon is pleased to announce the appointment of Mr. Udayasri Kariyawasam as its new Chairman. He is a Public Accountant with thirteen years post qualifying experience.

He succeeds Mr. P M Nagahawatte (Chairman, BoC 2004-2005)"

About the Board

Udayasri Kariyawasam
Appointed as Director/Chairman, Bank of Ceylon in December 2005.

Mr Udayasri Kariyawasam is an Associate Member of the Institute of Chartered Accountants of Sri Lanka counting over thirteen years of experience. He is also a member of Certified Practicing Accountants (CPA), Australia and a Fellow of the Society of Certified Management Accountants, Sri Lanka. He is a Senior Member of the Association of Accounting Technicians also of Sri Lanka.

He holds a Bachelor of Science Degree in Business Administration (Special) from the University of Sri Jayewardenepura, Sri Lanka and also holds a Masters Degree in Business (Accounting) from the RMIT University, Melbourne, Australia. He is also a Member of the Association of Certified Fraud Examiners in the USA and a Registered Company Secretary in Sri Lanka.

Mr. Kariyawasam is the Senior Partner of Udayasri Kariyawasam & Company (Chartered Accountants), Chief Executive Officer of U.K. Consultants (Private) Limited, (Company Secretaries & Management Consultants) and Principal Consultant of U.K. Forensic Accountants (Forensic Accountants and Frauds Examiners). He has served as a Governing Council Member of the Association of Accounting Technicians of Sri Lanka and as Commission Member of the Securities and Exchange Commission of Sri Lanka. He had also been a Board Member on the Insurance Board of Sri Lanka.

Mr. Kariyawasam counts over fifteen years experience as a Lecturer in Auditing and Economics at various institutions including the University of Sri Jayewardenepura.

Sumith Abeysinghe
Appointed to the Board of Bank of Ceylon in May 2004 and is the ex-officio director from February 2006.

Mr. Sumith Abeysinghe holds a Bachelor of Arts (Hons.) Degree in Geography (Sri Lanka) and a Masters Degree in Economics (University of New England, Australia). Mr. Abeysinghe functions as Deputy Secretary to the Treasury.

He previously held senior positions in the Ministry of Finance and Planning such as Director General of National Budget, Director of Fiscal Policy and Economic Affairs. He is also an ex-officio Director of Securities and Exchange Commission and the Insurance Board of Sri Lanka.

Chaminda Kumara Kularatne
Appointed to the Board of Bank of Ceylon in December 2005.

Mr. Chaminda Kumara Kularatne holds a Bachelor of Laws Degree (L.L.B.) and is an Attorney-at- Law. He is an Assistant Secretary to His Excellency The President and is the President's Co-ordinating Secretary to the Ministry of Finance and Planning.

Gunaratna Gallage
Appointed to the Board of Bank of Ceylon in January 2006.

Mr Gunaratna Gallage is an Attorney-at-Law by profession. He counts seventeen years practice in civil courts and title work. He also holds a Bachelors Degree in Arts having offered Economics, Political Science and Sinhala for his degree.

He also possesses a Diploma in Education (which is a post graduate qualification). Mr Gallage had been a member of the Compensation Tribunal at People's Bank and a member of the Rent Board of Review for two consecutive terms.

Raju Sivaraman
Appointed as a Director of Bank of Ceylon in January 2006.

Mr. Raju Sivaraman is a Chartered Architect holding a Masters Degree (M.Sc. Arch.) in Architecture and is also a Fellow Member of the Sri Lanka Institute of Architects. He is the Managing Director of Arch – Triad Consultants (Private) Limited, an Architectural Consultancy firm since 1980.

His experience in the field of Architecture and Management runs over 25 years. He is the Associate Consultant of the foreign architectural firm Plan 3 Architects in India. He is also a Director of Ram Developers (Private) Limited and Orient Catering Services (Private) Limited. He is the Hon. Treasurer, Sri Lanka Institute of Architects. He is also the Chairman of the Bank's Audit Committee.

Dr. Buddhadasa Kaluarachchi
Appointed to the Board of Bank of Ceylon in January 2006.

Dr. Buddhadasa Kaluarachchi holds a M.B.B.S. degree from the University of Ceylon, Faculty of Medicine, Colombo. He has served as a Medical Officer in several Government Hospitals in Sri Lanka. He has also been a Company Medical Officer for leading Hotels in Colombo, several International Airlines and had been a Consultant to several Multinational Companies. In addition to being a medical officer to international airlines and five star hotels, he had been involved in their administration and marketing services. He had also been a medical officer to several Embassies and High Commissions. He was a founder director of Asiri Hospitals Limited.

Dr. Kaluarachchi also possesses Post Graduate Training and has worked in the fields of General Medicine, Pediatrics, Chest Medicine and Cardiology in leading National Health Service Hospitals in the United Kingdom. He has also been a General Medical Practitioner (Principal) in the National Health Service in the United Kingdom. Whilst in United Kingdom he has also served as a Consultant to several Multinational Companies and has served as a Clinical Assistant at the regional local hospitals.

Presently, Dr. Kaluarachchi is the President of the Ceylon Association for the Prevention of Tuberculosis (C.N.A.P.T.) and also a Member of the Advisory Council of the Sri Lanka Federation of the Visually Handicapped. He is also a Member on the Board of Management of Colombo Y.M.B.A. and a Member of the Council of The Foundation for Civilian Bravery.

Corporate Management

S N P Palihena

D Weerasinghe

B A C Fernando

N Vignesparamoorthy

J B V Fernando

Ms. W A Nalani

K Dharmasiri

M T Perera

Ms. Kumuduni Kulatunge

M Kiritharan

S N P Palihena
F.C.I.B. (Lond.), F.I.B.(Sri Lanka), P.G.Dip. Bus. & Fin. Admn.
General Manager

Mr. Palihena has had a distinguished banking career extending over 37 years at Bank of Ceylon. He also serves as a Director on Boards of several public/ private companies. Mr. Palihena has wide experience in all aspects of commercial banking, having headed important business units of the Bank of Ceylon. He has also worked at the National Development Bank of Sri Lanka for a period of two and a half years. He is a Fellow of the Chartered Institute of Bankers, UK and a Fellow of the Institute of Bankers, Sri Lanka. He also holds a Post Graduate Diploma in Business and Finance Administration. He has undergone extensive training in key areas of banking and management both in Sri Lanka and abroad.

D Weerasinghe
B.A., Executive Diploma in Business Administration, Dip. Law Relating to International Trade & Practice
Deputy General Manager (International & Treasury)

Mr. Weerasinghe has made a significant contribution during his 38 years career, specializing in Credit, Development Banking, Business Development, and International & Treasury Operations. He was also engaged in several overseas assignments including UK, where he was the Country Manager.

B A C Fernando
F.I.B., MBA., BA.
Deputy General Manager – Branches and Development Banking

Mr. Fernando specializes in credit – both Consumer and Corporate. He has extensive branch banking experience and has contributed significantly in the areas of restructuring and staff training. He counts 35 years of service with the Bank.

N Vignesparamoorthy
F.C.I.B.(London)
Deputy General Manager (Finance & Planning)

Mr. Vignesparamoorthy possesses 38 years of service in the Bank, Mr. Vignesparamoorthy is specialized in areas of International, Treasury, Offshore Banking and Corporate Recovery. He has served previously as the Country Manager, India. He also serves as a Director in several Subsidiaries and Associate Companies of the Bank.

J B V Fernando
A.C.I.B. (London), Exe. Dip. in Business Administration
Deputy General Manager (Inspection/Audit)

Mr. Fernando is an Associate of the Chartered Institute of Bankers' (London) and has obtained a Distinction Pass in the Executive Diploma in Business Administration from the University of Colombo.

Mr. Fernando possesses banking experience spanning over 39 years in the Bank with remarkable contributions to Branch Banking and Developmental Banking. Having held the position of Deputy General Manager in charge of Support Services & Human Resources Development from the year 2001, he assumed duties as Deputy General Manager (Inspection/Audit) of the Bank in the year 2004, which position he holds to date. He is an Associate Faculty Member of the Bank's Central Training Institute and is a Member of the Governing Board of the Institute of Bankers' Sri Lanka. He was a Director/ Member of several Subsidiaries, Associate Companies and Committees of the Bank and is the President of the Bank of Ceylon Sports Club. Mr. Fernando has written several articles to the press and Banking Magazines on varied subjects.

Ms. W A Nalani
F.I.B., B.Phil. (Econ), B.A. (Econ)
Deputy General Manager (Recovery)

Ms. Nalani, having held several senior positions in the areas of domestic banking, credit and recovery management and trade finance, counts over 30 years experience in banking. She has made a significant contribution towards Bank's recoveries and taken a key role in training staff in credit and recovery management.

K Dharmasiri
B.Com. (1st Class Hons.), B. Phil. (Econ.), A.I.B. (Sri Lanka)
Deputy General Manager (Corporate/Offshore Banking)

Mr Dharmasiri possesses 30 years of noteworthy service in BoC. He has an exemplary track record in the domestic as well as overseas banking. He has served as the Country Manager, Maldives and the Managing Director of Nepal Bank of Ceylon Ltd.

M T Perera
F.C.I.B. (London), Exe. Diploma in Business Administration
Deputy General Manager (Support Services)

Mr. Perera counts over 37 years in Branch Banking and International operations. Amongst his present responsibilities, is the Central Back Office which handles the Centralised Processing of Inward Clearing of cheques for over 100 branches. He has undergone training at Barclays Bank London, and completed familiarisation visits to Commerze Bank, Frankfurt, Riggs National Bank, Washington and American Express – New York. He has also served as Deputy Manager London Branch and Country Manager Karachchi Branch.

Mr. Perera is currently the President of the Chartered Institute of Bankers, Colombo Centre.

Ms. Kumuduni Kulatunge
B.A, B Phil., A.I.B., F.I.B., Diploma in Bank Mgmt., Dip. in Per. Mgmt.
Deputy General Manager (Human Resources Development)

Mrs Kulatunaga has over 30 years of experience in operational and human resources area. Has taken a key role in enhancing the training activities in the bank to develop the needed skills of employees. She also has contributed towards development and implementation of the Performance & Potential Appraisal System in the Bank.

She is a member of the Governing Board of the Institute of Bankers' Sri Lanka.

M Kiritharan
Solicitor U.K, Attorney-at-Law and Notary Public – Sri Lanka, Diploma in Business Management
Chief Legal Officer

Mr Kiritharan has more than 29 years service in the Legal Department. He is well versed in Credit Documentation and Banking Law. He was the Chief Examiner in the Institute of Bankers, Sri Lanka, President of the Association of Corporate Lawyers of Sri Lanka, Member of the Bar Council of the Bar Association of Sri Lanka, and a Member of the Law Committee of the Sri Lanka Banks' Association. He also serves as a Director in Merchant Bank of Sri Lanka and Alternate Director in Mireka Capital Land (Private) Ltd. He has undergone training at the International Development Law Institute in Rome, Italy.

Executive Management

B H Dole

Ms. K D M Kodituwakku

D Ediriweera

P J Ratnayake

S Liyanawala

C Samarasinghe

K K D Karunaratne

Ms. D N Wanniarachchi

G M Peiris

H M A B Weerasekara

Ms. K M Wijayatunga

M A Fernando

W A S Wimalaratne

I D Weerasena

W D F Wimalaratne

H M Dhanapala

K Balasubramaniam

Ms. H D Gunawardena

M A P S K Perera

W Somaweera

W U S K Ranatunga

K G Jinadasa

M K Muthukumar

D D W Saparamadu

N Supramaniam

M K Nandasiri

Ms. W K Samarasinghe

N B Basnayake

K D Wimalasena

S M Pothupitiya

Ms. B C D Wijeyakulasuriya

Ms. Nelum Perera

R U D S Dharmawickrema

Ms. Y A M M Karunadharma

Ms. S W S Fernando

M Jayawardena

M R D Thilakasiri

Continuous change. Continuous growth.

Operations

Continuous change.
Continuous growth.
The chrysalis transforms into a butterfly, ready to fly forth into the world.

Management Discussion & Analysis

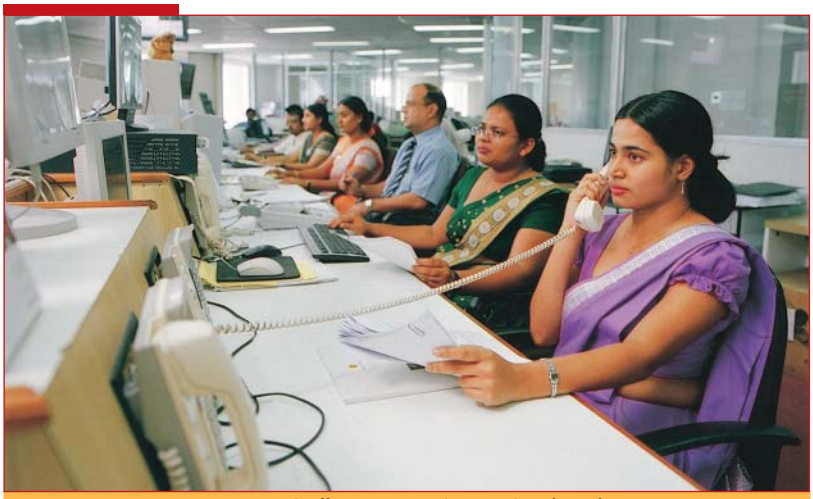
Overview

Bank of Ceylon is the first State owned commercial bank in Sri Lanka established on 1st August 1939. The Bank holds a premier position in Sri Lankan financial market with AA(sri) rating by Fitch Ratings Lanka Ltd. Despite aggressive competition from peer banks, Bank of Ceylon maintains its market leadership in deposits, NRFC Accounts, inward foreign exchange remittances, offshore banking, treasury products and micro-banking. The local branch network, strategically located island-wide, increased by 4 to 301 offering efficient banking services. Further, there are 211 ATMs including 107 of the Sampath Bank, under the Lanka Electronic Access Point (LEAP) scheme for the use of our customers. The Corporate Banking Unit continued to make a significant contribution to the Bank's profit and accounted for a major part of the Bank's advances portfolio. The bank retained its market leadership in Treasury Operations.

Results of Operations

Despite the Post Tsunami exchange rate drop caused heavy exchange losses, the Bank posted a profit before tax of Rs. 3,023 million in 2005, representing an 18 % increase from profit before tax of Rs. 2,559 million in 2004. Earning per share for 2005 was Rs. 505.52, compared to Rs. 492.34 for 2004. The Bank's improving profitability in 2005 resulted in an increase in ROA to 1.03%, from 1.01% in 2004.

Operating Results	2005 *Rs. Mn*	2004 *Rs. Mn*	2003 *Rs. Mn*
Total Income	27,126	23,957	22,805
Interest Income	20,560	16,609	17,040
Net Interest Income	9,362	8,353	8,602
Net Fee Income	1,640	1,514	1,425
Foreign Exchange Gain	1,014	1,781	707
Other Operating Income	3,144	3,289	2,918
Operating Income	15,159	14,937	13,653
Operating Expenses	11,024	9,999	9,314
Share of Profit from related companies	477	506	474
Profit Before Provision	4,612	5,445	4,813
Provision for Loan Losses	1,589	2,886	3,012
Profit Before Tax	3,023	2,559	1,800
Corporate Income Tax	1,001	589	168
Profit After Tax	**2,022**	**1,969**	**1,632**



BoC offers access to international markets

"Despite the Post Tsunami exchange rate drop caused heavy exchange losses, the Bank posted a profit before tax of Rs. 3,023 million in 2005, representing an 18% increase "

Interest Income and Expenses	2005 Rs Mn	2004 Rs Mn	2003 Rs Mn
Interest Income			
Customer Advances	13,042	10,105	9,840
Investment & Dealing Securities	1,420	1,833	2,958
Placements with Other Banks/ST funds	3,766	2,338	1,909
Government Bonds	2,333	2,333	2,333
Total	**20,560**	**16,609**	**17,040**
Interest Expense			
Time Deposits	4,372	3,506	3,613
Savings Deposits	2,985	2,746	2,500
Fund Borrowings	3,838	1,995	2,314
Others	4	10	11
Total	**11,199**	**8,256**	**8,438**
Net Interest Income	**9,362**	**8,353**	**8,602**

Net Interest Income

Net interest income in 2005 was Rs. 9,362 million, in 2005 which represented a 12% increase over the net interest income of Rs.8,353 million in year 2004. The increase in net interest income in 2005 was mainly due to the increased interest income from expanded lending and lower interest expenses resulting from better deposit mix.

Interest income was derived from the Bank's loan portfolio, marketable securities portfolio including Government bonds, and placement with other banks. In 2005, interest income, amounted to Rs. 20,560 million, representing a 24% increase from Rs. 16,609 million in 2004. The increase in interest income is mainly due to the increased interest received on overdrafts, interest received from Hypothecation loans, and interest received on Ransurekum loans. The interest income earned on short term funds in 2005 was Rs.3,766 million which represented an increase of 61% over the income of Rs. 2,338 million in 2004. The main reason for this was the higher interest income from increased Treasury Bill portfolio in comparison with 2004.

Interest expense comprises interest paid on the Bank's time deposits, savings accounts, fund borrowings and other interest bearing liabilities. Interest expense amounted to Rs.11,199 million in 2005, compared to Rs. 8,256 million in 2004. This increase of 36% could be attributable to increase in interest-bearing liabilities.

Other Operating Income

Other operating income comprises fee-based income from non-credit related transactions and other banking services, recovery of non performing advances, net gains on sale of marketable securities as well as gain from foreign exchange transactions. Net Fee based income in 2005 amounted Rs. 1,640 million, representing an 8% increase from Rs. 1,514 million in 2004. Recovery of non performing advances increased by 15% from Rs. 1,536 million in 2004 to Rs. 1,776 million in 2005. The Recovery Unit which focuses on the recovery of large non-performing loans continues to produce results that exceed expectation. Foreign exchange income in 2005 amounted to Rs. 1,014 million representing a 43% decrease from Rs. 1,781 million in 2004 due to appreciation of Rupee against US Dollar. Post Tsunami exchange rate drop which was observed in early January was much stronger than general rupee depreciation that prevailed during the rest of the year.

Operational Expenses

Operational expenses, exclusive of provision for loan losses and loss from decline in fair value of marketable securities and inclusive of Value Added Tax on Financial Services, amounted to Rs.11,024 million in 2005, representing an increase of 10% from Rs. 9,999 million in 2004.

Personnel cost reduced from Rs. 5,163 million to Rs. 5,104 million due to reduction in bank contribution towards employee tax and high retirements than recruitments. Staff retirement benefits increased from Rs. 1,375 million to Rs. 2,049 million representing an increase of 49%. The higher staff retirement benefits were the result of the increase in contribution rates from 48% to 56.76%.

General and administrative expenses increased from Rs.1,129 million to Rs. 1,243 million. The increase was also attributable to higher promotional expenses related to the socialization of the Bank's new products.

Provision

The Bank set aside Rs. 1,589 million in provision for earning assets losses (NPL's) in 2005, to reduce the net exposure on non performing loan portfolio and loss provisioning expenses in 2004 were Rs. 2,880 million. The bank provisioning for the non-performing loans reflected a decline in transferring of Bank's regular loans to non-performing category as well as the continuing progress on loan assets restructuring by the Bank during 2005.

Financial Position

The Bank has recorded a milestone in Sri Lankan Banking Industry by becoming the first commercial bank having assets in excess of Rs. 300 billion. As at December 31, 2005, the Bank's total assets were Rs. 319,504 million, representing an increase of 20% from Rs. 266,399 million in the pervious year. The increase in total assets resulted from a significant increase in the Bank's gross loans outstanding, placement with and loans to other banks and investment securities mainly in bonds and securities.

Interbank Placements

Interbank Placements constitute one of the Bank's liquid assets, representing its treasury engagements in the interbank money market as part of the Bank's liquidity management program. As at year-end 2005, net interbank placements totaled Rs. 36,851 million, a increase of 35% from Rs. 27,362 million in the previous year. The increase in interbank placements was largely the result of the Bank's treasury strategy to enhance margins by placing its liquid funds in interbank money market opposed to investing in other markets.

Investment Securities

At the year-end 2005, the Bank held Investment Securities amounting to Rs. 26,871 million, reflecting a significant increase of 23% from Rs. 21,828 million a year earlier, mainly as a result of the increase in bonds, warrants and other securities which represented increased value of Rs.5,042 million over the year 2004 reflected the bank's increased dependency on Government bonds.

Loans & Advances

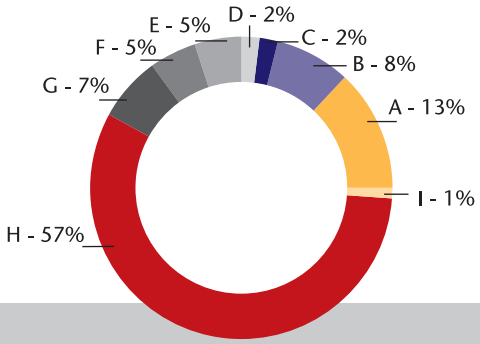
The Bank had total outstanding loans amounting to Rs.176,066 million as at year-end 2005, which represents a growth of 25% from Rs.141,075 million the previous year. The significant increase in loans and advances mainly due to the increased in Government, Government Corporation, Ransurekum advances. The Bank continues to offer new products and value addition to the existing products to its customers. The Bank has been the pioneer in introducing new loan products eg. SMILE 3, E-Friends and Value Added Credit Cards that continues to do so in keeping with the changing needs in the market place.

The Bank's loans continue to be fairly well-diversified among the major sectors of the economy, with loan to Exports & Imports, wholesale and retail trade and consumption and others accounting of 13%, 8% & 57% respectively, of the total loan portfolio.

During 2005, SME and consumer loans (including credit card loans) were the focus of the Bank's lending and accounted for 57% of total loans, while corporate and commercial loans accounted for 13%. In 2004, the corresponding percentage figures were 39% and 30% respectively. The progressive change in the Bank's loan composition is evidence of the Bank's move towards being a leading bank in the retail market segments.

A	Exports and Imports	13%
B	Wholesale and Retail Trade	8%
C	Banking, Finance and Insurance	2%
D	Agriculture and Fisheries	2%
E	Manufacturing	5%
F	Hotels, Travels and Services	5%
G	Housing, Construction & Property Development	7%
H	Consumption and Others	57%
I	Foreclosed Properties	1%

Credit Concentration
- Economic Sector Risk Concentration



Balance Sheet of the Bank *Rs. Mn*	2005 *Amount*	 *% of Total*	2004 *Amount*	 *% of Total*	2003 *Amount*	 *% of Total*
Assets						
Cash on Hand	3,863	1.2	3,713	1.4	3,570	1.5
Balances with Central Banks	13,937	4.4	12,480	4.7	7,945	3.3
Other Liquid Assets	66,342	20.8	55,241	20.7	42,269	17.6
Government of SL Restucturing Bonds	17,883	5.6	17,883	6.7	17,883	7.4
Gross Loans & Advances	176,066	55.1	141,340	53.1	125,661	52.3
Provision for Loan Losses	(10,313)	(3.2)	(10,707)	(4.0)	(12,178)	(5.1)
Investment Securities	26,871	8.4	21,828	8.2	26,781	11.1
Non Interest Earning Assets	24,855	7.8	24,620	9.2	28,457	11.8
Total Assets	319,504	100.0	266,399	100.0	240,388	100.0
Liabilities & Shareholder's Equity						
Customers Funds	232,021	72.6	204,633	76.8	185,850	77.3
Deposits from Other Banks	506	0.2	531	0.2	451	0.2
Fund Borrowings	62,036	19.4	35,578	13.4	27,508	11.4
Non Interest Bearing Liabilities	8,758	2.7	10,309	3.9	12,259	5.1
Total Liabilities	303,321	94.9	251,051	94.2	226,069	94.0
Shareholders' Equity	16,183	5.1	15,348	5.8	14,320	6.0
Total Liabilities & Stockholders' Equity	319,504	100.0	266,399	100.0	240,388	100.0

The Bank's NPLs (category overdue, substandard, doubtful and loss) have decreased to Rs. 12,495 million in 2005. The ratio of NPL to total loan outstanding has reduced to 7.1% from 9.8% in 2004. In line with prudent provisioning standards, the Bank has made a sum of Rs. 1,589 million as loan loss provision during the year 2005, making the total provision for loan losses as at 31 December 2005 to Rs. 10,313 million as measured by the ratio of provision for loan losses to NPL remains at a conservative level of 83%, compared with 77% in 2004.

The Bank continues to prudently monitor non-performing loans and build-up reserves in order to protect itself against uncertain economic condition. In accordance with the Bank's conservative management philosophy, the Bank's provisioning policy results in larger allowances than those required by Central Bank regulations.

Loan Loss Allowances *Rs. Mn*		*2005*	*2004*	*2003*
Provision for Loan Losses	Rs. Mn	10,313	10,707	12,178
Provision for Loan Losses /NPLs	%	82.5	77.3	67.6
Provision for Loan Losses /Gross Loans	%	5.9	7.6	9.7
Provision for Loan Losses /Shareholder's Equity	%	63.7	66.2	75.3

Liabilities

Total liabilities as at December 31, 2005 increased by 21% to Rs. 303,321 million from Rs. 251,051 million as at December 31, 2004. This increase was primarily due to increase in deposits and increase in other borrowed funds. During the year under review, BoC was able to obtain the largest syndicate facility amounting to US$ 130 million (Rs. 13 billion).

Meanwhile, shareholder's equity rose from Rs.15,348 million in 2004 to Rs. 16,183 million as at year-end 2005, reflecting the increase in the Bank's share capital and Bank's retained earning account as a result of profitable operations during the year.

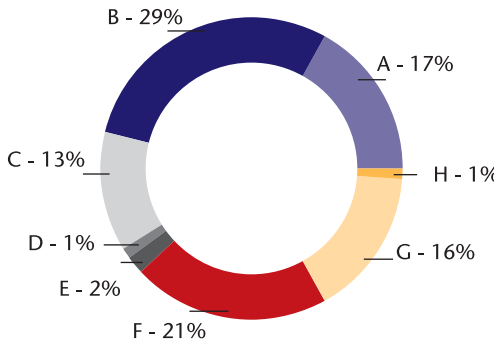
Funding

Deposits from customers constitute the main source of funding for the Bank. As such, the Bank has always placed a strong emphasis on maintaining an effective and sufficient level of third-party funding to meet its lending, interbank transactions and treasury activities.

Total third-party funding amounted to Rs. 232,526 million at year-end 2005, representing a increase was primarily the result of the Bank's efforts to improve deposit mix by successfully marketed product to the public.

A	Current Accounts - LKR	17%
B	Savings Deposits - LKR	29%
C	Time Deposits - LKR	13%
D	Others - LKR	1%
E	Current Accounts - FCY	2%
F	Savings Deposits - FCY	21%
G	Time Deposits - FCY	16%
H	Others - FCY	1%

Deposit Mix



The amount of total savings increased by 18.66% to Rs.117,055 million as at year-end 2005, from Rs.98,647 million in 2004. The improving level of total savings has been the result of the Bank's marketing efforts, in particular by carefully targeted promotions, the launch of the Bank's new logo enhancements to the Bank's ATM and branch offices, as well as the value-added services from new facilities such as the connecting ATM of the Sampath Bank. The Bank's demand deposits also increased by 30% to Rs. 44,054 million as at year-end 2005 from Rs. 33,839 million in 2004, mainly reflecting the increase in both the number of accounts and also balances in the current accounts maintained by the customers.

The Bank's third-party funding composition has shown a marked improvement, with time deposits accounting for only 29% of total third-party funds in 2005, as against 34% in 2004. The contribution from demand and savings accounts consequently increased to 19% & 50% in 2005 from 16% & 48% in 2004. (Total demand and savings deposit improved to 69% in 2005 from 64% in 2004)

Funds borrowing

The amount of funds borrowing as at year-end 2005 amounted to Rs. 62,036 million, an increased of 34% from Rs. 35,578 million the previous year. The significant increase was attributable to the borrowing funds from financial institutions in Sri lanka and abroad and securities sold under repurchase agreements.

Capital Adequacy Ratio (CAR)

The Bank's regulatory capital ratio continued to remain healthy. Total CAR for the Bank stood at 13.18.% as at year-end 2005, higher than the Central Bank of Sri Lanka minimum requirement of 10%. Total Capital Adequacy Ratio in 2005 is greater than the 2004 level of 12.44%. The increase is attributable to initiatives in optimizing the Bank's earning asset composition, in particular through the expansion in loan portfolio – which carry a zero or less risk-weighted factors as well as the increase in tier 1 and tier 2 capital components.

Net Exposure in Credits (NEC)

The Bank's net exposure in credit as against the shareholder's equity was reduced to 13.48 % as at year-end 2005 from 20.47 % in 2004, hence further reducing the risk associated with the net exposure in credit. The Bank has consistently managed the NEC ratio, well below the industry norms.

Risk Management

The Bank had developed comprehensive risk management policies and procedures that provide sufficient risk monitoring and control capabilities concerning credit risk, currency risk, liquidity risk, interest rate and operational risk. A more detailed discussion on risk management is presented in a separate chapter on this Annual Report beginning on page 35.

Challenges for the year 2006

The bank has identified its challenges for the year 2006 and a detailed discussion in this regard is presented under the General Managers Review of operations.

Key Financial Data of the Bank *Rs. Mn, except for ratios and per share data*	*2005*	*2004*	*2003*
Operating Results			
Total Income	27,126	23,957	22,805
Net Interest Income	9,362	8,353	8,602
Total Operating Income	15,159	14,937	13,653
Net Profit Before Tax	3,023	2,559	1,800
Provision for Taxation	1,001	589	168
Dividend	1,150	1,000	673
Per Share Data (Rs)			
Earnings per Share	506	492	408
Net Assets per Share	4,046	3,837	3,580
Profitability Ratios (%)			
Return on Average Assets (before tax)	1.03	1.01	0.77
Return on Average Equity (after tax)	12.83	13.28	12.48
Net Interest Margin	3.20	3.30	3.67
Cost to Income	73.48	66.83	70.97
Fee to Operating Income	10.82	10.13	10.44
Balance Sheet Data			
Total Assets	319,504	266,399	240,388
Gross Loans & Advances	176,066	141,075	125,484
Non-performing Loans	12,495	13,848	18,006
Net Non-performing Loans	2,182	3,142	5,828
Deposits from Customers	232,526	205,164	186,301
Shareholder's Equity	16,183	15,348	14,320
Assets Quality Ratios (%)			
Loans to Deposits Ratio	75.72	68.76	67.36
Provision for Loan Losses /Non-Performing Loans	82.54	77.31	67.63
Provision for Loan Losses /Total Loans	5.86	7.59	9.70
Net NPLs / Shareholder's Equity	13.48	20.47	40.70
Statutory Ratios (%)			
Capital Adequacy Ratio			
Tier I Capital	12.67	12.33	12.11
Tier I & II Capital	13.18	12.44	13.11
Liquid Assets Ratio	26.87	23.82	25.34

Human Resources

Recruitment
Our recruitment practices look for dynamic young individuals who will be groomed to become future leaders. Positive attitudes, leadership, organizational skills and computer literacy are key to these new recruits, as they would need to be geared to face a challenging environment.

During the year, 580 new recruits were taken in, majority being the trainee staff assistants. Arrangements are already underway to recruit Tamil-speaking staff assistants to Northern and Eastern Provinces in order to cater to the needs of the locality. All new recruits will be deployed to strengthen our branch network and different departments in Head Office.

Training and Development
In the face of changing and highly challenging environment, training for current and future needs seem to be the only way to gain an edge over our competitors. In this regard the training division took the initiative to keep our staff continuously focused on the new developments of the industry as well as other areas of concerns.

During the year 189 programs have been conducted at the Bank's Central Training Institute (CTI) where approximately 6529 staff members were trained in diverse areas of interest. Many were also given the opportunity to attend programs conducted by outside institutions both locally and abroad. New recruits and new promotees were given induction training while they are to go through on- the-job training for a considerable period of time.

Welfare
The Bank's Recreation and Welfare Club had another busy year. The year started with various programs to assist those who were affected by the Tsunami disaster. Welfare club together with the religious societies, trade unions and the management carried out various programs to help the staff members and their families who were affected as well as the general public.

A blood donation camp was organized to mark the 66th anniversary while the long service award ceremony was organized to recognize the services of 581 staff members.

Apart from these activities the Bank has provided its staff with numerous other facilities to uplift the quality of life. Two well-stocked libraries are maintained while the two gymnasiums help to maintain the physical fitness. The Bank also maintains two pilgrim's rests and five holiday bungalows for the vacations of the staff.

Managers' Conference at Colombo

The medical center maintained at the head office is another valuable service to the members. Space is also provided for the religious activities in Head Office.

People who excelled
Very impressive achievements were recorded from the areas of sport during the year 2005. An inter bank sports festival was held in August and September where five outdoor games and four indoor games were held. More than 1000 players from 15 leading banks took part in this event where Bank of Ceylon emerged the overall champion with the highest number of points.

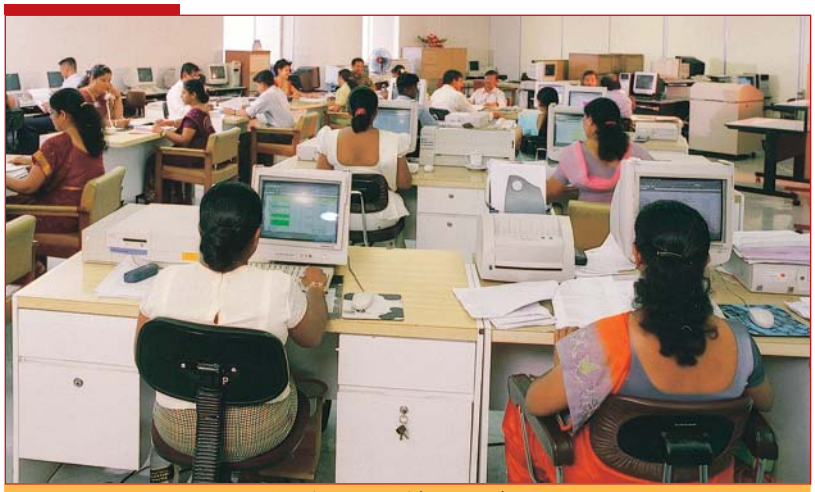
Sports club organized a tour to Chennai on the invitation of an Indian Bank for the carom and table tennis players. The team comprised eleven men and nine women. They had the opportunity of playing against some world ranking players in both games.

Inter province indoor and outdoor tournaments were held and participation from provinces was encouraging.

Service Analysis of the Staff as at December 31st 2005

Service (Years)	Corporate & Executive Mgt	Chief Managers & Senior Managers	Branch Managers & Asst. Managers	Executive Officers & Officer Trainees	Junior Executive Officers	Staff Assistants	Others	Total
Over 25	45	133	718	884	1,606	484	624	4,494
21 – 25	-	27	63	218	731	320	717	2,076
16 – 20	-	10	41	18	31	12	362	474
11 – 15	1	5	68	31	115	35	74	329
6 – 10	-	1	36	41	96	193	84	451
Below 5	-	-	-	132	-	734	201	1,067
	46	**176**	**926**	**1,324**	**2,579**	**1,778**	**2,062**	**8,891**

A Year of Technological Transformation



Keeping pace with IT trends

The 20th century earmarked the world history as the era of information. Among the Sri Lankan banking community Bank of Ceylon pioneered the first automation project in the year 1980. After quarter of a century with the much needed support from all stakeholders particularly employees at all levels, led by a Steering Committee comprising members of Corporate Management, the implementation of the new core banking system and treasury system progressed through out the year making the year 2005 "year of technological transformation" for Bank of Ceylon.

Commencing from the pilot stage at the beginning of the year, which comprised 10 branches, the new core banking system with centralized online real time processing and data storage facilities linked 100 fully-fledged branches by July 2005 and 133 branches plus 24 extension offices by the end of the year.

Core Banking System

Over the years even before the advent of the Internet, BoC has been using many systems during which time the interconnectivity was not an issue. By 2004, there were 5 different systems running. Viz. Uni -Bank, Micro banker, Finacle, AS 400 and Nixdorf scattered across the branch network leaving small branches in-between still operating manually. Apart from 18 branches that were connected to Unibank network; others were stand-alone systems leaving the bank-wide consolidation of the general ledger a tedious task.

In September 2004, the new core banking system, International Comprehensive Banking System (ICBS) started its pilot implementation. With its success at the pilot stage, the bank started the rollout for the branch network without delay. Working on IBM AS400 platform, ICBS is a product of Fiserv Inc, USA and the implementation was co-ordinated by their regional office at Singapore.

Designed to capture information from front-end to back-end, ICBS replaces general ledger based information system with multi-dimensional report generation. ICBS's Customer Interface helps build customer loyalty and trust by capturing relevant information and presenting a single customer view in real time across all channels island wide. It provides a total view of customers' demographic and financial information enabling the bank to identify market trends, sales opportunities and areas of risk. ICBS's Event Management Interface helps the bank to automatically search for sales opportunities by identifying and responding appropriately to predefine life cycle events. Automating many of the labour intensive back office functions traditionally associated with the administrative, accounting and maintenance of liability products, the ICBS enables the bank to reduce administrative cost thereby enabling the bank to compete in pricing and sustain its market leadership in the years to come.

The implementation schedule of ICBS was formulated by the Steering Committee and with the blessings of all the stakeholders the project was successful in terms of scope, cost and time frame. ICBS is due to link the entire domestic branch network of the bank by the end of 2006.

Treasury System

The new treasury system is the Integrated Treasury Management System (ITMS). Built on Sunsolaris platform ITMS is a product of Synergy Login Systems Limited of India. It went live in March 2005. The ITMS system provides the required tools for monitoring foreign currency exposures and risk management. The ITMS facilitates provision of on-line risk management reports for MIS purposes. Also ITMS provides support for management of Bank's large fixed income securities portfolio. It provides dealers with real time details for dynamic cash flow management and exposure management.

Other Automated Systems

Apart from the above systems, Bank has many other supporting systems. Trade Finance System, which is called Unitrade, is also ageing and a new trade finance system called Bank Trade is due to be implemented during the year 2006. Testing is already in progress to interface with ICBS. Integrated Human Resources Management System is also running on IBM AS400 platform, which incorporates all salary processing, and credit facilities granted to staff members. Procurement & Properties Division is also automated under a system called System 21 encompassing the entire supply management process and maintenance of fixed assets register. Processing of credit cards and ATM cards are also automated and running on two different systems. International Division uses Swift system, which also facilitates RTGS transactions. All these systems are interfaced to ICBS for the processing of general ledger transactions.

Expanding Delivery Channels

Bank currently owns a network of 104 ATM's. Apart from connectivity to the world-wide Visa Electron network, BoC ATM's are linked to Sampath Bank ATM network making a local network of 211 ATM's. Also the bank is negotiating with Hatton National Bank for network sharing. Bank has already contracted to purchase 100 ATM's which is due to be installed in the year 2006.

During the year 2005, BoC launched its E banking service. Targeting the migrant workers in the Middle East, BoC e-Cash service and Xpress money service enable them to remit their earnings within 24 hours to any branch of BoC.

Risk Management

Introduction
Due to increasing sophistications in the financial markets, severe competition and new product profiles, Banks are exposed to different types of risk. Being the leading Bank in Sri Lanka, Bank of Ceylon with its diverse product profile catering to the multiple banking needs of the country, faces the challenge of managing the risk prudently. Bank has already acquired state of the art software systems and along with competent staff, Bank is in a position to manage the risk exposure effectively and efficiently.

This process has been followed by the Bank during the last few years and the process has evolved to an extent which can be considered as a dependable stance for the Bank, in relation to its risk profile.

Liquidity Risk Management
The Bank manages its liquidity risk through its Asset Liability Management Unit. In this regard bank's main concern is to maintain its ability to meet obligations as they become due, and to reduce the probability of developing an irreversible adverse situation in the liquidity position.

Day to day statutory reserve management and other short term means of liquidity management are performed by the Bank's Treasury as a centralized process. Bank monitors the statutory liquid asset ratio and other regulatory ratios in order to keep them within the stipulated range.

The Asset Liability Management Unit analyzes the liquidity position of the Bank on a regular basis taking cognition of the following factors.

- Historical funding requirements
- Customer liquidity positions
- Forecasted future funding requirements
- Potential sources of funds
- What options are there to reduce funding needs
- Determining the present and anticipated future asset quality
- Present and future earnings capacity
- Past and present capital position

Besides the liquidity management in the short term, the Bank uses the maturity profiles of its assets and liabilities to manage the liquidity risk by controlling gaps in different maturity levels. The Asset Liability Management Committee (ALCO) of the Bank takes decisions on the levels of appropriate gaps in maturity buckets. Thus the Bank has a comprehensive methodology in managing the liquidity risk.

Credit Risk
Financial loss arises from the failure of a customer or counterparty to meet the obligations under a contract, basically on lending, trade finance, treasury or leasing activities can be categorized as credit risk.

Credit policy of the Bank is formulated by the Credit Policy Committee and accordingly, there is a credit risk management process which involves the delegation of approval authorities, controlling and monitoring of exposures, portfolio management of risk concentration and adhering to single borrower limits. Review of credit approval process is also a main duty of the Credit Policy Committee.

Quantification of credit risk exposures, specially on corporate lending have been done with the help of a credit rating system specially derived at the Bank, which evaluates the credit risk of different customers according to a scale. The bank has stringent loan loss provisioning policy which provides far in excess of the Central Bank minimum requirements.

Operational Risk
The risk arising due to deviation from normal and planned functioning of systems, procedures, processes, human failures of omissions and commissions and losses due to any other external events, can be categorized as operational risk. The importance of managing this risk has been recognized in Basel II, which requires specific capital allocation in terms of operational Risk.

Since the operational risk exists almost everywhere in the organization, the bank through its internal control procedures enforces the operational risk management process. Throughout the year, Bank's regulatory compliance has been looked after by the Compliance Officer of the Bank.

Disaster Recovery Management process
This process has been established by the bank, in consultation with various business units of the Bank in order to face contingencies at an unexpected natural disaster or any calamity.

Since it is instrumental in mitigating the operational risk, Bank has already formulated a Business Continuity Plan (BCP). Under this process; effective tools and techniques for exercising crisis management plans have been introduced. This includes strategies, policies and procedures to prevent, respond and recover from a disaster. In addition, the Bank has already commenced operationalization of BCP with the collective participation of staff concerned, in order to communicate this concept throughout the Bank.

Market Risk
Changes in market interest rates may result in adverse effects on banks earnings and the economic value of the

assets. The Asset Liability Management Unit is concerned about the management of both these aspects of interest rate risk. (Difference of Interest income and interest expenses as a percentage of earning assets will give the net interest margin). Monitoring the Net Interest Margin in order to keep it within a certain limit, ensures the proper management of the earning perspective of interest rate risk. ALCO decides on the levels of rate sensitive gaps which have to be maintained in different maturity buckets.

To ensure the stability of the economic value of the bank's assets, continuous evaluations of trading portfolios have been carried out in terms of prices/rates prevailing in the market. Volatility of market parameters poses a threat on the value of these portfolios. Evaluations are done frequently through modified duration method and value at risk method, to monitor the situation; and appropriate action is taken to rectify any adverse situations.

Since the Bank is a prominent player in the international market, it inevitably carries Forex positions, Trading and Fixed Income positions. As a result, the Bank is exposed to exchange rate /price risk. Continuous evaluation of forex positions and marking to market of trading portfolios have been done on these positions in a daily basis through our automated system and with respect to all positions, the Value at Risk (VaR) figures have been calculated by the Risk Management Unit in the Treasury Middle Office.

VaR is a technique which estimates the potential losses that would occur on different positions taken, due to the fluctuations in market interest rates, equity prices, exchange rates, etc. over a specified time horizon, and, in relation to a given level of confidence. In the bank this is calculated through variance/covariance method on the basis of historical movements in market rates and prices.

In VaR calculations following basic assumptions have been made:

- all risk parameters follow a normal distribution
- use of a 10 day holding period, assumes that all positions can be liquidated or hedged in 10 days.
- Use of a 99% confidence level, which does reckon any losses beyond this level.

Though these limitations are on, VaR method can be considered as the best available method for market risk calculations.

Using the VaR model to evaluate risk exposures, enables the Bank to control its market risk arising from foreign exchange positions as well as other positions on a daily basis.

Basel II Implementation

Central Bank of Sri Lanka is ready to implement Basel II regulations in the year 2008 and the Bank has taken necessary steps to be prepared for this process.

Market risk evaluation and allocating a capital charge on market risk is mandatory under these regulations. Further the credit risk of the Bank has to be evaluated under the standardized approach to estimate the capital allocation. Basic indicator approach has to be followed in arriving at a capital charge for operational risk. With the active participation of the Bank in the Basel II implementation committee formed by the Central Bank of Sri Lanka, Bank is successful in implementing these regulations within the stipulated time schedule.

Corporate Governance

Safeguarding the interests of the stakeholders
Corporate Governance is the method by which an institution is directed, administered or controlled. Good governance will ensure that the principal participants of an institution viz. its Management and the Board of Directors will pursue objectives that would be in the best interests of the institution.

The framework for Corporate Governance should be so designed to ensure that timely and accurate disclosure is made on all material matters relating to the institution including its financial situation, performance, ownership and governance. Such framework should also promote transparency and efficiency and be consistent with the rule of law. It should also clearly specify the division of responsibilities between the supervisory, regulatory and enforcement authorities and should ensure that it encompasses strategic guidance of the institution, the effective monitoring of the management by the Board and the Board's accountability to the institution and its shareholders. Thus, the Board should ensure good corporate governance by taking collective responsibility for the direction and control of the institution and be responsible for establishing and adding value to their institution.

Absence or erosion of good governance would affect the interests of the institution and its stakeholders and would not be able to mobilize the institution's resources to the optimum. Particularly in public sector institutions, Corporate Governance focuses on delivering cost effective services and implementing programmes and reforms in keeping with the aspirations of the Government and its policies.

At Bank of Ceylon, the Board of Directors and Corporate Management recognize the need for good Corporate Governance to deliver quality-banking services and build long-term stakeholder value. In a dynamic business environment, the Bank remains committed to strong governance and holds the view that strengthening of Corporate Governance is a continuous process.

The practices the Bank has adopted are the ones that are considered to be the best to suit its objectives and this statement describes amongst others the structure, processes, and procedures of governance followed at Bank of Ceylon.

Board of Directors
The management and administration of the affairs of the Bank are vested in the Board of Directors who may exercise, discharge or perform the powers, functions or duties of the Bank for the purpose of carrying on business and administering the affairs of the Bank.

Arising therefrom and amongst others, specific responsibilities of the Board include the following -

- Providing strategic direction, approving corporate strategies and annual budgets and monitoring performance.
- Appointing of staff based on the requirements of the Bank.
- Ensuring that adequate skills and knowledge are being acquired by staff at all levels.
- Setting financial and other targets and monitoring financial and management performance.
- Ensuring that adequate risk management and reporting systems are in place and are being maintained.
- Ensuring that applicable laws and regulations have been complied with.
- Ensuring that appropriate accounting policies are adopted in the preparation of Financial Statements for publication.

The Board has derived these powers by virtue of the Bank of Ceylon Ordinance (Chapter 397) and its amendments, which Ordinance provides for the establishment and regulation of a state aided Bank. Bank of Ceylon, which was established under the above Ordinance commenced its operation on 01.08.1939. The Bank was subsequently nationalized in July 1961 at which stage, the Government of Sri Lanka became the sole shareholder by acquiring the shares held by the public.

In terms of this Bank of Ceylon Ordinance, the Board of the Bank consists of six directors appointed by the Minister to whom the subject of finance is assigned. One such director shall be a representative of the Ministry in-charge of the aforesaid Minister. Such Minister shall also appoint one of its appointed Directors as the Chairman of the Board. All the Directors are non-executive and bring in a wide range of skills and experience to the Board.

The sole shareholder of the Bank viz. the Government of Sri Lanka follows a policy of non-interference in the day-to-day operations of the Bank. This permits the Bank to maintain a healthy economic and business focus.

Board Meetings
The Board generally meets once a month. In addition, special meetings are also held as and when required. During the year under review, the Board met 25 times and the Directors average attendance at Board Meetings was in the region of 80%. Directors are furnished with monthly reports on the performance of the Bank and necessary documents are generally made available well in advance for

each meeting. Directors also have direct access to members of the Corporate Management and the services of the Secretary to the Board to facilitate them to discharge their duties.

Corporate Management
Even though the Board of Directors is responsible for the operations and financial soundness of the Bank, the overall responsibility for executive decisions, administration and operations rest with the Corporate Management of the Bank headed by the General Manager who is appointed by the Board of Directors with the prior approval of the Minister to whom the subject of finance is assigned.

The Bank has a clear policy on the delegation of authority, and the staff down the line to whom such authority have been delegated are fully accountable to the Board.

Audit Committee
This Committee, which is a sub-committee of the Board is effectively the device through which internal control is executed. Its overall objective is to manage operational risk by maintaining a system of internal controls and by ensuring that formal information channels function smoothly. Its main duty is to review and make recommendations to the Board on all aspects of audit and financial reporting process.

The Audit Committee has a charter as well as a laid down terms of reference. The terms of reference spells out clearly the authority and the duties of the Audit Committee.

During the financial year under review the Audit Committee, which comprised of three non-executive Directors and had met five times.

The Report of the Audit Committee is set out on Page 48 of the Annual Report.

Management Committee
The Management Committee, which is a sub-committee of the Board comprised of three members during the financial year under review, and had met four times during this period.

The General Manager and the Chief Financial Officer attended meetings by invitation. Members of the Corporate Management, Consultants and other officers were invited to meetings as and when required. The Secretary to the Board is the Secretary to the Committee.

The responsibilities of the Committee among others include reviewing matters pertaining to staff discipline, elimination of wasteful expenditure and reviewing compliance of statutes, rules and regulations. It also examines staff matters referred to it by the Board. Its terms of reference also include examining matters relating to human resource management, organizational structure and succession planning.

Credit Committee
The overall objective of this Committee is to optimize gains/profits while maintaining credit risk within acceptable limits. It is also expected to manage operational risk associated with the credit approval process and relevant delegated authority.

The Credit Committee consists of the General Manager and four Deputy General Managers. The Assistant General Manager (Corporate-Credit) acts as the Secretary to the Committee. The Committee meets twice a month.

The Committee is responsible for establishing policy with regard to credit matters. It sets out, establishes, reviews and recommends improvements to credit policies and ensures that adequate processes and underwriting standards are in place. Authority to approve credit facilities have been delegated at branch, province and head office levels with the General Manager holding the highest approval limit. Facilities exceeding the limits referred to above are forwarded to the Credit Committee for review. However, the final authority is the Board of Directors.

Assets and Liability Management Committee (ALCO)
Key objective of the ALCO is to ensure optimum utilization of the financial resources of the Bank to maximize earnings whilst ensuring the adequacy of liquidity in the Bank.

The ALCO comprises of the General Manager and Members of the Corporate Management representing the Business Divisions of the Bank. ALCO is chaired by the General Manager and the Assistant General Manager (Treasury) acts as Secretary to this Committee. The Assets and Liability Management Manager and Chief Dealer attend ALCO meetings by invitation. Meetings are held at least once a month.

The Committee monitors the liquidity position of the Bank and formulates the funding strategies. It is also responsible for the distribution of assets and liabilities in terms of volume and return. The impact of the key market risk exposure is analyzed, reviewed and strategies formulated to optimize on the earnings of the Bank.

The Committee reviews and recommends policies, limits and guidelines within which Assets and Liability Management strategies are to be executed. It ensures that the key market risks are thoroughly reviewed and assessed, market risk exposure decisions made and profitability optimized within acceptable risk limits. Further, it reviews, recommends and approves large capital outlays and investments.

Personnel Policy Committee
This Committee is responsible for managing the Bank's most critical asset viz. its human resource.

Personnel Policy Committee comprises of the General Manager, Deputy General Manager (Human Resources Development) and three Deputy General Managers. The Committee is chaired by the General Manager and the Assistant General Manager (HR Policy & Training) acts as the Secretary to the Committee. The Committee meets once a month.

The Personnel Policy Committee ensures that the key personnel policies and processes are consistent with the strategic plans and the Bank will have a sufficient number of qualified staff in correct positions at all times. It ensures that knowledge and skill needs are identified and developed by training. In keeping with the new vision of the Bank, it recognizes the performance/contribution of employees so that all staff in key positions are evaluated, annually. It is also responsible for reviewing and recommending the method and level of compensation and for making available other benefits to be distributed to support individuals in achieving corporate goals. It develops labour relations, strategies, reviews and recommends new/amended collective bargaining agreements.

Financial Disclosure
The Board of Directors is responsible for presenting Financial Statements to reflect a true and fair view of the state of affairs of the Bank. The Financial Statements are prepared in accordance with the requirements of the Sri Lanka Accounting Standards and the Banking Act No.30 of 1988 and the Bank strictly adheres to the accounting formats and other procedures laid down by the regulatory authorities in preparing and presenting the Financial Statements.

These Financial Statements are published quarterly in newspapers and are also made available on the Bank's website. Therefore, all publicly available information is freely accessible to stakeholders.

Directors' interests in contracts and related party transactions are given on Pages 91 to 92 of the Annual Report.

Internal Control
The Board is responsible for the operation of an adequate system of internal controls. The Audit Committee oversees the review and assessment of internal controls. (Please refer Audit Committee Report for details.)

Statutory Payments
The Board is confident that all statutory payments payable by the Bank at the Balance Sheet date have been paid or are provided for. (Please also see the Statement of Directors' Responsibilities on page 44)

Corporate Social Responsibility

At Bank of Ceylon, the Corporate Social Responsibility (CSR) is an integral part of how we conduct our business. The CSR principles support our corporate objectives and goals, align with the priorities of our stakeholders, and make fundamental business sense. While the CSR has become a popular topic in recent years, it is not a new issue at the Bank, and goes well beyond the traditional parameters of community involvement to include other social and environmental measures of success.

BoC and Customers

Our core purpose spans beyond the horizons by being the best in assisting the customers becoming financially stable. Our ambitions reach further to be the "Bankers to the Nation" embracing the entire community. However, we believe that how we fulfill this purpose and the mechanism deployed to achieve our goal is equally important – that we must take into account the broader implications of our decisions as we pursue our business strategies in the light of the resultant ill effects that may befall on the society. While we are proud of our many accomplishments related to CSR issues, we recognize that we still have numerous opportunities to leverage our organization's potential to make a difference in the lives of our stakeholders. Building the kinds of products, services and programs that balance their many and diverse needs, and integrating them into our operations, while remaining adaptable to local cultures and preserving national heritages, is not an easy task – but we believe it is well worth the effort. Despite these challenges, we are committed to making continuous progress by pursuing and maintaining the leadership position in our areas of strength while also learning from the best practices of others.

At the Bank, our team is focused on being the best at helping our customers become financially better off, by providing the ideal solution to their unique needs. As we focus on achieving this core purpose, we have the opportunity to develop and deliver services that satisfy each of our 5.8 million customers in ways that matter most to them. For example, through our extensive branch network and our committed employees, we can reach out to diverse communities, including the younger generation desirous in developing their financial literacy. Through the resources and expertise we have acquired over many long years, we offer new tools, technologies and schemes that improve service accessibility for individuals with custom needs, whilst providing a shield to protect the interests of the customers in an increasingly complex and turbulent economic world. Through the experience gained well over six decades, we understand the needs of the customers and their concerns, respond in a timely manner and set goals to improve our own performance with a strong cultural background. We are committed to applying all of these capabilities to satisfy the perceptions and priorities of our customers and the Sri Lankan community in general.

BoC and the social environment

Bank recognizes the hazardous environmental challenges faced by our society. In our role as a major financial institution, we readily grasp the opportunities to support the principles of sustainable development, both within our operations and by promoting them to our customers and suppliers. We consume energy and natural resources through our extensive real estate holdings and as a purchaser of goods and services, we influence the environmental issues through our lending policies, our investments and the types of products we offer. Also, through our workforce, we possess the capacity to encourage progressive thinking and action that strengthens the environmental health of our planet. Through collaboration among the Bank, our employees, customers and many governmental and non-governmental organizations, we have significant prospects to play a positive role on behalf of protecting our environment.

BoC and the community

Bank is committed to enhancing the well-being and the prosperity of the communities where our people live and work, and where our business operates. Our involvement is underpinned by our values to earn the coveted community trust.

As a bank, we aim to be the leaders in addressing the major social issues that involve the financial services industry - in particular financial literacy and financial inclusion.

Our focus is on developing innovative products with clear aims, and real outcomes, that make a lasting difference to people's lives - particularly amongst the most vulnerable.

Recognising the service of the staff

BOC responded quickly with help for the victims of the tsunami

BoC and Tsunami relief
In keeping with the Government efforts to uplift the quality of lives of the people affected by Tsunami, the BoC actively participated in the distribution of relief measures. A cash contribution of Rs. 25 Million to the Government was made for the Tsunami relief efforts, as a token of our continued commitment towards the welfare of the nation.

BoC and the cultural heritage
In order to create awareness of our country's rich cultural heritage, Bank sponsored a mini documentary programme which was telecast on Rupavahini after the main news bulletin. This documentary provided details about ancient artifacts found only in the National Museum. This documentary has been acclaimed a noteworthy educational programme for the entire population specially targeting the younger generation.

BoC and school savings units
With a view to propagate the concept of thrift, BoC co-ordinated with schools to open savings units which were managed by the students. Where every such unit was installed, a sum of Rs. 10,000/- was donated to the school library for purchase of books. Bank firmly believes in offering the needy hand towards enhancing the child education.

BoC and Ayurvedic Institute
Bank has undertaken to renovate the Wickramarachchi Ayurvedic Institute which needed urgent repairs. This institute is one of the oldest and most reputed ayurvedic indigenous hospital named after its founder who was a renowned ayurvedic physician.

BoC and community health
Bank in its commitment to uplift the living standards of the community contributed to the upgrading of the Jaffna teaching hospital. Under this programme installing partitions in Ward 7, providing assistance to purchase equipment for new Cardiology Unit, assistance to establish the Chest Department, refurbishing of the reception room at the Center for Visually Handicapped and the sponsorship for the production of a video documentary on diabetes was carried out, a clear display of the BoC's stand in considering the theme "Health is the Nation's Wealth".

Extending helping hand at the natural crisis

"BoC is committed to enhancing the well-being and the prosperity of the communities where our people live and work, and where our business operates. Our involvement is underpinned by our values to earn the coveted community trust."

The Bank maintains a strong commitment to our youth

Encouraging thrift to younger generation

Continuous change. Continuous growth.

Financial Information

Continuous change.
Continuous growth.
A new leaf unfurls, growing up towards the sun.

Contents

Statement of Directors' Responsibilities in Relation to Financial Reporting	44
Directors' Report	45
Audit Committee Report	48
Auditor General's Opinion	49
Income Statement	50
Balance Sheet	51
Statement of Changes in Equity	52
Cash Flow Statement	53
Significant Accounting Policies	55
Notes to the Financial Statements	60
Capital Adequacy	98

Statement of Directors' Responsibilities in Relation to Financial Reporting

In terms of the provisions of Bank of Ceylon Ordinance (Chapter 397) and its amendments read with the Banking Act No. 30 of 1988 and its amendments, the Directors of the Bank are responsible for ensuring that the Bank maintains proper books of accounts and prepares Financial Statements for each financial year that give a true and fair view of the state of affairs of the Bank.

The Directors consider that in preparing the Financial Statements for the year 2005 presented in this Report, the most appropriate accounting policies have been selected supported by judgments and estimates that are reasonable and prudent and that they have been applied consistently. All applicable accounting standards have been followed with any material departures being disclosed and explained in the Financial Statements. The Directors are of the view that the Bank and the Group have adequate resources to continue in business for the foreseeable future, and therefore have continued to adopt the going concern basis in preparing the Financial Statements.

The Directors are responsible for keeping proper accounting records, which disclose with reasonable accuracy at any time the financial position of the Bank and ensure that proper Financial Statements are prepared. They are also responsible for safeguarding the assets of the Bank and for taking reasonable steps for the prevention and detection of frauds and other irregularities with an appropriate system of internal control.

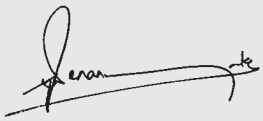
In this regard effective internal controls are in place in the Bank to secure as far as practicable the accuracy and reliability of the records and safeguard its assets. Regular reports are required by the Board to be placed before it in order to ensure proper implementation of these internal controls.

The Board is provided with additional assurance on the reliability of Financial Statements through a process of an independent review performed by the Audit Committee.

The Financial Statements for the year 2005 presented in this Report are in conformity with the requirements of the Banking Act and the Sri Lanka Accounting Standards, and they reflect a true and fair view of the state of affairs of the Bank and the Group as at 31st December 2005.

Pursuant to provisions of Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Auditor General is the auditor of the Bank. He was assisted by a firm of Chartered Accountants in public practice in carrying out the audit for the year 2005. The Financial Statements made available by the Board of Directors together with all financial records, related data, minutes of Board Meetings have been examined and the opinion expressed appears in the Report of the Auditor General on Page 49 of the Annual Report.

By order of the Board.



Janaki Senanayake Siriwardane, LLB., MBA
Secretary, Bank of Ceylon/Secretary to the Board

16 March 2006
Colombo.

Directors' Report

The Directors of the Bank of Ceylon have pleasure in presenting their Report together with the audited Financial Statements for the year ended 31st December 2005. These were approved by the Directors on 16th March 2006.

Principal Activities

Bank

The principal activities of the Bank during the year were general banking, development financing, mortgage financing, lease financing, investment banking, corporate financing, dealing in Government securities, pawn broking, credit card facilities and other financial services. There were no significant changes in the nature of principal activities of the Bank and the Group during the financial year under review.

Subsidiaries

The principal activities of subsidiaries are given in Note 25 to the Financial Statements.

Associates

The principal activities of associates are given in Note 24 to the Financial Statements.

Review of the Year's Performance

The Chairman's Review on Pages 11 to 15 deals with the year's performance of the Bank/Group and on the Sri Lanka economy. The General Manager's Report on Page 16 gives a detailed description of the operations of the Bank/Group during the year under review.

Branch Expansion and Future Developments

Four new branches were opened during the year under review, bringing the total number of branches to 304.

One hundred and fifty seven on-line access points including hundred and thirty three branches and twenty-four extension offices were connected to International Comprehensive Banking System Online Network at the end of the year 2005.

Expanded, the ATM Network and linked with Sampath Bank.

Internal Control

The Board of Directors is responsible for the implementation of an adequate system of internal controls. Internal control systems are designed to meet the particular needs of the Bank and the risks to which it is exposed, and by their nature can provide reasonable but not absolute assurance against material mis-statements or loss. The Bank's internal control systems have been designed to provide the Directors with reasonable assurance that assets are safeguarded, transactions are authorized and properly recorded, and material errors and irregularities are either prevented or detected within a reasonable period of time. The Directors are satisfied that a strong control environment is prevalent within the Bank and that the internal control systems are effective.

Corporate Governance

The main Corporate Governance practices of the Bank are given on Pages 37 to 39 of the Annual Report.

Human Resources

One of the most valuable assets of the Bank is its employees and it is important for the Bank to develop them. Several measures were taken to further consolidate the much valued human capital of the Bank. The Bank's Human Resource Management policies and practices are detailed under "Human Capital" on Page 33.

Audit Committee

The members of the Audit Committee as at the date of this Report are as follows:

Mr. R. Sivaraman - *Chairman*
Mr. G. K. A. Chaminda Kumara Kularatne - *Member*
Mr. Gunaratna Gallage - *Member*
Dr. B. Kaluarachchi - *Member*

All members of the Committee are Non-Executive Directors and the report of the Chairman, Audit Committee is contained on Page 48 of this Annual Report.

Vision, Mission, and Corporate Conduct

The Bank's Vision and Mission are given on inner front cover of this Annual Report. The Bank maintains a very high ethical standard in its activities whilst pursuing the objectives stated under "Vision" and "Mission".

Risk Management

Risk Management is a well established management function at Bank of Ceylon. Specific measures taken by the Bank in managing risks are detailed on Pages 35 to 36 of this Report.

Gross Income

The main income of the Group is interest income, which comprises over 75% of the income figure. The gross income of the Group for the year 2005 was Rs. 28,171.1 million as against Rs. 24,306.2 million when compared with the previous year.

Profit

The Bank recorded a healthy pre-tax profit of Rs. 3,023.2 million in 2005 reflecting a growth of 18.16% when compared with Rs.2,558.7 million recorded for the previous year, whilst the pre-tax profit of the Group increased from Rs. 2,077.3 million to Rs.3,092.0 million, which is an increase of 48.85% over the previous year.

Details of profit relating to the Bank are given in the table 1.

Dividends

All profits after deduction of tax, loan loss provision and any such portion for reserves , if any, as the Government shall determine, will be issued as dividends to the Government. Accordingly, a sum of Rs.1,150 million has been paid by the Bank as dividends for the year.

Provision for Taxation

Under the provisions of the Inland Revenue (Amendment) Act No.12 of 2004, the tax loss brought forward will be set off against the current year's tax liability only to the extent of a maximum limit of 35% of the total statutory income of the year under review and only losses which cannot be deducted, may be carried forward to the future years.

Income tax for year 2005 has been computed at the rates given in Note 12 to the Financial Statements.

Table 1	2005 Rs. '000	2004 Rs. '000
Profit for the year after payment of all expenses and providing for depreciation, possible loan losses and contingencies	3,023,216	2,558,700
Provision for taxation	1,001,117	589,356
Net profit after taxation	2,022,099	1,969,344
Unappropriated profit brought forward from previous year	9,033,940	8,097,405
Profit available for appropriation	11,056,039	10,066,749
Appropriations		
Transfer to Permanent Reserve	410,000	40,000
Dividends	1,150,000	1,000,000
Unappropriated profit to be carried forward	9,308,256	9,033,940

As the tax losses available for carry forward exceed timing difference arising on accelerated capital allowances, there is no liability for deferred tax at the Balance Sheet date, as explained in Notes 12 and 33 to the Financial Statements.

Corporate Social Responsibility
During the year under review, the Bank has made donations amounting to Rs. 30,638,610 out of which Rs. 25,000,000 was to the Government for Tsunami relief efforts and Rs. 348,610 to the Jaffna Teaching Hospital/Faculty of Medicine.

Issue of Debentures
The debentures issued by the Group as at 31st December 2005 was Rs. 8,931 million (Rs. 8,228.3 million in the year 2004). The details of the debentures outstanding as at the date of Balance Sheet are given in the Notes 30 and 35 to the Financial Statements.

Property, Plant and Equipment
The total capital expenditure incurred by the Group on the acquisition of property, plant and equipment during the year amounted to Rs. 951 million (Rs.961 million in the year 2004) the details of which are given in Note 28 to the Financial Statements on Pages 79 and 80 of the Annual Report.

Market Value of Freehold Properties
The value of freehold properties owned by the Group as at 31st December 2005 is included in the Financial Statements at Rs. 4,227 million (Rs. 4,366 million in the year 2004).

Reserves
The total reserves of the Group stood at Rs. 12,475 million as at 31st December 2005 (Rs. 13,037 million as at 31st December 2004). The changes in reserves are given in Notes 38 and 39 to the Financial Statements.

Share Capital
The total issued and fully paid up capital of the Bank as at 31st December 2005 was Rs. 4,000 million consisting of 4,000,000 ordinary shares of Rs. 1, 000 each.

Share Information
During the year, the Bank issued 1,400,000 shares of Rs.1,000 each to the sole shareholder, which is the Government of Sri Lanka by way of a bonus issue, using the Revaluation Reserve.

Accordingly, the adjusted earnings per share and net assets per share of the Bank were Rs. 505.52 and Rs. 4,045.63, respectively, for the period under review.

Shareholding
The Government of Sri Lanka is the sole shareholder of Bank of Ceylon.

Directors
The Board of Directors of Bank of Ceylon as at the date of the Report consists of six members including the Chairman. All the Directors are Non-Executive and bring a wide range of skills and experience to the Board. The qualifications and experience of the present Directors are given on Page 23.

The following were the Directors of the Bank during the year under review:

Mr. P. M. Nagahawatte
(Resigned as Director/Chairman on 05.12.2005)

Mr. Cubby Wijetunga
(Resigned as Director on 05.12.2005)

Mrs. Lakmali C. Gunawardena Nanayakkara
(Resigned as Director on 06.12.2005)

Mr. Lalith Withana
(Resigned as Director on 06.12.2005)

Mr. Sumith Abeysinghe

Mr. Udayasri Kariyawasam
(Appointed as Chairman w.e.f. 09.12.2005)

Mr. G. K. A. Chaminda Kumara Kularatne
(Appointed as Director w.e.f. 13.12.2005)

Directors' Responsibilities for Financial Statements
The Directors are of the view that Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards and the Banking Act No. 30 of 1988 and its amendments. Statement on Page 44 of the Annual Report describes

in detail the Directors' Responsibilities in relation to Financial Statements.

Directors' Interests in Contracts
Directors' interests in contracts with the Bank, both direct and indirect are referred to in Note 46 to the Financial Statements. These interests have been declared at meetings of the Board of Directors. The Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

Environmental Protection
The Bank/Group has not engaged in any activity, which has caused detriment to the environment. Specific measures taken to protect the environment are given in the General Manager's Review on Pages 16 to 20 of this Report.

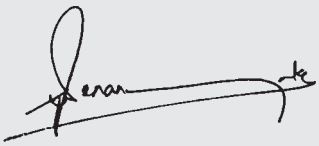
Statutory Payments
The Board is confident that all statutory payments due to the Government and in relation to employees have been made on time.

Post Balance Sheet Events
In the opinion of the Directors, no any material event of an unusual nature has arisen in the interval between the end of the financial year and the date of this Report, which would affect substantially the results of the operations of the Group for the financial year in respect of which the Report is prepared, other than those disclosed in Note 43 to the Financial Statements.

Going Concern
The Directors are confident that the Bank has adequate resources to continue in operation and have applied the going concern basis in preparing these Financial Statements.

Appointment of Auditors
The Auditor General is the Auditor of Bank of Ceylon in terms of statutory provisions.

By Order of the Board



Janaki Senanayake Siriwardane, *LLB, MBA*
Secretary, Bank of Ceylon/Secretary to the Board

16 March 2006
Colombo.

Audit Committee Report

During the financial year under review, the Audit Committee had comprised of three non-executive Directors of the Board with the Secretary of the Bank/Secretary to the Board functioning as the Secretary to the Committee. The Chairman of the Bank, General Manager and Deputy General Manager (Inspection/Audit) had attended meetings of the Audit Committee. The other members of the Corporate Management and the Consultants had been present by invitation. The External Auditors of the Bank also had attended Audit Committee Meetings by invitation.

The main duty of the Committee is to review and make recommendations to the Board on all aspects of audit and financial reporting processes in the Bank. This includes reviewing quarterly, bi-annual and annual Financial Statements and making recommendations to the Board. The Committee also examines the nature and scope of audits, as well as problems and reservations arising from interim and final audits, monitors and reviews internal control systems, reviews major findings of internal investigations along with the Management's responses thereto and the resulting remedial action where necessary. It also reviews the external auditors' management letter and the Management's responses thereto and approves internal audit programmes, sets targets for the internal audit unit and reviews it in relation to the approved audit plan.

The Audit Committee had met five times during the financial year ended 31.12.2005. The minutes of the meetings of the Committee have been placed before the Board of Directors.

The principal activities carried out during the year under review had been as follows:-

1. Prepared a fresh charter for the Audit Committee.

2. Reviewed the Audit Plan for year 2005 .

3. Worked closely with the Internal Audit Division to guide on its work, its staffing requirements and training needs. This Division had been strengthened by recruiting 20 Audit Assistants.

4. Reviewed the quarterly financial results of the Bank, which have been prepared on the basis of mandatory banking and statutory requirements to evaluate the Bank's performance.

5. Reviewed the External Auditors' Management Letters, together with the Management's responses thereto.

The Audit Committee is of the view that adequate controls are in place to satisfy that the financial position and the results disclosed in the audited accounts are free from any material misstatement.

Raju Sivaraman
Chairman, Audit Committee

16 March 2006
Colombo.

Auditor General's Opinion

විගණකාධිපති දෙපාර්තමේන්තුව
கணக்காய்வாளர் தலைமை அதிபதி திணைக்களம்
AUDITOR–GENERAL'S DEPARTMENT

මගේ අංකය / எனது இல. / My No. EF/F/BC/S-17/2005

මගේ අංකය / உமது இல. / Your No.

දිනය / திகதி / Date 28th March 2006

The audit of the Balance Sheet of the Bank of Ceylon (hereinafter referred to as the "Bank") and the Consolidated Balance sheet of the Bank and its Subsidiaries as at 31 December 2005 and the related Statements of Income, Changes in Equity and Cash Flows for the year then ended together with the accounting policies and notes 1 to 48 to the accounts was carried out under my direction in pursuance of provisions in Article 154 of the Constitution of the Democratic Socialist Republic of Sri Lanka. In carrying out this audit, I was assisted by a firm of Chartered Accountants in public practice. The accounts of the Subsidiaries are audited by firms of Chartered Accountants in public practice appointed by the members of the respective Subsidiaries.

Respective Responsibilities of Directors and Auditors
The Directors are responsible for preparing and presenting the Financial Statements in accordance with Sri Lanka Accounting Standards. My responsibility is to express an opinion on the Financial Statements based on my audit.

Basis of Opinion
The audit was conducted in accordance with Sri Lanka Auditing Standards, which require that the audit shall be planned and performed to obtain reasonable assurance as to whether the Financial Statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the Financial Statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors as well as evaluating the overall presentation of Financial Statements and determining whether the Financial Statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. I have obtained all the information and explanations which to the best of my knowledge and belief were necessary for the purposes of the audit. I believe that the audit provides a reasonable basis for my opinion.

Opinion
In my opinion, so far as appears from my examination, the Bank maintained proper books of accounts for the year ended 31 December 2005, and to the best of my information and according to the explanations given to me, 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 Banking Act No.30 of 1988, give a true and fair view of the Bank's state of affairs as at 31 December 2005 and of its profit, and Cash Flows for the year then ended.

In my opinion, the consolidated Balance Sheet and the related Statements of Income, Changes in Equity and Cash Flows and the Accounting Policies and notes thereto have been properly prepared and presented in accordance with the Banking Act No.30 of 1988 and the Sri Lanka Accounting Standards, give a true and fair view of the state of affairs of the Bank as at 31 December 2005 and of its profit and cash flows for the year then ended and its Subsidiaries dealt with thereby, so far as concern the Bank.

Director's Interest in Contracts with the Bank
According to the information made available to me, the Directors of the Bank were not directly or indirectly interested in contracts with the Bank during the year ended 31 December 2005 except as stated in Note 46 to the Financial Statements.

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

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

S. C. Mayadunne
Auditor General

Auditor General's Department
Colombo 7.

Income Statement

For the year ended 31st December	Note	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
Income	1	**27,126,093**	**23,956,587**	**28,171,087**	**24,306,191**
Interest income	2	20,560,395	16,609,416	21,675,354	17,587,203
Less: Interest expenses	3	11,198,861	8,256,084	11,567,562	8,572,311
Net interest income		**9,361,534**	**8,353,332**	**10,107,792**	**9,014,892**
Fee and commission income		1,930,174	1,770,711	1,949,158	1,779,525
Less: Fee and commission expenses		290,305	257,172	293,716	259,126
Net fee and commission income		**1,639,869**	**1,513,539**	**1,655,442**	**1,520,399**
Foreign exchange profit		1,013,721	1,781,448	1,013,721	1,781,448
Dividend income	4	182,323	236,548	186,643	237,276
Net gains from investment securities		765,158	681,143	765,158	681,143
Other operating income	5	2,196,683	2,371,137	2,535,996	2,239,037
Operating income		**15,159,288**	**14,937,147**	**16,264,752**	**15,474,195**
Less: Operating expenses	6				
Personnel costs	7	5,103,801	5,163,401	5,320,940	5,347,354
Staff retirement benefits	8	2,048,934	1,374,532	2,061,764	1,384,929
Premises, equipment and establishment expenses		1,713,337	1,460,475	1,881,014	1,642,307
Other operating expenses		1,242,858	1,128,855	1,381,298	1,158,366
Provision for loan losses	9	1,589,282	2,879,526	1,650,621	2,986,217
Provision for fall in value of investments & dealing securities	10	-	6,273	4,083	6,755
Operating Profit on ordinary activities before tax		**3,461,076**	**2,924,085**	**3,965,032**	**2,948,267**
Less: Value added tax on financial services		915,497	871,569	918,061	871,569
Operating profit on ordinary activities before income tax		**2,545,579**	**2,052,516**	**3,046,971**	**2,076,698**
Share of profit from subsidiaries & associates	11	477,637	506,184	45,057	559
Profit before income tax		**3,023,216**	**2,558,700**	**3,092,028**	**2,077,257**
Less: Provision for taxation	12	1,001,117	589,356	1,024,313	595,582
Profit after income tax		**2,022,099**	**1,969,344**	**2,067,715**	**1,481,675**
Less: Minority interest		-	-	42,891	41,405
Net profit for the year		**2,022,099**	**1,969,344**	**2,024,824**	**1,440,270**
Earnings per share (Rs)	13	**505.52**	**492.34**	**506.21**	**360.07**

The significant accounting policies on pages 55 to 59 and notes on pages 60 to 97 form an integral part of these Financial Statements.

Balance Sheet

As at 31st December	Note	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
ASSETS					
Cash and short term funds	15	6,134,743	5,583,823	6,181,507	5,604,802
Balances with Central Banks	16	13,937,297	12,479,713	13,937,297	12,479,713
Treasury bills and other eligible bills	17	27,165,213	25,502,074	28,387,705	26,324,683
Dealing securities	18	53,677	506,629	65,620	508,843
Placement with and loans to other banks	19	36,850,868	27,361,554	37,047,553	27,361,554
Loans & advances to customers					
Bills of exchange	20.1	4,495,507	4,871,615	4,495,963	5,237,703
Loans & advances	20.2	160,322,936	125,183,065	161,175,972	125,706,228
Lease rentals receivable - within one year	20.3	80,684	316,360	3,358,434	1,792,772
Lease rentals receivable - one to five years	20.4	852,918	261,172	2,531,008	2,905,748
Lease rentals receivable - after five years	20.5	1,216	1,238	1,578	1,691
		165,753,261	130,633,450	171,562,955	135,644,142
Government of Sri Lanka restructuring bonds	21	17,883,300	17,883,300	17,883,300	17,883,300
Investment securities	22	26,870,574	21,828,364	27,094,158	22,072,471
Investment properties	23	1,272,309	1,149,910	1,272,309	1,149,910
Investments in associate companies	24	1,245,027	1,224,483	1,245,027	1,224,483
Investments in subsidiary companies	25	3,415,250	3,759,158	-	-
Other assets	26	12,832,097	12,498,323	13,254,313	12,933,240
Group balances receivable	27	853,066	1,040,858	54,563	66,737
Property, plant and equipment	28	5,236,822	4,946,882	6,698,261	6,504,535
Total assets		**319,503,504**	**266,398,521**	**324,684,568**	**269,758,413**
FINANCED BY;					
LIABILITIES					
Deposits from customers	29	232,526,466	205,164,270	234,375,091	206,751,627
Debt securities in issue	30	32,177,888	22,408,547	33,758,488	23,836,897
Other borrowed funds	31	28,008,490	12,119,153	28,657,341	12,377,499
Group balances payable	32	309,899	1,019,769	87,055	34,111
Deferred tax liability	33	-	-	68,572	74,485
Tax payable		76,179	137,258	133,595	168,199
Other liabilities	34	8,372,030	9,151,799	8,793,483	9,534,673
Subordinated debentures	35	1,850,000	1,050,000	1,850,000	1,050,000
Total liabilities		**303,320,952**	**251,050,796**	**307,723,625**	**253,827,491**
Minority interest	36	-	-	486,330	293,861
SHAREHOLDER'S EQUITY					
Share capital	37	4,000,000	2,600,000	4,000,000	2,600,000
Permanent reserve fund	38	1,915,000	1,505,000	1,915,000	1,505,000
Retained profits		9,308,256	9,033,940	9,349,347	9,072,306
Reserves	39	959,296	2,208,785	1,210,266	2,459,755
Total shareholder's equity		**16,182,552**	**15,347,725**	**16,474,613**	**15,637,061**
Total equity and liabilities		**319,503,504**	**266,398,521**	**324,684,568**	**269,758,413**
Commitments and contingencies	40	80,190,547	58,841,033	80,402,533	59,145,093

The significant accounting policies on pages 55 to 59 and notes on pages 60 to 97 form an integral part of these Financial Statements.

Approved and signed for and on behalf of the Board by,

Udayasri Kariyawasam
Chairman

S N P Palihena
General Manager

16 March 2006
Colombo.

Statement of Changes in Equity

For the year ended 31st December 2005	Share capital	Permanent reserve fund	Other reserves	Revaluation reserves	Retained earnings	Total equity
	Rs. '000	*Rs. '000*	*Rs. '000*	*Rs. '000*	*Rs. '000*	*Rs. '000*
Bank						
Balance at 1 January 2004	2,600,000	1,465,000	628,007	1,529,404	8,097,405	14,319,816
Net profit for the year 2004	-	-	-	-	1,969,344	1,969,344
Transfers to permanent reserve **[Note 38]**	-	40,000	-	-	(40,000)	-
Dividends for 2004 **[Note 14]**	-	-	-	-	(1,000,000)	(1,000,000)
Revaluation adjustment **[Note 39.2(b)]**	-	-	51,374	-	-	51,374
Change in shareholding	-	-	-	-	7,191	7,191
Balance at 31 December 2004	**2,600,000**	**1,505,000**	**679,381**	**1,529,404**	**9,033,940**	**15,347,725**
Net profit for the year 2005	-	-	-	-	2,022,099	2,022,099
Transfers to permanent reserve **[Note 38]**	-	410,000	-	-	(410,000)	-
Transfers to primary dealer risk reserve **[Note 39.2(c)]**	-	-	165,345	-	(165,345)	-
Transfers to investment fluctuation reserve **[Note 39.2(d)]**	-	-	22,438	-	(22,438)	-
Dividends for 2005 **[Note 14]**	-	-	-	-	(1,150,000)	(1,150,000)
Revaluation adjustment **[Note 39.2(b)]**	-	-	(37,272)	-	-	(37,272)
Bonus issue of shares	1,400,000	-	-	(1,400,000)	-	-
Change in shareholding	-	-	-	-	-	-
Balance at 31 December 2005	**4,000,000**	**1,915,000**	**829,892**	**129,404**	**9,308,256**	**16,182,552**
Group						
Balance at 1 January 2004	2,600,000	1,465,000	825,584	1,582,797	8,671,381	15,144,762
Net profit for the year 2004	-	-	-	-	1,440,270	1,440,270
Transfers to permanent reserve **[Note 38]**	-	40,000	-	-	(40,000)	-
Dividends for 2004 **[Note 14]**	-	-	-	-	(1,000,000)	(1,000,000)
Revaluation adjustment **[Note 39.2(b)]**	-	-	51,374	-	-	51,374
Change in shareholding	-	-	-	-	655	655
Balance at 31 December 2004	**2,600,000**	**1,505,000**	**876,958**	**1,582,797**	**9,072,306**	**15,637,061**
Net profit for the year 2005	-	-	-	-	2,024,824	2,024,824
Transfers to permanent reserve **[Note 38]**	-	410,000	-	-	(410,000)	-
Transfers to primary dealer risk reserve **[Note 39.2(c)]**	-	-	165,345	-	(165,345)	-
Transfers to investment fluctuation reserve **[Note 39.2(d)]**	-	-	22,438	-	(22,438)	-
Dividends for 2005 **[Note 14]**	-	-	-	-	(1,150,000)	(1,150,000)
Revaluation adjustment **[Note 39.2(b)]**	-	-	(37,272)	-	-	(37,272)
Bonus issue of shares	1,400,000	-	-	(1,400,000)	-	-
Change in shareholding	-	-	-	-	-	-
Balance at 31 December 2005	**4,000,000**	**1,915,000**	**1,027,469**	**182,797**	**9,349,347**	**16,474,613**

The significant accounting policies on pages 55 to 59 and notes on pages 60 to 97 form an integral part of these Financial Statements.

Cash Flow Statement

For the year ended 31st December	Note	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
Cash flows from operating activities					
Interest receipts		19,794,577	16,131,897	21,062,099	16,985,263
Interest payments		(11,368,699)	(8,312,054)	(10,918,375)	(9,306,647)
Other operating income		2,518,068	3,207,613	2,792,681	3,499,829
Non-performing advances recovered		1,775,681	1,536,195	1,790,060	1,538,585
Cash payments to employees and suppliers		(10,674,228)	(10,557,485)	(11,132,475)	(10,862,244)
Cash flows from operating profits before changes in operating assets and liabilities	I	**2,045,399**	**2,006,166**	**3,593,990**	**1,854,786**
(Increase) / decrease in operating assets					
Deposits held for regulatory or monetary control purposes		(1,457,584)	(5,526,389)	(1,457,584)	(5,526,389)
Funds advanced to customers		(36,851,705)	(20,091,187)	(37,887,662)	(20,581,901)
Credit card receivable		(76,382)	(67,446)	(76,382)	(67,446)
Short term marketable securities		1,123,444	1,018,245	1,113,715	1,017,956
Other assets		1,287,966	6,434,331	1,066,553	6,947,304
Increase / (decrease) in operating liabilities					
Deposits from other banks		(25,721)	89,800	(25,720)	89,800
Deposits from customers		27,387,916	18,843,361	27,649,184	18,664,328
Other liabilities		(2,227,184)	(1,223,903)	(2,161,846)	(995,109)
Net cash from / (used in) operating activities before income tax		(8,793,851)	1,482,978	(8,185,752)	1,403,329
Income tax paid		(159,575)	(108,817)	(248,251)	(201,342)
Net cash from / (used in) operating activities		**(8,953,426)**	**1,374,161**	**(8,434,003)**	**1,201,987**
Cash flows from investing activities					
Net increase in Treasury bills and other eligible bills		(1,635,995)	(11,665,466)	(2,035,878)	(11,541,439)
Proceeds from sale of investment & dealing securities		5,429,579	5,811,236	5,429,579	5,811,536
Disposal of a business unit		-	640,144	-	640,144
Dividend received		316,163	353,879	196,160	267,102
Proceeds from liquidation of a subsidiary		828,120	-	10,783	-
Purchase of investment securities		(10,362,252)	(297,992)	(10,276,507)	(274,226)
Investment in subsidiaries and associates		(286,573)	(260,883)	-	(259,241)
Purchase of property, plant & equipment		(927,321)	(910,824)	(951,668)	(961,024)
Proceeds from sale of property, plant & equipment including foreclosed properties		323,260	239,807	327,328	243,624
Net cash from / (used in) investing activities		**(6,315,019)**	**(6,090,099)**	**(7,300,203)**	**(6,073,524)**
Cash flows from financing activities					
Proceeds from borrowed funds and debt securities		10,019,342	7,725,878	10,409,846	7,725,519
Net increase /(decrease) in debentures		550,000	(2,800,000)	702,250	(2,621,650)
Net increase /(decrease) in other borrowings		15,889,337	3,143,791	15,889,337	3,108,526
Dividends paid		(1,150,000)	(1,000,000)	(1,150,000)	(1,000,000)
Minority interest		-	-	145,477	(11,772)
Net cash (used in) / from financing activities		**25,308,679**	**7,069,669**	**25,996,910**	**7,200,623**
Net increase / (decrease) in cash and cash equivalents		10,040,234	2,353,731	10,262,704	2,329,086
Cash and cash equivalents at the beginning of the year		32,945,377	30,591,646	32,966,356	30,637,270
Cash and cash equivalents at the end of the year	II	**42,985,611**	**32,945,377**	**43,229,060**	**32,966,356**

For the year ended 31st December	*Note*	Bank 2005 *Rs. '000*	Bank 2004 *Rs. '000*	Group 2005 *Rs. '000*	Group 2004 *Rs. '000*
Note I					
Reconciliation of operating profit before tax					
Profit before tax		**3,023,216**	**2,558,700**	**3,092,028**	**2,077,257**
Add / (Less)					
Net gain from dealing securities		(191,181)	(79,783)	(191,231)	(80,511)
Net gain from investment securities		(1,005,320)	(828,934)	(990,969)	(837,907)
Net (Gain) / Loss on mark to market valuation		108,672	-	108,672	-
Profit on sale of property plant & equipment		(36,325)	50,189	(36,325)	68,983
Provision for investment & dealing income	10	-	6,273	4,083	5,575
Exchange revaluation		(777,131)	(710,630)	(777,131)	(710,630)
Share of profit of related companies	11	(477,637)	(506,184)	(45,057)	(559)
Depreciation	28	550,131	376,885	637,088	479,775
Loan loss provision	9	1,589,282	2,879,526	1,650,621	2,986,217
Provision for accrued interest		(603,285)	(1,105,262)	282,654	(1,908,049)
Notional credit on with-holding tax		(142,202)	(154,381)	(142,202)	(154,381)
Amortization / (reversal) of goodwill		7,179	(70,984)	1,759	(70,984)
Reversal of MBSL Provision due to capital reduction		-	(409,251)	-	-
Cash flows from operating profits before changes in operating assets and liabilities		**2,045,399**	**2,006,166**	**3,593,990**	**1,854,786**
Note II					
Analysis of cash and cash equivalents					
Cash and short term funds		6,134,743	5,583,823	6,181,507	5,604,802
Placement with and loans to other banks		36,850,868	27,361,554	37,047,553	27,361,554
		42,985,611	**32,945,377**	**43,229,060**	**32,966,356**

The significant accounting policies on pages 55 to 59 and notes on pages 60 to 97 form an integral part of these Financial Statements.

Significant Accounting Policies

1. GENERAL

Bank of Ceylon is a Government corporation established under the Bank of Ceylon Ordinance No.53 of 1938 domiciled in Sri Lanka. The consolidated Financial Statements of the Bank for the year ended 31 December 2005 comprise the Bank, its subsidiaries and group's interests in its associate companies.

The Financial Statements were authorized for issue by the Directors on 16th March 2006.

1.1 Principal Activities

The principal activities of the Bank and its Group consist of the business of commercial banking and other financial services including trade financing, custodial services, primary dealership in Government of Sri Lanka treasury bills and development financing. There have been no significant changes in the nature of these activities during the year.

1.2 Accounting Convention

The Financial Statements of the Bank and the Group encompassing the Balance Sheet, Income Statement, Cash Flow Statement, Statement of Changes in Equity, Accounting Policies and the Notes thereto are prepared in conformity with Accounting Standards issued by the Institute of Chartered Accountants of Sri Lanka and on the basis of historical cost convention except otherwise as required by the above standards, which have been applied consistently with that of the previous year. The Financial Statements are presented in Sri Lankan Rupees. No adjustment has been made for inflationary factors affecting the Financial Statements except on certain land and buildings, investment properties and dealing securities.

1.3 Statement of Compliance

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

1.4 Foreign Currency Translation

1.4.1 Assets and liabilities denominated in foreign currencies are translated using the middle rate of exchange that ruled on the date of the Balance Sheet and transactions in foreign currencies during the year are converted at the rates of exchange that ruled at the transaction dates. Exchange differences arising on the settlement or reporting of the Bank's monetary items at rates different from those, which were initially recorded are dealt with the Income Statement. Non-Monetary items denominated in foreign currencies that are stated at fair value are translated to Sri Lankan Rupees at foreign exchange rates ruling at the dates the value were determined.

1.4.2 Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Resulting net unrealized gains and losses are dealt with through the Income Statement.

1.4.3 Translations of the Off-Shore Banking Unit and the overseas branches are recorded in accordance with the paragraph 1.4.1 above except for the application of yearly average rate for the Income Statement.

1.5 Basis of Consolidation

The Bank's Financial Statements comprise of the consolidation of the Financial Statements of the Domestic Banking Unit, the Off-Shore Banking Unit and the foreign operations that are integral to the Bank. The Group Financial Statements comprise of consolidation of the Financial Statements of the Bank, its Subsidiaries in terms of Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries and equity method of accounting for investments in Associates in terms of Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates.

1.5.1 Subsidiaries

Subsidiaries are those companies in which the Bank, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has the power to exercise control over the financial and operating policies. Subsidiaries are consolidated from the date on which effective control is transferred to the Bank and are no longer consolidated from the date of disposal. All inter-company transactions, balances and unrealized surpluses and deficits on transactions between the Bank and subsidiary companies have been eliminated. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Bank. Separate disclosure is made in respect of minority interests.

A listing of the Bank's principal subsidiaries is given in Note 25 to the Financial Statements.

1.5.2 Associates

These are undertakings over which the Bank has between 20% to 50% of the voting rights, and over which the Bank exercises significant influence, but which it does not control.

Investments in Associates are accounted for by using the equity method of accounting. Equity accounting involves recognizing in the Income Statement the Bank's share of the associates' profit or loss for the year. The Bank's interest in the Associates is carried in the Balance Sheet at an amount that reflects its share of the net assets of the Associates.

A listing of the Bank's principal Associates is shown in Note 24 to the Financial Statements.

1.5.3 Transactions Eliminated on Consolidation

Intra group balances and transactions and unrealized gains arising from such inter-company transactions and balances have been eliminated in preparing the Consolidated Financial Statements. Unrealized gains arising from Associates are eliminated to the extent of the group's interest in the enterprise.

1.5.4 Goodwill on Acquisition of Subsidiaries and Associates

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Acquired goodwill, if any, is written off in full in the year of acquisition.

1.6 Taxation

Provision for taxation on Sri Lanka operations is made on the basis of the net 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. Provision for taxation on the overseas branches is made on the basis of the net profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes.

1.7 Deferred Taxation

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

2. ASSETS AND BASIS OF THEIR VALUATION

2.1.1 Loans and Advances

All loans and advances are recognized when cash is advanced to borrowers. Loans and Advances are stated in the balance sheet net of provisions for loan losses and net of interest, which is not accrued to revenue.

2.1.2 Finance Leases

Assets leased to customers, which transfer substantially all the risks and rewards associated with ownership other than legal title for a specific period are accounted for as finance leases.

Lease receivables are stated in the Balance Sheet net of initial rentals received, unearned lease income and provision for rentals doubtful of recovery.

2.1.3 Credit Card Receivables

Amounts receivable on credit cards are included in advances to customers at the amounts expected to be recovered.

2.2 Non-performing Loans and Provision for Loan Losses

2.2.1 Non-performing loans

Loans, advances and finance leases which are 90 days or more in arrears of due capital or interest are classified as non-performing loans.

2.2.2 Provision for Loans, Advances and Finance Leases

2.2.2(a) Provision for Loans and Advances

Provisions for bad and doubtful loans are made on the basis of a continuous review of all advances in accordance with the applicable Accounting Standards and the regulations imposed by the Central Bank of Sri Lanka. In the case of loans to borrowers in countries where there is an increased risk of difficulty in servicing external debt, an assessment of the political and economic situation is made, and additional country risk provisions are established as necessary. Accordingly, specific provisions have been made as follows.

Period Outstanding	Classification	Provision made net realizable value of the security
6 to 12 months	Sub-standard	20%
12 to 18 months	Doubtful	50%
18 months and over	Loss	100%

Additional provisions have also been made over and above the minimum percentages specified above, on a case by case basis depending on the risk associated with such loans.

When a loan is deemed uncollectable, it is written off against the related provision for impairments. Subsequent recoveries are credited to the income statement, if previously written off.

2.2.2(b) Provision for Lease Rentals Receivable

Specific provision is made for following 02 categories.

Category	Provision
A	100% of capital outstanding of lease assets minus 50% of the invoice value/condition and valuation report whichever is lower, net of up front rentals and cash security obtained, if any.
B	100% of capital outstanding net of up front rentals and cash security obtained, if any.

Category A - Identified at the time of termination of lease contract.
Category B - Identified where total loss of assets occur.

2.2.2(c) Provision for Credit Card Receivables

Specific provision is made on credit card receivables as follows:

Period Outstanding	Classification	Provision
3 - 6 months	Overdue	50%
Over 6 months	Loss	100%

2.2.2(d) Provision for Pawning

A 100% specific provision is made for the total amount advanced for unsold articles at every auction.

2.2.2(e) Provision for Regular Advances

A general provision of 0.5% on total performing and overdue loans and advances including credit card receivables, lease rental receivables, pawning is made in the Financial Statements of the Bank.

2.3 Investments

2.3.1 Investments in Subsidiaries

Investments in Subsidiaries are accounted for under the equity method of accounting in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

2.3.2 Investments in Associates

Investments in Associates are accounted for under the equity method in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates.

2.3.3 Dealing Securities

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are recorded at the lower of cost or market value on an aggregate portfolio basis.

Provision for fall in value of investments is made if the market value falls below the cost.

2.3.4 Investment Securities
These are acquired and held for yield or capital growth in the medium/long terms. Such securities are recorded at cost. Changes in market values of these securities are not taken into account, unless there is considered to be diminution in value, which is other than temporary.

2.3.5 Foreclosed Properties
Foreclosed properties acquired in full or in partial satisfaction of debts, are accounted for at the lower of cost or market value on an individual property basis. The shortfall between the market value of the foreclosed assets and the related loan outstanding is recognized as a provision for loan losses in the Income Statement in the year of taking over the foreclosed properties in satisfaction of the debts. If the market value falls below the cost, subsequently a provision is made in the Income Statement for the difference between the market value and the cost. Foreclosed properties are not subject to depreciation.

Subsequent gains and losses on the disposal of the foreclosed properties are taken into account in determining operating profits.

2.3.6 Investment Properties
Investment property is property (land or a building – or part of a building – or both) held to earn rentals or for capital appreciation or both and the future economic benefits that are associated with the investment property will flow to the Bank. An investment property is initially measured at its cost and thereafter the measurement is done based on fair value model. Any loss arising from a change in fair value of investment property is included in the Income Statement in which it arises.

2.4 Property, Plant, and Equipment
2.4.1 All property, plant and equipment are recorded at cost of purchase or construction or valuation together with any incidental expenses thereon. The assets are stated at historical cost or at re-valuation less depreciation which is calculated on the straight-line method to write off the cost of each asset to their residual values over their estimated useful lives specified in 2.4.2 below.

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

Freehold Building	2.5% per annum
Office Equipment	12.5% per annum
Furniture & Fittings	12.5% per annum
Computer Equipment	20.0% per annum
Motor Vehicles	25.0% per annum

Leasehold land and premises are amortised over the life of each lease. No depreciation is provided on freehold land. Generally, costs associated with developing computer software programmes are recognized as an expense incurred. However, expenditure that enhances and extends the benefits of computer software programmes beyond their original specifications and lives is recognized as a capital improvement and added to the original cost of the software. Computer software development costs recognized as assets are amortised using the straight-line method over their useful lives.

2.4.3 Provisioning for depreciation of Property, Plant & Equipment is made on pro-rata basis.

2.4.4 A proportion of freehold properties are revalued each year so that all such properties are revalued over a period of five years. These valuations are based on open market value of existing use. The surplus arising on the revaluations are credited to the Revaluation Reserve Account. The revaluation reserve included in the equity will be transferred to retained earnings if the underlying assets are sold.

2.5 Government of Sri Lanka Treasury Bills and Bonds
2.5.1 Investments in Treasury Bills
Investments in Treasury Bills and Treasury Bonds in the trading portfolio are marked to market and carried at that value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through the Income Statement.

2.5.2 Long term Investments in Treasury Bonds
Long term investments in Treasury Bonds are reflected at the value of the Bonds purchased and the discount / premium accrued thereon. Discounts received/premia paid are taken to the Income Statement based on a pattern reflecting a constant periodic rate of return.

2.5.3 Securities purchased under Re-sale Agreements
Securities purchased under Re-sale Agreements are recorded at the consideration paid and interest accrued thereon.

3. LIABILITIES AND PROVISIONS
3.1 Defined Benefit Plans
3.1.1 Bank of Ceylon Pension Trust Fund
The 'Bank of Ceylon Pension Trust Fund' is a funded, non-contributory defined retirement benefit plan, operated for the payment of pensions until death to the permanent employees who have completed a minimum of ten years of continuous service with the Bank, at their retirement on reaching the retirement age on or after 55 years or on medical grounds, before reaching retirement age. The pension is computed on a percentage of the last drawn salary excluding certain allowances. Contributions to the Pension Trust Fund are made monthly, based on the advice of a qualified actuary, currently at 56.76% of gross salary for employees who joined the Bank prior to 1 January 1996. Employees who joined the Bank on and after 1 January 1996 may contribute 20% of their gross salary to a Pension Fund in which event the Bank contributes 5%. This arrangement is tentative pending the formulation of a contributory pension scheme.

3.1.2 Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund
The Bank is liable for and guarantees the payments to the beneficiaries of the 'Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund' to which the Bank's employees monthly contribute 5% of their gross salary. The Bank's liability towards the beneficiaries of the employees arises when an employee who has contributed to the fund for five continuous years dies while in service or on the death of a pensioner where the Bank will be liable to pay a monthly Widows' and Orphans' Pension to his/ her beneficiaries. The pension

to beneficiaries of an employee who dies while in service is based on the last drawn salary excluding certain allowances. The fund is actuarially valued by a qualified actuary for once in three years and the deficit is bridged piece meal. Bridging of full deficit is currently under evaluation. This would be done in consultation with the Actuary, Trustees and Beneficiaries.

Both the Pension Fund and the Widows' / Widowers' and Orphans' Pension Fund are approved by the Government and are independently administered.

3.1.3 Provision for Gratuity

Provision is not made in the Financial Statements for retirement gratuity payable under the Payment of Gratuity Act No.12 of 1983, to employees who joined the Bank prior to 1 January 1996 as the Bank has its own non-contributory retirement benefit scheme in force. However, employees whose services are terminated other than by retirement are eligible to receive a terminal gratuity under the Payment of Gratuity Act No. 12 of 1983, at the rate of one half of the basic or consolidated wage or salary, cost of living and all other allowances applicable to the last month of the financial year, for each year of continuous service. These expenses are accounted for on a cash basis. A provision has been made in this Financial Statements for retirement gratuities from the first year of service for all employees who joined the Bank on or after 1st January 1996, as they are not covered by the pension scheme of the Bank, in conformity with the Sri Lanka Accounting Standards No.16 on retirement benefit cost. However, under the Payment of Gratuity Act No.12 of 1983, the liability for payment to an employee arises only on completion of 5 years of continued service.

3.2 Defined Contribution Plans

Contributions to defined contribution plans are recognized as an expense in the Income Statement as incurred.

3.2.1 Bank of Ceylon Provident Fund

All employees of the Bank are members of the 'Bank of Ceylon Provident Fund' to which the Bank contributes 12% of employee's monthly gross salary excluding overtime. The Bank's Provident Fund is an approved Fund, which is independently administered.

3.2.2 Employees' Trust Fund

All employees of the Bank are members of the Employees' Trust Fund to which Bank contributes 3% of employee's monthly gross salary excluding overtime.

3.3 Securities sold under Re-purchases Agreements

Securities sold under re-purchase agreements ('repos') are stated at the consideration received and interest accrued thereon. These are retained in the Financial Statements and the counter-party liability is accounted for as a liability and classified under borrowings. The difference between sale and repurchase price is treated as interest and accrued evenly over the life of repo agreement.

3.4 Provisions for Liabilities

A provision is recognized 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.

4. INCOME STATEMENT

4.1 Interest Income from Loans and Advances

Interest income from loans and advances is recognized on an accrual basis. Interest ceases to be accrued when the recovery of principal or interest is in arrears for more than 90 days. Interest income from non-performing loans and advances is accounted for on a cash basis. Interest falling due on non-performing loans and advances are credited to interest in suspense account on memorandum basis. In addition, interest accrued upto three months on such non performing loans and advances is also eliminated from the interest income and transferred to interest in suspense.

4.2 Interest Income from Other Sources

Interest income from Government or Central Bank of Sri Lanka securities is recognized on a time proportion basis as premia / discounts on purchase and amortised to income on a straight line basis over the period to maturity. Income from all other interest bearing securities is recognized on an accrual basis.

4.3 Commission and Fee Income

Commission and fee income mainly comprise of fees receivable from customers for guarantees and other services provided by the Bank, and fees for foreign and domestic payment tariff. Such income is recognized as revenue as the services are provided. Income on the endorsement of bills of exchange is recognized only when the bill is received and either issued or endorsed, and the payment under the particular instrument has been effected.

4.4 Dividend Income

Dividend income is recognized when the right to receive payment is established.

4.5 Gains or Losses Arising from Investment Securities

Gains or losses arising from the sale of equity shares, units, and financial instruments, including treasury bills sold prior to maturity, are accounted for on the date on which the transaction takes place.

4.6 Lease Income

Lease income is the interest component of the lease rentals of all finance leases receivable during the year. The excess to the aggregate rental receivable over the cost of the leased assets constitutes unearned income, which is taken into revenue over the term of the lease, from the month in which the lease is executed, in proportion to the remaining receivable balance of the lease. Interest on finance losses ceases to be accrued when they are in arrears for more than 90 days. Thereafter, such income is recognized on a cash basis.

4.7 Interest Expenses

Interest expenses are recognized on an accrual basis.

4.8 Operating Expenses

All the expenses payable are recognized on accrual basis in the Income Statement to the period to which they relate.

5. COMMITMENTS AND CONTINGENCIES

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

6. SEGMENTAL REPORTING

Segmental information is presented in respect of the Group's business. These segments comprise banking, leasing, treasury, property and investments.

7. CASH FLOW

The cash flow has been prepared by using the "Direct Method". Cash and cash equivalents comprise of cash, amounts due from other banks and other short-term highly liquid investments with less then 90 days maturity from the date of acquisition.

8. COMPARATIVE FIGURES

Where necessary, amounts shown for the previous year have been reclassified to facilitate comparison.

9. EVENTS AFTER THE BALANCE SHEET DATE

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

10. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements.

Notes to the Financial Statements

For the year ended 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
1. Income				
Interest income **(Note 2)**	20,560,395	16,609,416	21,675,354	17,587,203
Dividend income **(Note 4)**	182,323	236,548	186,643	237,276
Net gain from investment securities	765,160	681,143	765,158	681,143
Fee and commission income	1,930,174	1,770,711	1,949,158	1,779,525
Foreign exchange profit	1,013,721	1,781,448	1,013,721	1,781,448
Other operating income **(Note 5)**	2,196,683	2,371,137	2,535,996	2,239,037
Share of related companies' profit before tax **(Note 11)**	477,637	506,184	45,057	559
	27,126,093	**23,956,587**	**28,171,087**	**24,306,191**
2. Interest income				
Customer advances	13,041,886	10,105,190	14,030,448	10,965,618
Short term funds	3,766,060	2,338,086	3,882,351	2,443,391
Government of Sri Lanka restructuring bonds	2,332,722	2,332,722	2,332,722	2,332,722
Investment and dealing securities	1,419,727	1,833,418	1,429,833	1,845,472
	20,560,395	**16,609,416**	**21,675,354**	**17,587,203**
3. Interest expenses				
Customer deposits	7,357,057	6,251,780	7,539,523	6,418,640
Debt securities in issue	3,049,645	1,532,373	3,158,126	1,668,006
Other borrowed funds and refinance	788,413	462,428	863,962	473,297
Others	3,746	9,503	5,951	12,368
	11,198,861	**8,256,084**	**11,567,562**	**8,572,311**
4. Dividend income				
Investment securities (Quoted)	93,545	91,371	93,545	91,371
Investment securities (Unquoted)	8,919	13,332	8,919	13,332
Dealing securities (Quoted)	5,746	79,783	10,066	80,511
Income from Unit Trust	74,113	52,062	74,113	52,062
	182,323	**236,548**	**186,643**	**237,276**
5. Other operating income				
Recovery of non performing advances	1,775,681	1,536,195	1,790,060	1,538,585
Write back of provision for fall in value of dealing & investment securities	-	-	124,391	122,127
Write back of provision for fall in value of investments made in subsidiaries	-	409,251	-	-
Profit/(loss) on sale of property including - foreclosed properties	36,325	(50,189)	36,325	(50,189)
Others	384,677	475,880	585,220	628,514
	2,196,683	**2,371,137**	**2,535,996**	**2,239,037**
6. Operating expenses				
Other operating expenses include the following:				
Directors' emoluments	519	408	5,045	4,150
Auditors' remuneration	24,220	25,908	25,090	26,633
Depreciation / amortization **(Note 28)**	550,131	376,885	637,088	479,775
Professional expenses	55,913	45,890	58,349	47,996
Legal expenses	24,164	26,672	29,497	32,120
Amortization of goodwill	7,179	-	1,759	-

For the year ended 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
7. Personnel costs				
Staff emoluments	4,355,952	4,456,329	4,525,674	4,617,547
Banks contribution to defined contribution plans				
Employees' Provident Fund	336,061	323,627	358,424	342,164
Employees' Trust Fund	81,219	80,631	85,879	83,162
Other personnel costs	330,569	302,814	350,963	304,481
	5,103,801	**5,163,401**	**5,320,940**	**5,347,354**

The number of persons employed by the bank as at 31 December, 2005 was 8,891. (8,927 as at 31 December, 2004)

For the year ended 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
8. Staff retirement benefits				
Bank's contribution to defined benefit plans				
Bank of Ceylon Pension Trust Fund	1,465,990	1,198,116	1,465,990	1,198,115
Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund	568,000	156,000	568,000	156,000
Provision for terminal gratuity	14,944	20,416	27,774	30,814
	2,048,934	**1,374,532**	**2,061,764**	**1,384,929**

The Bank has established two pension schemes namely the Bank of Ceylon Pension Trust Fund and the Widows' / Widowers' and Orphan's Pension Fund. These funds cover substantial portion of liabilities towards employees. Both schemes are defined as benefit plans and are funded. Both funds have been closed to new active members since 1st January 1996. The assets of the funded plans are held independently of the Bank's assets in separate trustee administered funds. Both schemes are valued by an independent actuary at least once in every three years.

The latest actuarial valuations were carried out as at 1st January 2004 by an independent consultancy firm. The valuation method corresponds to the requirement under the Sri Lanka Accounting Standard No.16-Retirement Benefit Costs. The valuation was done on an on going basis and based on a projected benefit valuation method. This method projects the current data using the actual assumptions and calculates a projected benefit at the participants assumed retirement date. The actuarial value of this projected benefits is then valued and discounted to the valuation date to derive the current liability.

The principal actuarial assumptions are as follows,

	Current Valuation	Previous Valuation
Discount rates		
- Pre retirement	8.0%	9.0%
- Post retirement	8.0%	9.0%
Expected return on plan assets (net of taxes)	8.0%	9.0%
COLA increase	6.5%	6.5%
Future salary increase	7.0%	7.0%
Early retirement (Age)		
Below age of 55	-	14.0%
At the age of 55	40.0%	52.0%
At the age of 56	10.0%	
At the age of 57	6.0%	34.0%
At the age of 58	10.0%	
At the age of 59	4.0%	

8. Staff retirement benefits contd.

(1) Bank of Ceylon Pension Trust Fund

In the last valuation carried out as at 01.01.2004, the estimated deficit of the Fund was Rs 2.45 billion. (Rs. 2.24 billion as at 31.12.2002). The fair value of the plan assets as at 01.01.2004 was Rs.18.33 billion (Rs.17.52 billion as at 31.12.2002) and the total liabilities of the Fund was Rs. 20.78 billion (Rs. 19.76 billion as at 31.12.2002). The increase in the deficit was due to the different assumptions made at the recent actuary valuation. The expected investment returns are assumed to be 1.5% higher than the rate of inflation. The absolute yield gap in the previous valuation was estimated as 2.5%.

Due to this, the required contribution rate has been increased from 48% to 56.76% of gross salary with effect from January 2005.

(2) Bank of Ceylon Widows' / Widowers' and Orphans' Pension Fund

The valuation revealed a deficit of funds and accordingly, an amount of Rs. 2.02 billion has been estimated as the deficit as at 01.01.2004 (Rs. 2.45 billion as at 31.12. 2002).

The fair value of the plan assets of the Widows' / Widowers' & Orphans Fund as at 01.01.2004 was Rs. 2.77 billion (Rs 2.5 billion as at 31.12.2002) and the total liabilities of the fund was Rs. 4.79 billion. (Rs. 4.95 billion as at 31.12.2002)

In order to meet the deficit, the required special contribution has been increased from Rs. 13 million per month to Rs. 38 million per month with effect from January 2005. Accordingly, an amount of Rs. 568 million was provided in the accounts for the year 2005 in addition to the members contribution. (Rs. 156 million in 2004.)

For the year ended 31st December	Bank		Group	
	2005 *Rs. '000*	2004 *Rs. '000*	2005 *Rs. '000*	2004 *Rs. '000*
9. Provision for loan losses				
Specific provision for loans and advances	1,566,704	2,556,897	1,556,767	2,608,343
Specific provision for pawning advances	9,223	9,427	9,223	9,427
Specific provision for credit card receivable	11,296	104,363	11,296	104,363
General provision made for regular advances	65,947	27,781	67,162	29,281
	1,653,170	2,698,468	1,644,448	2,751,414
Specific provision for foreclosed properties	-	35,705	-	35,705
Specific provision for leasing facilities	117	2,753	70,178	56,498
Specific provision made / (reversed) for bills of exchange	(64,005)	142,600	(64,005)	142,600
	1,589,282	**2,879,526**	**1,650,621**	**2,986,217**
10. Provision for fall in value of investment and dealing securities				
Investment securities	-	6,273	9	6,755
Dealing securities	-	-	4,074	-
	-	**6,273**	**4,083**	**6,755**
11. Share of subsidiary & associate companies' profit/(loss) before taxation				
Subsidiary companies				
Quoted companies				
Property Development Limited	224,946	204,470	-	-
Merchant Bank of Sri Lanka Limited				
- Share of profit for the year	134,327	68,847	-	-
- Share of net assets increased *	-	132,914	-	-

For the year ended 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
11. Share of subsidiary & associate companies' profit/(loss) before taxation contd.				
Unquoted companies				
Hotels Colombo (1963) Limited	(23,888)	16,703	-	-
BOC Management & Support Services (Private) Limited	683	683	-	-
BOC Property Development & Management (Private) Limited	16,564	2,538	-	-
Ceybank Securities Limited	28,388	27,483	-	-
Ceylease Financial Services Limited	10,141	6,830	-	-
BOC Travels (Private) Limited	4,212	-	-	-
Merchant Credit of Sri Lanka Limited	36,879	36,533	-	-
Ceybank Holiday Homes (Private) Limited	328	-	-	-
Sub Total	**432,580**	**497,001**	**-**	**-**
Associate companies				
Quoted companies				
Capital Development and Investment Company Limited	12,122	19,017	12,122	19,017
Unquoted companies				
Unit Trust Management Company (Private) Limited	4,255	2,365	4,255	2,365
Lanka Securities (Private) Limited	33,830	10,123	33,830	10,123
Mireka Capital Land (Private) Limited	(6,459)	8,737	(6,459)	8,737
Transnational Lanka Records Solutions (Private) Limited	1,649	3,468	1,649	3,468
Ruhuna Venture Capital Company Limited	(340)	(1,230)	(340)	(1,230)
Sub Total	**45,057**	**42,480**	**45,057**	**42,480**
Adjustments	-	(33,297)	-	(41,921)
Total	**477,637**	**506,184**	**45,057**	**559**

* This represents the share of net assets increased due to capital reduction programme carried out by Merchant Bank of Sri Lanka during the year 2004.

For the year ended 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
12. Provision for taxation				
Income tax on profits for the year				
Income tax on profit of domestic operations	84,104	47,421	227,806	128,453
Income tax on profits of off-shore operations	427,226	283,573	427,226	283,573
Income tax on profits of overseas branches	63,870	162,975	63,870	162,975
Share of income tax of subsidiary companies	114,593	81,871	-	-
Share of income tax of associate companies	13,835	7,792	13,835	7,792
Under provision in respect of prior years	297,489	5,724	297,489	5,724
Deferred tax (released) / charged **(Note 33)**	-	-	(5,913)	7,065
	1,001,117	**589,356**	**1,024,313**	**595,582**

12.1 The tax liability on profit has been computed at the following rates,

	2005	2004
Income of domestic banking unit	32.5%	32.5%
On -shore income of the Off-shore Banking Unit	32.5%	32.5%
Off -shore income of the Off-shore Banking Unit		
From 01 April 2004 to 31 December 2005	20.0%	20.0%
Income of the branch in Maldives	25.0%	25.0%
Income of the branch in Chennai	42.5%	42.5%
Income of subsidiaries & associates- Quoted	30.0%	30.0%
Income of subsidiaries & associates - Unquoted	32.5%	32.5%

12.2 In terms of provisions in the Inland Revenue (Amendment) Act No. 12 of 2004 , the tax loss brought forward can be set off against the current year tax liability only to the extent of a maximum limit of 35% of the total statutory income of the year under review and only losses which can not be deducted, may be carried forward to the future years.

The tax losses available as at 31 December 2005 amounted to Rs. 3,029,292,382/-. (2004 : Rs. 4,199,258,379/-)

12.3 The tax on profit before tax differs from the theoretical amount that would arise using the basic tax rate as follows.

	Bank		Group	
For the year ended 31st December	2005 *Rs. '000*	2004 *Rs. '000*	2005 *Rs. '000*	2004 *Rs. '000*
Profit before tax	3,023,216	2,558,700	3,092,028	2,077,257
Prima facie tax calculated at a rate of 32.5%	985,002	831,577	1,007,421	675,109
Effect of different tax rates in other countries	63,870	162,975	63,870	162,975
Income not assessable for tax	(1,209,646)	(1,157,826)	(1,210,877)	(1,373,895)
Expenses not deductible for tax purposes	1,207,613	913,480	1,211,815	1,292,243
Deferred tax assets not released	(343,211)	(166,574)	(348,268)	(166,574)
Under provision in respect of previous years	297,489	5,724	300,352	5,724
Provision for taxation	**1,001,117**	**589,356**	**1,024,313**	**595,582**
Effective tax rate	33.11%	23.03%	33.13%	28.67%

12.4 As the tax losses available for carry forward exceed the timing difference arising on accelerated capital allowances, there is no liability for deferred tax as at the balance sheet date.

12.5 Notional credit for withholding tax on Government Securities on secondary market transactions

According to the provisions in the Inland Revenue (Amendment) Act No. 19 of 2003, Bank is entitled to a notional tax credit for the interest income from the secondary market transactions in Government Securities (from 1st April 2002) subject to such interest income which forms part of the statutory income of the Bank for that year of assessment.

Accordingly, the net income earned by the Bank from the secondary market transactions in Government Securities has been grossed up in the Financial Statements and the resulting notional tax credit amounts to Rs. 142,202,213/- for the year 2005 has been recognized in the Financial Statement for the year ended 31st December 2005. (Rs. 154,381,480; 31 December 2004)

13. Earnings per share

Basic earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the number of ordinary shares in issue as at Balance Sheet date. Comparative figures are adjusted to reflect the effect of bonus issue.

For the year ended 31st December	Bank 2005	Bank 2004	Group 2005	Group 2004
13. Earnings per share contd.				
Net profit attributable to ordinary shareholders (Rs '000)	2,022,099	1,969,344	2,024,824	1,440,270
Number of ordinary shares in issue as previously reported		2,600,000		2,600,000
Earnings per share as previously reported (Rs)		**757.44**		**553.95**
Number of ordinary shares as adjusted to reflect the bonus issue	4,000,000	4,000,000	4,000,000	4,000,000
Adjusted earnings per share (Rs)	**505.52**	**492.34**	**506.21**	**360.07**

14. Dividends

Under the agreement between the Bank and the Government of Sri Lanka, on re-capitalising and granting of autonomy to the Bank of Ceylon, the Government reserves the option of allowing the Bank to retain any level of profit after tax. All profits after deduction of tax, loan loss provision and any such portion for reserves, if any, as the Government shall determine, will be issued as dividends to the Government at the end of each year .

Accordingly Rs. 1,150 million has been paid by the Bank as dividends during the year (2004 - Rs 1,000 million).

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
15. Cash and short term funds				
Cash in hand	3,862,649	3,713,397	3,909,413	3,734,376
Balances with other banks	2,272,094	1,870,426	2,272,094	1,870,426
	6,134,743	**5,583,823**	**6,181,507**	**5,604,802**
16. Balances with Central Banks				
Central Bank of Sri Lanka	12,075,389	10,810,113	12,075,389	10,810,113
Reserve Bank of India	182,257	148,764	182,257	148,764
Maldivian Monetary Authority	1,679,651	1,520,836	1,679,651	1,520,836
	13,937,297	**12,479,713**	**13,937,297**	**12,479,713**

Note

A cash balance is required to be maintained with the Central Bank of Sri Lanka and the respective monetary authorities where the overseas branches are located. The minimum cash reserve required to be maintained at the Central Bank of Sri Lanka as at 31 December 2005 was 10% (2004 - 10%) on Sri Lanka Rupee deposit liabilities.

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
17. Treasury bills and other eligible bills				
Treasury bills	26,975,213	24,635,074	27,929,527	25,298,643
Treasury bills purchased under agreement to resell	190,000	867,000	458,178	1,026,040
	27,165,213	**25,502,074**	**28,387,705**	**26,324,683**

Treasury bills and other eligible bills are debt securities issued by the Government of Sri Lanka and the respective government authorities where the overseas branches are located for a period of less than twelve months. All purchase agreements mature within twelve months from inception. Treasury bills include the bills pledged under repurchase agreement with other banks and customers. The value of such bills as at 31 December 2005 was Rs. 20.6 billion (2004 - Rs. 7.5 billion).

	2005			2004		
	No of ordinary shares*	Cost of investment Rs. '000	Market value Rs. '000	No of ordinary shares*	Cost of investment Rs. '000	Market value Rs. '000
18. Dealing securities - Bank						
Listed equity securities						
Banking, Finance and Insurance						
Commercial Bank of Ceylon Limited	82,680	6,679	11,203	41,340	6,679	6,604
Sampath Bank Limited	-	-	-	460,600	40,107	28,903
Seylan Bank Limited	-	-	-	348,400	20,294	10,452
Hatton National Bank Limited	-	-	-	679,600	66,644	38,737
Nations Trust Bank Limited	-	-	-	425,800	14,730	7,771
HDFC Bank Limited	90,900	19,998	17,362	-	-	-
		26,677	**28,565**		**148,454**	**92,467**
Diversified Holdings						
Hayleys Limited	-	-	-	942,464	153,055	118,986
		-	-		**153,055**	**118,986**
Hotels & Travels						
AHOT Properties Limited	-	-	-	913,000	24,192	26,934
Aitken Spence Hotel Holdings Limited	-	-	-	280,800	23,060	25,763
Ceylon Hotels Corporation Limited (Rs.2/=)	-	-	-	1,069,994	6,720	97,369
Connaissance Hotel Limited	-	-	-	318,660	9,959	13,782
Royal Palm Beach Hotels Limited	-	-	-	184,000	6,302	7,498
		-	-		**70,233**	**171,346**
Manufacturing						
Caltex Lubricants Limited	-	-	-	1,291,300	32,960	82,320
Ceylon Grain Elevators Limited	-	-	-	390,600	9,568	4,199
Dankotuwa Porcelain Limited	-	-	-	173,900	6,012	2,739
Singer Sri Lanka Limited	-	-	-	186,200	15,229	13,127
Tokyo Cement Co. (Lanka) Limited	-	-	-	200,300	32,040	28,042
		-	-		**95,809**	**130,427**
Power & Energy						
Lanka IOC Limited	1,000,000	27,000	33,000	1,000,000	27,000	43,250
		27,000	**33,000**		**27,000**	**43,250**
Services						
Sri Lanka Telecom Limited	-	-	-	515,000	12,078	7,983
		-	-		**12,078**	**7,983**
Total		**53,677**	**61,565**		**506,629**	**564,459**
Provision for fall in value		-	-		-	-
Dealing securities net of provision		**53,677**	**61,565**		**506,629**	**564,459**

* Note :-The par value of all shares, if not specifically mentioned, is Rs. 10 /= and paid in full.

	2005			2004		
	No of ordinary shares*	Cost of investment *Rs. '000*	Market value *Rs. '000*	No of ordinary shares*	Cost of investment *Rs. '000*	Market value *Rs. '000*
18. Dealing securities - Group						
Listed equity securities						
Banking, Finance and Insurance						
Commercial Bank of Ceylon Limited	82,680	6,679	11,203	41,380	6,685	6,616
Sampath Bank Limited	-	-	-	460,600	40,107	28,903
Seylan Bank Limited	-	-	-	348,400	20,294	10,452
Hatton National Bank Limited	22,100	2,867	2,486	679,600	66,644	38,737
Nations Trust Bank Limited	-	-	-	425,800	14,730	7,771
HDFC Bank Limited	98,900	21,758	18,890	-	-	-
LOLC Limited	400	37	40	-	-	-
		31,341	**32,619**		**148,460**	**92,479**
Beverage, Food & Tobacco						
Distilleries Company of Sri Lanka Limited (Rs 1/=)	53,000	2,526	1,855		-	-
		2,526	**1,855**		-	-
Diversified Holdings						
Hayleys Limited	5,000	639	485	942,464	153,055	118,986
Richard Peiris Limited	8,000	792	542	-	-	-
John Keells Holdings Limited	14	2	2	6,312	795	694
		1,433	**1,029**		**153,850**	**119,680**
Hotels & Travels						
AHOT Properties Limited	25,000	1,525	1,038	913,000	24,192	26,934
Aitken Spence Hotel Holding Limited	-	-	-	280,800	23,060	25,763
Ceylon Hotels Corporation Limited (Rs 2/=)	-	-	-	1,069,994	6,720	97,369
Connaissance Hotel Limited	-	-	-	318,660	9,959	13,782
Royal Palm Beach Hotels Limited	-	-	-	184,000	6,302	7,498
		1,525	**1,038**		**70,233**	**171,346**
Manufacturing						
Caltex Lubricants Limited	8,400	530	487	1,291,300	32,960	82,320
Ceylon Grain Elevators Limited	-	-	-	390,600	9,568	4,199
Dankotuwa Porcelain Limited	-	-	-	173,900	6,013	2,739
ACL Cables Limited	15,000	2,126	1,410	-	-	-
Singer Sri Lanka Limited	-	-	-	186,200	15,229	13,127
Tokyo Cement Company (Lanka) Limited	5,500	1,029	908	200,300	32,040	28,042
		3,685	**2,805**		**95,810**	**130,427**
Power & Energy						
Lanka IOC Limited	1,010,000	27,456	33,330	1,035,000	27,944	44,764
		27,456	**33,330**		**27,944**	**44,764**
Services						
Sri Lanka Telecom Limited	50,000	1,255	825	515,000	12,078	7,983
Dialog Telekom Limited	400	5	7	-	-	-
		1,260	**832**		**12,078**	**7,983**
Total		**69,226**	**73,508**		**508,375**	**566,679**
Provision for fall in value		(3,606)	-		468	-
Dealing securities net of provision		**65,620**	**73,508**		**508,843**	**566,679**

* Note :-The par value of all shares, if not specifically mentioned, is Rs. 10 /= and paid in full.

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
19. Placement with and loans to other banks				
Placements with other banks	36,850,868	27,361,554	37,047,553	27,361,554
	36,850,868	**27,361,554**	**37,047,553**	**27,361,554**
20. Loans and advances to customers				
20.1 Bills of exchange				
Export bills	3,086,545	3,788,873	3,086,545	3,788,873
Import bills	1,768,199	1,553,865	1,768,199	1,553,865
Local bills	5,209	351	5,711	366,485
	4,859,953	5,343,089	4,860,455	5,709,223
Provision for loan losses **[Note 20.1 (b)]**	(364,446)	(471,474)	(364,492)	(471,520)
Net bills of exchange	**4,495,507**	**4,871,615**	**4,495,963**	**5,237,703**
20.1(a) Analysis of net bills of exchange				
Not later than 3 months	3,899,217	4,148,278	3,899,673	4,513,965
Later than 3 months and not later than 6 months	596,290	723,337	596,290	723,738
	4,495,507	**4,871,615**	**4,495,963**	**5,237,703**
20.1(b) Movement in provision for bills of exchange				
Balance at 01 January	471,474	494,779	471,520	494,825
Adjustments & transfers	22,575	-	22,575	-
Amount provided during the year	(64,005)	142,600	(64,005)	142,600
Amount reversed during the year	(65,598)	(165,905)	(65,598)	(165,905)
Balance at 31 December	**364,446**	**471,474**	**364,492**	**471,520**
20.2 Loans and advances				
Sri Lanka rupee loans and advances				
Overdrafts	20,198,857	17,493,127	20,198,857	17,493,128
Trust receipts	4,288,400	4,528,889	4,288,400	4,528,889
Staff loans	11,290,435	10,847,901	11,338,628	10,885,916
Loans under schemes	4,506,692	3,613,868	4,506,692	3,613,868
Other term loans	30,018,356	28,146,290	30,811,995	28,621,058
Pawning advances	10,284,110	8,237,229	10,284,110	8,237,229
Foreclosed properties **[Note 20.2 (b)]**	1,331,012	1,557,830	1,452,918	1,698,052
	81,917,862	**74,425,134**	**82,881,600**	**75,078,140**
Foreign currency loans and advances				
Overdrafts	2,108,659	2,471,431	2,108,659	2,471,431
Trust receipts	560,505	639,711	560,505	639,711
Staff loans	7,034	10,089	7,034	10,089
Other term loans	93,608,195	65,348,653	93,608,195	65,348,653
	96,284,393	**68,469,884**	**96,284,393**	**68,469,884**
Total Sri Lanka rupee and foreign currency loans & advances	**178,202,255**	**142,895,018**	**179,165,993**	**143,548,024**
Provision for loan losses **[Note 20.2 (c)]**	(9,839,581)	(10,123,232)	(9,946,799)	(10,250,109)
Provision for foreclosed properties **[Note 20.2 (d)]**	(96,383)	(99,718)	(96,383)	(99,718)
Interest in suspense **[Note 20.2 (e)]**	(7,943,355)	(7,489,003)	(7,946,839)	(7,491,969)
Net loans and advances	**160,322,936**	**125,183,065**	**161,175,972**	**125,706,228**

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
20.2(a) Analysis of net loans and advances				
Not later than 1 year	72,417,870	56,532,118	73,012,715	56,830,070
Later than 1 year and not later than 5 years	77,660,430	60,642,606	77,847,994	60,827,727
Later than 5 years	10,244,636	8,008,341	10,315,263	8,048,431
	160,322,936	**125,183,065**	**161,175,972**	**125,706,228**
20.2(b) Foreclosed properties				
Balance at 1 January	1,557,830	864,814	1,698,052	1,010,935
Additions during the year	179,592	989,781	224,867	995,882
Disposals during the year	(245,418)	(296,790)	(245,418)	(308,790)
Adjustments / Transfers	(160,992)	25	(224,583)	25
Balance at 31 December	**1,331,012**	**1,557,830**	**1,452,918**	**1,698,052**
20.2(c) Movement in provision for loan losses				
Balance at 1 January	10,123,232	11,586,214	10,250,109	11,828,167
Adjustments for difference of currency conversion	(92,143)	294,685	(92,143)	294,685
	10,031,089	11,880,899	10,157,966	12,122,852
Amounts recovered / written back on account of provisions previously made	(1,699,996)	(1,348,520)	(1,666,649)	(1,349,626)
Amount reversed due to loans written off	(425,967)	(2,927,169)	(447,059)	(3,092,801)
Re classifications / transfers	281,285	(180,446)	258,093	(181,730)
Provision for loan losses **(Note 9)**				
Specific	1,587,223	2,670,687	1,577,286	2,722,133
General	65,947	27,781	67,162	29,281
Balance at 31 December	**9,839,581**	**10,123,232**	**9,946,799**	**10,250,109**
20.2(d) Movement in provision for foreclosed properties				
Balance at 1 January	99,718	82,807	99,718	82,807
Amount reversed during the year	(10,069)	(18,794)	(10,069)	(18,794)
Adjustments / Transfers	6,734	-	6,734	-
Amount provided during the year	-	35,705	-	35,705
Balance at 31 December	**96,383**	**99,718**	**96,383**	**99,718**
20.2(e) Movement in interest in suspense				
Balance at 1 January	7,489,003	15,625,183	7,491,969	15,633,070
Adjustments for difference due to currency conversion	(15,130)	177,386	(15,130)	177,386
	7,473,873	15,802,569	7,476,839	15,810,456
Amount reversed due to recovery	(1,124,956)	(2,340,616)	(1,226,271)	(2,346,660)
Amount reversed due to loans written off	(541,958)	(3,710,015)	(541,958)	(3,710,015)
Amount suspended during the year	1,380,675	1,685,233	1,482,508	1,686,356
Adjustments and reversals	755,721	(3,948,168)	755,721	(3,948,168)
Balance at 31 December	**7,943,355**	**7,489,003**	**7,946,839**	**7,491,969**
20.3 Lease rentals receivables - Not later than one year				
Gross investment in finance leases	132,379	423,849	4,763,603	2,688,664
Prepaid rentals	(14,600)	(10,165)	(111,529)	(326,185)
Net rentals receivable	**117,779**	**413,684**	**4,652,074**	**2,362,479**
Unearned income	(32,974)	(88,231)	(1,179,537)	(431,312)
Provision for lease rentals receivable **[Note 20.6]**	(4,121)	(9,093)	(114,103)	(138,395)
Net investment in finance leases	**80,684**	**316,360**	**3,358,434**	**1,792,772**

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
20.4 Lease rentals receivables - Later than one year and not later than five years				
Gross investment in finance leases	1,062,267	320,583	3,113,570	4,559,733
Prepaid rentals	(8,421)	(5,154)	(9,833)	(674,579)
Net rentals receivable	**1,053,846**	**315,429**	**3,103,737**	**3,885,154**
Unearned income	(193,896)	(51,160)	(361,391)	(806,993)
Provision for lease rental receivable **[Note 20.6]**	(7,032)	(3,097)	(211,338)	(172,413)
Net investment in finance leases	**852,918**	**261,172**	**2,531,008**	**2,905,748**
20.5 Lease rentals receivables - Later than five years				
Gross investment in finance leases	3,856	1,728	4,238	2,204
Prepaid rentals	(319)	(284)	(337)	(302)
Net rentals receivable	**3,537**	**1,444**	**3,901**	**1,902**
Unearned income	(895)	(194)	(896)	(198)
Provision for lease rental receivable **[Note 20.6]**	(1,426)	(12)	(1,427)	(13)
Net investment in finance leases	**1,216**	**1,238**	**1,578**	**1,691**
20.6 Movement in provision for lease rentals receivables				
Balance at 1 January	12,202	13,709	310,821	408,183
Amount recovered / Written back o/a provisions previously made	(18)	(2,976)	(47,744)	(71,770)
Adjustments / Reclassification	278	-	589	1,342
Amount written off	-	(1,284)	(6,976)	(83,432)
Provisions made during the year	117	2,753	70,178	56,498
Balance at 31 December	**12,579**	**12,202**	**326,868**	**310,821**
20.7 Movement in provision for Bills of exchange, Loans & advances, Foreclosed properties and Lease rentals receivables				
Balance at 1 January	10,706,626	12,177,509	11,132,168	12,813,982
Adjustments for difference due to currency conversion	(92,143)	294,685	(92,143)	294,685
	10,614,483	12,472,194	11,040,025	13,108,667
Amounts recovered / written back on account of provisions previously made	(1,775,681)	(1,536,195)	(1,790,060)	(1,606,095)
Amount reversed due to loans written off	(425,967)	(2,928,453)	(454,035)	(3,176,233)
Re classifications / transfers	310,872	(180,446)	287,991	(180,388)
Provision for loan losses **(Note 9)**				
Specific	1,523,335	2,851,745	1,583,459	2,956,936
General	65,947	27,781	67,162	29,281
Balance at 31 December	**10,312,989**	**10,706,626**	**10,734,542**	**11,132,168**

As at 31st December	Bank 2005 Rs. '000	Bank 2005 %	Bank 2004 Rs. '000	Bank 2004 %	Group 2005 Rs. '000	Group 2005 %	Group 2004 Rs. '000	Group 2004 %
20.8 Non -Performing Loans & Advances								
Non - performing loans & advances								
Bills of exchange	464,410		593,049		464,410		593,049	
Loans & advances	10,686,071		11,669,077		10,769,417		12,682,272	
Foreclosed properties	1,331,012		1,557,830		1,452,918		1,698,052	
Lease rentals receivable	13,572		28,468		363,881		871,315	
Total non performing advances	**12,495,065**	**7.1***	**13,848,424**	**9.8***	**13,050,626**	**7.2***	**15,844,688**	**11.0***
(Net of interest in suspense)								

As at 31st December	Bank 2005 Rs. '000	%	Bank 2004 Rs. '000	%	Group 2005 Rs. '000	%	Group 2004 Rs. '000	%
20.8 Non -Performing Loans & Advances contd.								
Less : Provision for loan losses								
Provision for bills of exchange	364,446		471,474		364,492		471,520	
Provision for loans & advances	9,839,581		10,123,232		9,946,799		10,250,109	
Provision for foreclosed properties	96,383		99,718		96,383		99,718	
Provision for lease rentals receivable	12,579		12,202		326,868		310,821	
Total provision for loans & advances	**10,312,989**	**5.9***	**10,706,626**	**7.6***	**10,734,542**	**5.9***	**11,132,168**	**7.7***
Net exposure	**2,182,076**	**1.2**	**3,141,798**	**2.2**	**2,316,084**	**1.3**	**4,712,520**	**3.3**

* Note :-as a percentage of total gross loans & advances (Net of interest in suspense)

The bank's net exposure on non performing advances amounting to Rs. 2,182.1 million as at 31 December 2005 (2004 - Rs. 3,141.8 million) is covered by securities valued at Rs. 3,480 million (2004 - Rs. 4,800 million).

20.9 Credit Concentration - Geographic sector risk concentrations

Geographic sector risk concentrations within the customer loan portfolio were as follows:

As at 31st December	Bank 2005 Rs. '000	%	Bank 2004 Rs. '000	%	Group 2005 Rs. '000	%	Group 2004 Rs. '000	%
Sri Lanka	172,907,877	98.2	137,262,958	97.3	179,139,125	98.3	139,884,857	97.3
United Kingdom	138,506	0.1	384,851	0.3	138,506	0.1	384,851	0.3
Republic of Maldives	1,491,014	0.8	1,609,930	1.1	1,491,014	0.8	1,609,930	1.1
India	1,528,852	0.9	1,816,817	1.3	1,528,852	0.8	1,816,807	1.3
	176,066,249	**100.0**	**141,074,556**	**100.0**	**182,297,497**	**100.0**	**143,696,445**	**100.0**

20.10 Credit Concentration - Economic sector risk concentrations

Economic sector risk concentrations within the customer loan portfolio were as follows:

As at 31st December	Bank 2005 Rs. '000	%	Bank 2004 Rs. '000	%	Group 2005 Rs. '000	%	Group 2004 Rs. '000	%
Exports and imports	22,639,905	13	40,469,505	30	22,943,830	13	40,869,710	30
Wholesale and retail trade	13,678,232	8	9,052,107	6	13,678,232	8	9,316,677	6
Banking, finance and insurance	4,098,484	2	4,677,245	3	4,098,484	2	4,759,250	3
Agriculture and fisheries	3,941,512	2	3,557,181	3	3,941,512	2	3,583,732	2
Manufacturing	8,602,118	5	7,742,463	5	8,607,807	5	7,824,015	5
Hotels, travels and services	8,190,768	5	5,264,389	4	8,197,841	4	5,265,129	4
Housing, construction & property development	12,300,483	7	13,374,646	9	13,755,166	8	13,588,446	9
Consumption and others	101,283,735	57	55,379,190	39	105,621,707	57	56,791,434	40
Foreclosed properties	1,331,012	1	1,557,830	1	1,452,918	1	1,698,052	1
Gross loans & advances	**176,066,249**	**100**	**141,074,556**	**100**	**182,297,497**	**100**	**143,696,445**	**100**

21. Government of Sri Lanka Restructuring Bonds

(a) On 24 March 1993 the Bank received Restructuring Bonds that can not be sold , amounting to Rs. 13,547 million from the Government of Sri Lanka (GOSL) in consideration of recapitalization of the Bank and settlement of certain loans given to state organisations and guaranteed by GOSL.

Under the agreement between GOSL and the Bank, on recapitalising and granting of autonomy to the Bank, the bonds may be cancelled to the extent of the dividends payable to the Government and retained by the Bank as determined by the Secretary to the Treasury in consultation with the Bank. But no part of profit could be retained by the Bank in lieu of cancellation of the bonds unless the tax and dividends paid by the Bank to the Government is at least 70% of the interest that the Bank received on these bonds from the Government.

During 1993, bonds to the value of Rs. 3,000 million were transferred to the BoC Pension Trust Fund. Two bonds amounting Rs. 2,000 million were redeemed in 1997 and 1999.

(b) On 11 October 1996, the Bank entered into another agreement with the GOSL, whereby it acquired further Rs. 9,336 million worth of restructuring bonds from the Government. Of this, a sum of Rs. 2,708 million was for further disbursements to be made by the Bank on the directive / guarantees given by the GOSL, and the balance was for settlement of loans (together with accrued interest) which have been disbursed by the Bank on directives / guarantees given by the GOSL. The bonds carry an interest rate of 14% per annum, payable semi-annually from the date of issue.

The bonds have a maturity of 10 years from 16 October 1996, (date of issue) and are non-transferable. Further, as per the agreement, the Bank is required to pay back 25% of the bond interest received, for the first two years in the form of dividends. The agreement also states that the conditions may be revised by mutual agreement in writing every two years, and dividend payments to GOSL would be made according to the fresh terms & conditions. However, in case the terms and conditions are not revised for any such period of two years , the Bank will continue to pay GOSL as agreed initially. In case the Bank is able to recover the whole or any part of the loans stated above it shall take immediate steps to have an equivalent amount of the said bonds redeemed.

Details of Bonds are as follows

Date Issued	Description	2005 *Rs. '000*	2004 *Rs. '000*	Interest Rate	Date of Maturity
24.03.1993	For recapitalisation purposes	4,780,000	4,780,000	12%	24.03.2023
24.03.1993	For settlement of loans	3,767,000	3,767,000	12%	24.03.2023
16.10.1996	For settlement of loans	9,336,300	9,336,300	14%	16.10.2006
	Total	**17,883,300**	**17,883,300**		

As at 31st December	Bank 2005 *Rs. '000*	Bank 2004 *Rs. '000*	Group 2005 *Rs. '000*	Group 2004 *Rs. '000*
22. Investment securities				
Listed equity securities **[Note 22 (a)]**	1,334,386	1,334,401	1,547,727	1,549,083
Unlisted equity securities **[Note 22 (b)]**	350,605	350,607	355,640	355,649
Unlisted preference shares **[Note 22 (c)]**	50,000	50,000	50,000	50,000
Units in Unit Trusts **[Note 22 (d)]**	833,206	759,094	833,206	759,093
Bonds, warrants and other securities **[Note 22(e)]**	24,302,377	19,334,262	24,307,585	19,358,646
	26,870,574	21,828,364	27,094,158	22,072,471

	2005			2004		
	No of ordinary shares*	Cost of investment *Rs. '000*	Market value *Rs. '000*	No of ordinary shares*	Cost of investment *Rs. '000*	Market value *Rs. '000*
22. Investment securities - Bank						
22(a) Listed equity securities						
Asian Cotton Mills Limited	100	-	-	100	-	-
DFCC Bank	8,453,333	340,169	1,859,733	8,453,333	340,169	1,741,387
Ceylon Hotels Corporation Limited (Rs 2/=)	-	-	-	2,500	16	228
National Development Bank Limited	7,841,900	994,217	1,686,009	7,841,900	994,216	1,254,704
		1,334,386	**3,545,742**		**1,334,401**	**2,996,319**

	2005			2004		
	No of ordinary shares*	Cost of investment *Rs. '000*	Directors' valuation *Rs. '000*	No of ordinary shares*	Cost of investment *Rs. '000*	Directors' valuation *Rs. '000*
22(b) Unlisted equity securities						
Credit Information Bureau (Rs 100/=)	27,000	2,700	2,700	27,000	2,700	2,700
Dawood Bank - Pakistan	15,000,000	254,280	254,280	15,000,000	254,280	254,280
Fitch Ratings Lanka Limited	62,500	625	625	62,500	625	625
Lanka Clear (Private) Limited	2,100,000	21,000	21,000	2,100,000	21,000	21,000
Megpek Exports Limited	300,000	4,355	-	300,000	4,355	-
Serendib Coconut Products Limited	37,500	375	-	37,500	375	-
Rajarata Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Kandurata Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Kandy Textile Industries Limited	191,790	1,918	-	191,790	1,918	-
Ruhunu Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Wayamba Development Bank	1,320,000	12,000	12,000	1,200,000	12,000	12,000
Sabaragamuwa Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Uva Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
		357,253	**350,605**		**357,253**	**350,605**
Provision for diminution in value		(6,648)	-		(6,646)	-
		350,605	**350,605**		**350,607**	**350,605**

	2005			2004		
	No of preference shares*	Cost of investment *Rs. '000*	Directors' valuation *Rs. '000*	No of preference shares*	Cost of investment *Rs. '000*	Directors' valuation *Rs. '000*
22(c) Unlisted preference shares						
Carson Cumberbatch Co Limited 14.75%	5,000,000	50,000	50,000	5,000,000	50,000	50,000
		50,000	50,000		50,000	50,000
Provision for diminution in value		-	-		-	-
		50,000	**50,000**		**50,000**	**50,000**

	2005			2004		
	No of units	Cost of investment Rs. '000	Manager's valuation Rs. '000	No of units	Cost of investment Rs. '000	Manager's valuation Rs. '000
22. Investment securities - Bank contd.						
22(d) Units in unit trusts						
Ceybank Unit Trust	68,600,072	724,355	882,197	63,705,894	656,228	797,598
Ceybank Unit Trust - Seed Fund	4,421,052	42,000	56,855	4,421,052	42,000	55,352
Ceybank Century Growth Fund	6,296,473	66,851	118,500	5,986,455	60,866	103,386
		833,206	1,057,552		759,094	956,336
Provision for diminution in value		-	-		-	-
		833,206	**1,057,552**		**759,094**	**956,336**

	2005 Rs. '000	2004 Rs. '000
22(e) Bonds and securities		
Treasury bonds **		
- less than 12 months	3,039,430	527,583
- over 12 months	20,645,830	15,334,140
Tradable bonds - Government of Sri Lanka	-	3,385,182
Government securities (overseas)	617,117	87,357
Total investment securities	**24,302,377**	**19,334,262**
Aggregate value of investment securities	**26,870,574**	**21,828,364**

*Note:-
The par value of all shares, if not specifically mentioned is Rs.10/= and paid in full.

**Note: -
Treasury bonds include the bonds pledged under repurchase agreement with other banks and customers. The value of such bonds as at 31 December 2005 was Rs. 10.9 billion. (2004; Rs. 11.2 billion)

	2005			2004		
	No of ordinary shares*	Cost of investment Rs. '000	Market value Rs. '000	No of ordinary shares*	Cost of investment Rs. '000	Market value Rs. '000
22. Investment securities - Group						
22(a) Listed equity securities						
Asian Cotton Mills Limited	100	-	-	100	-	-
DFCC Bank	8,453,333	340,169	1,902,000	8,453,333	340,169	1,741,387
National Development Bank Limited	7,841,900	994,217	1,686,009	7,841,900	994,217	1,254,704
Ceylon Hotels Corporation (Rs 2/=)	-	-	-	2,500	16	228
Leather Products Limited	-	-	-	179,700	1,794	1,390
Pugoda Textiles Limited	-	-	-	2,250	79	-
Sierra Cables Limited	17,000	51	43	-	-	-
Lanka Hospital Corp (Private) Limited	21,329,000	213,290	645,202	21,329,000	213,290	271,945
		1,547,727	4,233,254		1,549,565	3,269,654
Provision for diminution in value		-	-		(482)	-
		1,547,727	**4,233,254**		**1,549,083**	**3,269,654**

	2005			2004		
	No of ordinary shares	Cost of investment Rs. '000	Directors' valuation Rs. '000	No of ordinary shares	Cost of investment Rs. '000	Directors' valuation Rs. '000
22. Investment securities - Group contd.						
22(b) Unlisted equity securities						
Credit Information Bureau (Rs 100/=)	27,430	2,743	2,743	27,300	2,744	2,744
Dawood Bank - Pakistan	15,000,000	254,280	254,280	15,000,000	254,280	254,280
Fitch Ratings Lanka Limited	62,500	625	625	62,500	625	625
Lanka Clear (Private) Limited	2,100,000	21,000	21,000	2,100,000	21,000	21,000
Megpek Export Limited	300,000	4,355	-	300,000	4,355	-
Serendib Coconut Products Limited	37,500	375	-	37,500	375	-
Rajarata Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Kandurata Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Kandy Textile Industries Limited	191,790	1,918	-	191,790	1,918	-
Ruhunu Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Wayamba Development Bank	1,320,000	12,000	12,000	1,200,000	12,000	12,000
Sabaragamuwa Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Uva Development Bank	1,200,000	12,000	12,000	1,200,000	12,000	12,000
Mega Containers Limited	1,000,000	10,000	10,000	1,000,000	10,000	10,000
GTB Colombo Corporation Limited	3,200,000	32,000	32,000	3,200,000	32,000	32,000
Professional Consultants (Private) Limited	100	1	1	-	-	-
		399,297	**392,649**		**399,297**	**392,649**
Provision for diminution in value		(43,657)	-		(43,648)	-
		355,640	**392,649**		**355,649**	**392,649**

	2005			2004		
	No of preference shares	Cost of investment Rs. '000	Directors' valuation Rs. '000	No of preference shares	Cost of investment Rs. '000	Directors' valuation Rs. '000
22(c) Unlisted preference shares						
Carson Cumberbatch Co Ltd 14.75%	5,000,000	50,000	50,000	5,000,000	50,000	50,000
		50,000	**50,000**		**50,000**	**50,000**
Provision for diminution in value		-	-		-	-
		50,000	**50,000**		**50,000**	**50,000**

	2005			2004		
	No of units	Cost of investment Rs. '000	Manager's valuation Rs. '000	No of units	Cost of investment Rs. '000	Manager's valuation Rs. '000
22(d) Units in unit trusts						
Ceybank Unit Trust	68,600,072	724,355	858,873	63,705,895	656,228	797,598
Ceybank Unit Trust - Seed Fund	4,421,052	42,000	55,352	4,421,052	42,000	55,352
Ceybank Century Growth Fund	6,296,473	66,851	108,740	5,986,455	60,865	103,386
		833,206	1,022,965		759,093	956,336
Provision for diminution in value		-	-		-	-
		833,206	**1,022,965**		**759,093**	**956,336**

As at 31st December	2005 Rs. '000	2004 Rs. '000
22(e) Bonds and securities		
Treasury bonds **		
- less than 12 months	3,039,430	527,583
- over 12 months	20,651,038	15,334,140
Tradable bonds - Government of Sri Lanka	-	3,385,182
Government securities (overseas)	617,117	87,357
Loan stock	-	24,384
Total investment securities	**24,307,585**	**19,358,646**
Aggregate value of investment securities	**27,094,158**	**22,072,471**

*Note:-
The par value of all shares, if not specifically mentioned is Rs.10 /= and paid in full .

**Note: -
Treasury bonds include the bonds pledged under repurchase agreement with other banks and customers. The value of such bonds as at 31st December 2005 was Rs. 10.9 billion. (2004; Rs. 11.2 billion)

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
23. Investment properties				
The Condominium Units of World Trade Centre Echelon Square, Colombo 1	1,149,910	1,149,910	1,149,910	1,149,910
Property at Norris Canal Road, Colombo 10	122,399	-	122,399	-
	1,272,309	**1,149,910**	**1,272,309**	**1,149,910**

As agreed by both parties, the Condominium Units on 11 floors of World Trade Center was transferred to the Bank in settlement of a debt due to the Bank on 30 October 2003. The Bank intends to hold the title of this property as long term investment.

Accordingly, the market value of both properties as at balance sheet date was Rs 1,530 million. (2004; Rs 1,290 million)

As at 31st December	Principal activity	% Holding	2005 Cost Rs. '000	2005 Equity value Rs. '000	2004 Cost Rs. '000	2004 Equity value Rs. '000
24. Investments in Associate Companies						
Quoted						
Capital Development & Investment Company Limited (10,489,042 ordinary shares of Rs.10/- each fully paid)	Investment banking	24	463,630	412,485	463,630	407,706
Unquoted						
Transnational Lanka Records Solutions (Private) Limited (2,000,000 ordinary shares of Rs. 10/- each fully paid)	Data warehousing	25	20,000	20,353	20,000	21,021
Unit Trust Management Company (Private) Limited (500,000 ordinary shares of Rs. 10/- each fully paid)	Fund management	20	5,000	13,768	5,000	11,609
Ruhuna Venture Capital Company Limited (2,500,000 ordinary shares of Rs. 10/- each fully paid)	Venture capital funding	42	25,000	3,455	25,000	3,795

As at 31st December	Principal activity	% Holding	2005 Cost Rs. '000	2005 Equity value Rs. '000	2004 Cost Rs. '000	2004 Equity value Rs. '000
24. Investments in Associate Companies contd.						
Mireka Capital Land (Private) Limited (40,800,000 ordinary shares of Rs.10/- each fully paid)	Property development	40	408,000	410,278	408,000	416,737
(34,200,000 participating redeemable ,non cumulative,non voting Preference shares of Rs. 10/- each fully paid.)			342,000	342,000	342,000	342,000
Lanka Securities (Private) Limited (1,398,000 Ordinary shares of Rs.10/- each fully paid)	Stock broking	42*	13,980	42,688	13,980	21,615
Total investment in Associate Companies			1,277,610	1,245,027	1,277,610	1,224,483

* The % holding in associates includes indirect holdings as well.

As at 31st December	2005 Rs. '000	2004 Rs. '000
24(a) Movement in investments in associate companies		
Equity value at 1 January	1,224,483	251,650
Increase / (Decrease) in investment	-	1,009,238
Consolidation adjustments	(2,391)	(41,268)
Share of profit / (loss) net of taxes & dividends	22,935	4,863
Equity value at 31 December	1,245,027	1,224,483

As at 31st December	Principal activity	% Holding	2005 Cost Rs. '000	2005 Equity value Rs. '000	2004 Cost Rs. '000	2004 Equity value Rs. '000
25. Investments in Subsidiary companies						
Quoted						
Property Development Limited (61,485,050 Ordinary shares of Rs.10/- each fully paid)	Property development	93	740,070	1,218,489	740,070	1,163,474
Merchant Bank of Sri Lanka Limited (MBSL) (68,400,000 Ordinary shares of Rs.10/- each fully paid) (49,340,270 Ordinary shares of Rs.10/- each fully paid as at 31.12.2004)	Merchant Banking	76	980,502	990,169	694,276	609,290
Unquoted						
BOC Management & Support Services (Private) Limited (100,000 Ordinary shares of Rs.10/- each fully paid)	Management services	100	1,000	5,036	1,000	4,490
BOC Property Development & Management (Private) Limited (101,000,000 Ordinary shares of Rs.10/- each fully paid)	Property development	100	1,156,900	931,848	1,256,900	1,015,284
BOC Travels (Private) Limited (250,000 Ordinary shares of Rs.10/- each fully paid)	Travel related services	100	2,500	3,622	2,500	-
Ceybank Securities Limited (15,000,000 Ordinary shares of Rs.10/- each fully paid as at 31.12.2004)	Primary dealer	Liquidated	-	-	150,000	696,694

As at 31st December	Principal activity	% Holding	2005 Cost Rs. '000	2005 Equity value Rs. '000	2004 Cost Rs. '000	2004 Equity value Rs. '000
25. Investments in Subsidiary companies contd.						
Hotels Colombo (1963) Limited (73,669 Ordinary shares of Rs.10/- each fully paid)	Hotel operations	98	737	-	737	26,064
Merchant Credit of Sri Lanka Limited (4,900,018 Ordinary shares of Rs.10/- each fully paid)	Finance	88 *	22,047	203,569	22,047	179,155
Ceylease Financial Services Limited (5,000,000 Ordinary shares of Rs.10/- each fully paid)	Leasing	50	50,000	62,189	50,000	64,707
Ceybank Holiday Homes (Private) Limited (70 Ordinary shares of Rs.10/- each fully paid)	Maintaining Ceybank rests	100 *	-	328	-	-
Total investment in subsidiary companies			**2,953,756**	**3,415,250**	**2,917,530**	**3,759,158**

* The % holding in subsidiaries includes indirect holdings as well.

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000
25(a) Movement in investment in subsidiary companies		
Equity value at 1 January	3,759,158	3,756,385
Increase / (decrease) in investment	(531,552)	(750,000)
Consolidation adjustments	(42,811)	425,147
Share of profit / (loss) net of taxes & dividend	230,455	327,626
Equity value at 31 December	3,415,250	3,759,158

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
26. Other assets				
Accrued interest and other receivables	3,525,341	2,901,725	3,590,181	3,119,128
Consumable stock in hand	191,376	162,548	224,320	189,174
Foreign cheques purchased	364,990	275,573	364,990	275,573
Local cheques purchased	4,987,396	5,147,106	4,987,396	5,147,106
Tax paid in advance	194,450	504,673	205,991	513,486
Other assets	3,568,544	3,506,698	3,881,435	3,688,773
	12,832,097	**12,498,323**	**13,254,313**	**12,933,240**
27. Group balances receivable				
Merchant Bank of Sri Lanka Limited	-	115,800	-	-
BOC Travels (Private) Limited	-	16,497	-	-
Hotels Colombo (1963) Limited	23,912	24,300	-	-
Merchant Credit of Sri Lanka Limited	1,016	227	-	-
Property Development Limited	153,505	153,505	-	-
Ceylease Financial Services Limited	620,070	663,792	-	-
The Unit Trust Management (Private) Limited	-	108	-	108
Transnational Lanka Records Solutions (Private) Limited	2,056	979	2,056	979
Capital Development & Investment Co. Limited	52,507	65,650	52,507	65,650
	853,066	**1,040,858**	**54,563**	**66,737**

As at 31st December	Freehold property *Rs. '000*	Leasehold property *Rs. '000*	Equipment *Rs. '000*	Motor vehicles *Rs. '000*	Total 2005 *Rs. '000*	Total 2004 *Rs. '000*
28. Property, plant and equipment						
Bank						
Cost or valuation						
As at 1 January	3,151,189	556,435	4,451,448	217,712	8,376,784	7,453,317
Exchange rate adjustments	(60,959)	-	(13,132)	(183)	(74,274)	87,604
	3,090,230	556,435	4,438,316	217,529	8,302,510	7,540,921
Additions	4,793	26,083	824,244	35,909	891,029	900,601
Transfers / adjustments	(510)	-	(49,608)	(54)	(50,172)	(85)
Disposals	(947)	-	(57,804)	-	(58,751)	(64,653)
As at 31 December	**3,093,566**	**582,518**	**5,155,148**	**253,384**	**9,084,616**	**8,376,784**
Accumulated Depreciation						
As at 1 January	161,948	221,266	2,866,022	193,341	3,442,577	3,112,180
Exchange rate adjustments	(2,438)	-	(12,324)	(142)	(14,904)	17,701
	159,510	221,266	2,853,698	193,199	3,427,673	3,129,881
Charge for the year	39,555	22,723	478,747	9,106	550,131	376,885
Transfers / adjustments	-	-	(25,122)	(95)	(25,217)	(7,033)
Disposals	-	-	(55,827)	-	(55,827)	(57,156)
As at 31 December	**199,065**	**243,989**	**3,251,496**	**202,210**	**3,896,760**	**3,442,577**
Capital work in progress (a)					48,966	12,675
Net book value at 2005	2,894,501	338,529	1,903,652	51,174	5,187,856	-
Net book value at 2004	2,989,241	335,169	1,585,426	24,371	-	4,934,207
					5,236,822	**4,946,882**
Group						
Cost or valuation						
As at 1 January	4,980,514	617,988	5,285,712	251,881	11,136,095	10,926,960
Exchange rate adjustments	(60,959)	-	(13,132)	(183)	(74,274)	87,604
	4,919,555	617,988	5,272,580	251,698	11,061,821	11,014,564
Additions	4,793	27,157	838,681	44,227	914,858	950,802
Transfers / adjustments	(510)	-	(78,626)	(54)	(79,190)	(736,666)
Disposals	(947)	-	(76,887)	(9,472)	(87,306)	(92,605)
As at 31 December	**4,922,891**	**645,145**	**5,955,748**	**286,399**	**11,810,183**	**11,136,095**
Accumulated Depreciation						
As at 1 January	614,763	232,209	3,583,983	213,280	4,644,235	4,237,265
Exchange rate adjustments	(2,438)	-	(12,324)	(142)	(14,904)	17,701
	612,325	232,209	3,571,659	213,138	4,629,331	4,254,966
Charge for the year	83,620	40,744	498,301	14,423	637,088	479,775
Transfers / adjustments	-	-	(25,122)	(95)	(25,217)	(7,033)
Disposals	-	-	(74,694)	(5,620)	(80,314)	(83,473)
As at 31 December	**695,945**	**272,953**	**3,970,144**	**221,846**	**5,160,888**	**4,644,235**
Capital work in progress (a)					48,966	12,675
Net book value at 2005	4,226,946	372,192	1,985,604	64,553	6,649,295	-
Net book value at 2004	4,365,751	385,779	1,701,729	38,601	-	6,491,860
					6,698,261	**6,504,535**

(a) Capital work in progress which is accounted for on the basis of value of work certified includes mobilization of advances and other construction expenses.

(b) No property, plant and equipment have been pledged as security for any liability.

(c) The amount of commitments for the acquisition of property, plant and equipment is given in the Note No. 41 (a)

28. Property, plant and equipment contd.

(d) The cost of fully depreciated assets at the balance sheet date that are still in use amounted to Rs. 812.2 million. (2004 ; Rs.968.1 million)

(e) There were no significant changes in the bank's or group's property, plant and equipment during the year.

(f) The market value of land does not differ substantially from the book value.

(g) A proportion of freehold properties were revalued by professionally qualified independent valuers based on open market value of existing use. The surpluses arising on the revaluation have been directly credited to the revaluation reserve of the bank. The bank is making arrangements to revalue all freehold properties over a period of five years.

The details of revaluation done were as follows,

	Revaluation Surplus	
	Bank	Group
Effective Date	*Rs. Mn*	*Rs. Mn*
31 October 1990	231.5	231.5
30 November 1991	229.8	229.8
30 November 1993	331.1	384.5
31 March 2002	248.5	248.5
31 March 2003	1,016.1	1,016.1

The carrying amount of the freehold properties, if they were carried at cost less accumulated depreciation are as follows,

	Bank		Group	
As at 31st December	2005 *Rs. '000*	2004 *Rs. '000*	2005 *Rs. '000*	2004 *Rs. '000*
Cost of freehold properties				
Land	43,221	43,221	43,371	43,371
Building	703,669	703,669	714,869	714,869
Accumulated depreciation on building	(282,748)	(265,156)	(287,087)	(269,216)
	464,142	**481,734**	**471,153**	**489,024**
29. Deposits				
Local currency deposits				
Current account deposits	40,542,281	30,481,146	40,542,280	30,481,146
Savings deposits	67,760,812	62,926,478	67,760,812	62,926,478
Time deposits	29,369,515	27,189,064	31,188,141	28,746,216
Certificates of deposit	372,953	546,835	402,953	576,835
Other deposits	2,822,318	1,917,232	2,822,318	1,917,437
	140,867,879	**123,060,755**	**142,716,504**	**124,648,112**
Foreign currency deposits				
Current account deposits	3,512,172	3,357,783	3,512,172	3,357,783
Savings deposits	49,293,923	35,720,452	49,293,923	35,720,452
Time deposits	37,505,865	41,964,735	37,505,865	41,964,735
Other deposits	1,346,627	1,060,545	1,346,627	1,060,545
	91,658,587	**82,103,515**	**91,658,587**	**82,103,515**
	232,526,466	**205,164,270**	**234,375,091**	**206,751,627**
29(a) Analysis of Deposits				
Deposits from banks	505,705	531,425	505,705	531,425
Deposits from finance companies	228,537	477,930	228,537	477,930
Deposits from other customers	231,792,224	204,154,915	233,640,849	205,742,272
	232,526,466	**205,164,270**	**234,375,091**	**206,751,627**

Note: The maturity analysis of deposits is given in Note No. 44

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
30. Debt securities in issue				
Securities sold under repurchase agreements **(Note 30 a)**	26,677,888	16,658,547	26,677,888	16,658,547
Debentures **(Note 30 c)**	5,500,000	5,750,000	7,080,600	7,178,350
	32,177,888	**22,408,547**	**33,758,488**	**23,836,897**

30(a) The securities sold under repurchase agreements are debt securities issued by the Bank for short term funding purposes and mature within a period of less than twelve months. The interest rate for such securities varied from 7.46 % to 9.75% during the year. (2004 : 7.8 % to 8.9%)

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
30(b) Maturity of debt securities in issue				
Not later than 1 year	32,177,888	16,908,547	32,177,888	16,958,547
Later than one year and not later than 5 years	-	5,500,000	1,580,600	6,878,350
	32,177,888	**22,408,547**	**33,758,488**	**23,836,897**

30(c) The Bank has issued unsecured, redeemable debentures to the value of Rs. 5,500 million as at 31.12.2005 (2004 ; Rs. 5,750 million) as private placements to meet short term liquidity mismatches. The interest rate for debentures issued varied from 8.50% to 9.00% during the year (2004:7.25% to 8.00%).

The movement in debentures issued were as follows:

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
Movement in Debentures				
Balance as at 1 January	5,750,000	8,350,000	7,178,350	9,600,000
Issued during the year	-	-	227,250	288,350
Redemptions	(250,000)	(2,600,000)	(325,000)	(2,710,000)
Balance as at 31 December	**5,500,000**	**5,750,000**	**7,080,600**	**7,178,350**
31. Other borrowed funds				
Refinance borrowings	2,787,568	2,527,262	2,787,568	2,527,262
Placements and call money borrowings	25,220,922	9,591,891	25,248,211	9,850,237
Long/Short Term Loan	-	-	621,562	-
	28,008,490	**12,119,153**	**28,657,341**	**12,377,499**
31(a) Maturity of borrowings				
Not later than 1 year	26,726,209	10,964,806	27,338,495	11,223,152
Later than one year and not later than 5 years	1,170,778	1,060,115	1,207,343	1,060,115
Later than 5 years	111,503	94,232	111,503	94,232
	28,008,490	**12,119,153**	**28,657,341**	**12,377,499**

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
32. Group balances payable				
BOC Management and Support Services (Private) Limited	2,062	1,855	-	-
BOC Travels (Private) Limited	4,965	-	-	-
Hotels Colombo (1963) Limited	13,692	12,454	-	-
Merchant Credit of Sri Lanka Limited	46,614	18,815	-	-
Ceybank Securities Limited	-	698,378	-	-
Property Development Limited	15,298	189,936	-	-
BOC Property Development and Management (Private) Limited	4,763	55,111	-	-
Merchant Bank of Sri Lanka Limited	132,143	9,109	-	-
Ceylease Financial Services Limited	16	-	-	-
Ceybank Holiday Homes (Private) Limited	3,291	-	-	-
Unit Trust Management Company (Private) Limited	14,971	14,752	14,971	14,752
Capital Development and Investment Company Limited	828	179	828	179
Lanka Securities (Private) Limited	64,790	16,679	64,790	16,679
Mireka Capital Land (Private) Limited	6,466	1,875	6,466	1,875
Transnational Lanka Records Solutions (Private) Limited	-	414	-	414
Ruhuna Venture Capital Company Limited	-	212	-	212
	309,899	**1,019,769**	**87,055**	**34,111**

33. Deferred tax liability

Deferred tax liability is calculated on all temporary differences under the liability method using a principle tax rate of 32.5 %. (2004;32.5%) The movement of the deffered tax liability is as follows,

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
Balance as at 1 January	-	-	74,485	67,420
Income statement release **(Note 12)**	-	-	(5,913)	7,065
Balance as at 31 December	-	-	**68,572**	**74,485**

As the tax losses available for carry forward exceed the timing difference arising on accelerated capital allowances, the deferred tax assets exceed the deferred tax liability in the balance sheet. The benefit of the net deferred tax assets has not been recognized in the financial statement of the Bank due to uncertainity of their recoverability within a reasonable period.

The details of deferred tax assets & liabilities are given below,

As at 31st December	2005 Timing Difference Rs. '000	2005 Tax Liability @ 32.5 % Rs. '000	2004 Timing Difference Rs. '000	2004 Tax Liability @ 32.5 % Rs. '000
Deferred Tax Liability for Bank				
Deferred tax liability				
- Accelerated capital allowances	942,083	306,177	1,065,475	346,279
Deferred tax assets				
- Tax loss carry forward	(3,029,292)	(984,520)	(4,199,258)	(1,364,759)
Net deferred tax liability / (assets)	**(2,087,209)**	**(678,343)**	**(3,133,783)**	**(1,018,480)**

Deferred tax liability has not been established for the purposes of income tax that would be payable on the exchange revaluation on the unremitted earnings of Offshore Banking Unit and overseas branches, as such amounts are permanently reinvested. The revaluation surplus amounts to Rs. 1,371.2 million as at 31 December 2005. (Rs. 1,586.4 million as at 31 December 2004.)

As at 31st December	2005		2004	
	Timing Difference	Tax Liability @ 30%	Timing Difference	Tax Liability @ 30%
Deferred tax liability for Group				
Deferred tax liability - Accelerated capital allowance	228,573	68,572	248,283	74,485
	228,573	**68,572**	**248,283**	**74,485**

As at 31st December	Bank		Group	
	2005 *Rs. '000*	2004 *Rs. '000*	2005 *Rs. '000*	2004 *Rs. '000*
34. Other liabilities				
Accrued interest and expenditure	2,685,315	2,809,695	2,825,974	2,917,864
Cheques sent for clearing	2,790,336	4,334,002	2,790,336	4,334,002
Provision for gratuities **(34.1)**	54,765	42,793	103,016	82,100
Other liabilities	2,841,614	1,965,309	3,074,157	2,200,707
	8,372,030	**9,151,799**	**8,793,483**	**9,534,673**
34.1 Provision for gratuities				
Balance at 1 January	42,793	25,427	82,100	54,886
Provision made during the year	14,944	20,416	27,774	30,814
Payment made during the year	(2,972)	(3,050)	(6,858)	(3,600)
Balance at 31 December	54,765	42,793	103,016	82,100

35. Subordinated Debentures

These are unsecured subordinated redeemable debentures issued by the capital bank as private placements to the following lenders in order to improve the Tier ii supplementary capital of the bank.

The detail of subordinated debentures as at 31 December 2005 are as follows,

Lender	2005 *Rs. '000*	2004 *Rs. '000*	Date Issued	Maturity Date	Rate of interest
National Savings Bank	600,000	800,000	24.12.1998	Redemption: Rs. 200 mn per annum w.e.f. 24.12.2004 to 24.12.2008	Floating interest rate equivalent to 6 months Treasury bill weighted average rate plus 1.5 %. p.a., payable semi annually. Effective annual yield for 2005 ; 9.79 % (2004; 9.03%)
Sri Lanka Insurance Corporation Ltd	250,000	250,000	31.12.2003	31.12.2013	Floating interest rate equivalent to 6 months Treasury bill weighted average rate plus 1.5 %. p.a., payable semi annually. Effective annual yield for 2005 ; 9.78% (2004;9.06%)
National Savings Bank	1,000,000	-	03.11.2005	03.11.2010	Floating interest rate equivalent to 1 year Treasury Bill weighted average rate plus 0.7 %. p.a., payable semi annually. Effective annual yield for 2005 ; 11.79 %.
	1,850,000	1,050,000			

As at 31st December	Group 2005 Rs. '000	Group 2004 Rs. '000
36. Minority interest		
As at 1 January	293,861	92,885
Share of net profit of subsidiaries	42,891	41,405
Dividends	(21,086)	(11,772)
Adjustments arising due to change in share holding	170,664	171,343
As at 31 December	**486,330**	**293,861**

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
37. Share capital				
Authorized				
50,000,000 ordinary shares of Rs 1000 /- each	50,000,000	50,000,000	50,000,000	50,000,000
Issued and fully paid				
Balance as at 1 January	2,600,000	2,600,000	2,600,000	2,600,000
(2,600,000 shares of Rs. 1,000 each)				
Bonus issue	1,400,000	-	1,400,000	-
(1,400,000 shares of Rs. 1,000 each)				
Balance as at 31 December	**4,000,000**	**2,600,000**	**4,000,000**	**2,600,000**
(4,000,000 shares of Rs. 1,000 each)				
(2,600,000 shares of Rs.1,000 each - 2004)				

During the year, bank issued 1,400,000 shares of Rs.1,000 each to the Government of Sri Lanka by way of bonus issue, using the revaluation reserve. 100% of Ordinary shares have been issued to Government of Sri Lanka.

38. Permanent reserve fund				
Balance as at 1 January	1,505,000	1,465,000	1,505,000	1,465,000
Appropriations during the year	410,000	40,000	410,000	40,000
Balance as at 31 December	**1,915,000**	**1,505,000**	**1,915,000**	**1,505,000**

The permanent reserve fund is maintained as required by the Bank of Ceylon Ordinance (Chapter 397) whereby the Bank must, out of net profit after taxation but before any dividend is declared, transfer to a reserve a sum equivalent to not less than 20% of such profit until the reserve is equal to 50% of the issued and paid up capital and thereafter, an appropriate amount determined at 2% per annum under the Banking Act until the reserve is equal to the paid up capital.

In order to meet the requirement, an amount of Rs. 410 million was transferred to the reserve during the year. (2004 - Rs. 40 million)

The balance in the Permanent reserve fund will be used only for the purposes specified in the Section 20 (2) of the Banking Act No. 30 of 1988.

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
39. Reserves				
Revaluation reserve **(Note 39.1)**	129,404	1,529,404	182,797	1,582,797
Other reserves **(Note 39.2)**	829,892	679,381	1,027,469	876,958
	959,296	**2,208,785**	**1,210,266**	**2,459,755**

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
39.1 Revaluation reserve				
Balance as at 1 January	1,529,404	1,529,404	1,582,797	1,582,797
Bonus issue	(1,400,000)	-	(1,400,000)	-
Balance as at 31 December	**129,404**	**1,529,404**	**182,797**	**1,582,797**

The revaluation reserve represents the surpluses arising on the revaluation of freehold properties which are still in use for banking operations. According to the regulatory directives, bank can account for the revaluation surplus every seven years. Revaluation reserve is generally used for the issue of bonus shares or for capital reduction programme.

As at 31st December	Bank 2005 Rs. '000	Bank 2004 Rs. '000	Group 2005 Rs. '000	Group 2004 Rs. '000
39.2 Other reserves				
Free reserve **[Note 39.2.(a)]**	122,404	122,404	319,981	319,981
Exchange gain reserve **[Note 39.2(b)]**	519,705	556,977	519,705	556,977
Primary dealer special risk reserve **[Note 39.2 (c)]**	165,345	-	165,345	-
Investment fluctuation reserve **[Note 39.2 (d)]**	22,438	-	22,438	-
	829,892	**679,381**	**1,027,469**	**876,958**
39.2(a) Free reserve				
Balance as at 1 January	122,404	122,404	319,981	319,981
Transfer from retained profit	-	-	-	-
Balance as at 31 December	**122,404**	**122,404**	**319,981**	**319,981**

Free reserve has been created for unforeseeable risk and future losses.

39.2(b) Exchange gain reserve				
Balance as at 1 January	556,977	505,603	556,977	505,603
Currency translation difference during the year	(37,272)	154,431	(37,272)	154,431
Transfer to Income Statement due to disposal of an overseas branch	-	(103,057)	-	(103,057)
Balance as at 31 December	**519,705**	**556,977**	**519,705**	**556,977**

This represents the unrealized exchange difference on the investments made in the capital of foreign branches, from the date of investment. If and when the investments in foreign branches are disposed, the gain or loss will be recognized in the income statement.

39.2(c) Primary dealer special risk reserve

According to a direction issued by the Central Bank of Sri Lanka, Primary Dealers are required to transfer a percentage of their profit after tax annualy to a special risk reserve in order to strengthen capital base further with developments of the government securities market.

Accordingly the bank, which has a separate Primary Dealer Unit, transferred a sum of Rs. 165,345,000 to a Primary Dealer Special Risk Reserve during the year.

39.2(d) Investment fluctuation reserve

According to the instructions issued by Reserve Bank of India, the branch in Chennai, India, is required to build up an Investment Fluctuation Reserve amounting to a minimum of 5% of the investment portfolio.

Accordingly, the bank transferred a sum of Rs. 22,438,000 (equivalent of Indian Rs. 9,907,000) to the Investment Fluctuation Reserve Account. The amount held in this account will be utilized to meet the depreciation requirement on investment in securities.

40. Commitments and contingencies

(a) *Contingencies*

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

These commitments are quantified below.

As at 31st December	Bank		Group	
	2005 *Rs. '000*	2004 *Rs. '000*	2005 *Rs. '000*	2004 *Rs. '000*
Acceptances and documentary credits	42,803,788	21,913,227	42,803,788	21,913,227
Bills for collection	2,370,070	2,217,092	2,370,070	2,217,092
Forward exchange contracts	10,987,610	15,598,556	10,987,610	15,598,556
Guarantees	23,856,003	18,681,189	23,856,003	18,716,091
Other commitments	173,076	430,969	385,062	700,127
	80,190,547	**58,841,033**	**80,402,533**	**59,145,093**

(b) *Unutilised irrevocable commitments*

The unutilised value of irrevocable commitments relating to letters of credit, acceptances and permanent overdrafts which cannot be withdrawn at the discretion of the Bank, without risk of incurring significant penalties or expenses approximates to Rs 5,883 million as at the balance sheet date. (2004 - Rs. 5,267 million)

(c) *Financial instruments with off-balance sheet risk*

In the normal course of business, the Bank enters into contractual agreements involving various types of financial instruments with off-balance sheet risks to accommodate the financial and investment needs of clients, to conduct trading activities, and to manage its own exposures to losses. These financing instruments generate interest or fees and possess elements of credit risk in excess of those amounts recognised as assets and liabilities in the balance sheet.

41. Contingent liabilities and commitments

(a) *Capital commitments*

Capital expenditure approved by the Directors for which no provision has been made in the financial statements, amounts to:

	Bank		Group	
	2005 *Rs. '000*	2004 *Rs. '000*	2005 *Rs. '000*	2004 *Rs. '000*
Approved and contracted for	813,680	714,995	813,680	714,995
Approved and not contracted for	228,768	1,071,277	228,768	1,071,277
	1,042,448	**1,786,272**	**1,042,448**	**1,786,272**

(b) *Operating lease commitments*

Future minimum lease payments under non-cancellable operating leases where the Bank is the lessee are as follows;

	Bank		Group	
	2005 *Rs. '000*	2004 *Rs. '000*	2005 *Rs. '000*	2004 *Rs. '000*
Not later than 1 year	352,920	441,763	352,920	441,763
Later than 1 year and not later than 5 years	178,404	742,003	178,404	742,003
	531,324	**1,183,766**	**531,324**	**1,183,766**

(c) *Litigation*

In the normal course of business, the Bank is involved in various types of litigation, including litigation with borrowers who are in default under terms of their loan agreements. Bank's Legal Department manages these cases with the assistance of counsel from Hon. Attorney General's Department and private Counsel. There are about 8,500 cases filed by the Bank against defaulters and 300 pending cases against the Bank, including Fundamental Rights and Labour Tribunal cases filed by staff members for termination of services as at 31st December 2005.

The judgement have been granted against the Bank in 6 cases. Bank has appealed in these cases to the Appellate Court. Even if the Bank losses these cases, the Legal Department confirms that the amount involved in these cases is minimal which will not in any way affect the Banks' finances adversely.

In the opinion of the Directors, based on its assessment and in consultation with the Legal Department, litigation which is currently pending against the Bank will not impose a material impact on the financial condition or future operations of the Bank in its entirety.

42. Assets pledged as security

The securities sold under repurchase agreement are debt securities issued by the bank, and details of assets pledged as security are given below.

	Bank		Group	
	2005	2004	2005	2004
	Rs. '000	*Rs. '000*	*Rs. '000*	*Rs. '000*
Securities sold under repurchase agreements	26,677,888	16,658,547	26,677,888	16,658,547
Debentures	-	-	125,000	125,000
	26,677,888	16,658,547	26,802,888	16,783,547
Secured by ;				
Treasury bills held by the Bank	20,600,000	7,500,000	20,600,000	7,500,000
Treasury bonds held by the bank	10,900,000	11,200,000	10,900,000	11,200,000
Index linked bonds	3,700,000	-	3,700,000	-
Leased assets	-	-	125,000	125,000
	35,200,000	18,700,000	35,325,000	18,825,000

43. Post balance sheet events

No events have occurred since the balance sheet date which would require adjustments to, or disclosure in, the financial statements.

44. Maturities of Assets & Liabilities

The table below analyses assets and liabilities in to relevant maturity groups based on the remaining period at balance sheet date to the contractual maturity date.

Bank	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	Over 5 years	Total
	Rs. '000	*Rs. '000*	*Rs. '000*	*Rs. '000*	*Rs. '000*	*Rs. '000*
Interest earning assets						
Treasury Bills & other short term bills	21,560,370	5,414,843	-	-	-	26,975,213
GOSL treasury bonds	236,829	2,802,490	18,454,628	2,394,230	414,200	24,302,377
Securities purchased under agreement to resell	190,000	-	-	-	-	190,000
Placements with and loans to other banks	36,850,868	-	-	-	-	36,850,868
Investments & other assets	53,677	853,066	3,840,506	-	4,660,277	9,407,526
Bills of exchange	3,899,217	596,290	-	-	-	4,495,507
Loans and advances	42,501,610	29,916,260	42,806,224	34,854,206	10,244,636	160,322,936
Lease rentals receivable	38,541	42,143	551,920	300,998	1,216	934,818
GOSL - Restructuring bonds	-	9,336,300	-	-	8,547,000	17,883,300
	105,331,112	**48,961,392**	**65,653,278**	**37,549,434**	**23,867,329**	**281,362,545**
Non interest earnings assets						
Cash and balance with other banks	6,134,743	-	-	-	-	6,134,743
Balances with Central Banks	9,786,770	3,887,112	238,328	23,693	1,394	13,937,297
Accrued interest & others	3,525,341	-	-	-	-	3,525,341
Other assets	8,333,818	-	972,938	-	-	9,306,756
Property, plant and equipment	-	-	-	-	5,236,822	5,236,822
	27,780,672	**3,887,112**	**1,211,266**	**23,693**	**5,238,216**	**38,140,959**
Total assets	**133,111,784**	**52,848,504**	**66,864,544**	**37,573,127**	**29,105,545**	**319,503,504**

44. Maturities of Assets & Liabilities contd.

Bank	Up to 3 months Rs. '000	3 - 12 months Rs. '000	1 - 3 years Rs. '000	3 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Interest bearing liabilities						
Deposits	132,593,461	52,630,543	3,217,257	321,726	18,925	188,781,912
Borrowings	836,271	669,016	752,643	418,135	111,503	2,787,568
Placements and call money borrowings	25,220,922	-	-	-	-	25,220,922
Securities sold under repurchase agreements	25,246,638	1,431,250	-	-	-	26,677,888
Debentures	3,500,000	2,200,000	400,000	1,000,000	250,000	7,350,000
	187,397,292	**56,930,809**	**4,369,900**	**1,739,861**	**380,428**	**250,818,290**
Non interest bearing liabilities						
Deposits	44,054,453	-	-	-	-	44,054,453
Accrued interest and expenditure	2,685,315	-	-	-	-	2,685,315
Tax payable	76,179	-	-	-	-	76,179
Provision for gratuity	-	-	-	-	54,765	54,765
Other liabilities	5,631,950	-	-	-	-	5,631,950
Shareholders' funds	-	-	-	-	16,182,552	16,182,552
	52,447,897	-	-	-	**16,237,317**	**68,685,214**
Total liabilities	**239,845,189**	**56,930,809**	**4,369,900**	**1,739,861**	**16,617,745**	**319,503,504**
Net liquidity gap - 2005	**(106,733,405)**	**(4,082,305)**	**62,494,644**	**35,833,266**	**12,487,800**	
Net liquidity gap - 2004	**(98,605,347)**	**(7,403,346)**	**45,271,883**	**31,951,063**	**28,785,747**	

Demand & savings deposits have been categorised as up to 3 months maturity groups. However, a major part of these deposits represent a core retail deposit base with longer term maturity.

Bills of exchange, loans and advances and lease rentals receivables are shown net of interest in suspense and provision for bad and doubtful debts.

The matching and controlled mismatching of the maturities and interest rates of assets and liabilities is fundamental to the management of the Bank. It is unusual for Banks ever to be completely matched since business transacted is often of uncertain terms and of different types. An unmatched position potentially enhances profitability, but also increases the risk of losses.

The maturities of assets and liabilities and the ability to replace, at an acceptable cost, interest bearing liabilities as they mature, are important factors in assessing the liquidity of the Bank and its exposure to changes in interest rates and exchange rates.

Liquidity requirements to support calls under guarantees and standby letters of credit are considerably less than the amount of the commitment because the Bank does not generally expect the third party to draw funds under the agreement. The total outstanding contractual amount of commitments to extend credit does not necessarily represent future cash requirements, since many of these commitments will expire or terminate without being funded.

44. Maturities of Assets & Liabilities contd.

Group	Up to 3 months Rs. '000	3 - 12 months Rs. '000	1 - 3 years Rs. '000	3 - 5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
Interest Earning Assets						
Treasury Bills & other short term bills	21,560,370	6,369,157	-	-	-	27,929,527
GOSL treasury bonds	242,037	2,802,490	18,454,628	2,394,230	414,200	24,307,585
Securities purchased under agreement to resell	458,178	-	-	-	-	458,178
Placement with and loans to other banks	37,047,553	-	-	-	-	37,047,553
Investments & other assets	65,620	854,563	4,058,882	-	445,027	5,424,092
Bills of exchange	3,899,673	596,290	-	-	-	4,495,963
Loans and advances	42,953,397	30,059,319	42,872,809	34,975,186	10,315,262	161,175,972
Lease rentals receivable	936,672	2,421,762	1,885,126	645,882	1,578	5,891,020
GOSL - Restructuring bonds	-	9,336,300	-	-	8,547,000	17,883,300
	107,163,499	**52,439,881**	**67,271,445**	**38,015,298**	**19,723,067**	**284,613,190**
Non Interest Earning Assets						
Cash and balance with other banks	6,181,507	-	-	-	-	6,181,507
Balances with Central Banks	9,786,770	3,887,112	238,328	23,693	1,394	13,937,297
Accrued interest & others	3,590,181	-	-	-	-	3,590,181
Other assets	8,690,719	-	973,413	-	-	9,664,132
Property, plant and equipment	-	-	-	-	6,698,261	6,698,261
	28,249,177	**3,887,112**	**1,211,741**	**23,693**	**6,699,655**	**40,071,378**
Total Assets	**135,412,676**	**56,326,993**	**68,483,186**	**38,038,991**	**26,422,722**	**324,684,568**
Interest Bearing Liabilities						
Deposits	134,132,188	52,630,543	3,217,257	321,726	18,925	190,320,639
Borrowings	862,387	689,910	776,148	431,193	114,985	2,874,623
Placement and call money borrowings	25,869,773	-	-	-	-	25,869,773
Securities sold under repurchased agreements	25,246,638	1,431,250	-	-	-	26,677,888
Debentures	3,500,000	2,200,000	400,000	2,580,600	250,000	8,930,600
	189,610,986	**56,951,703**	**4,393,405**	**3,333,519**	**383,910**	**254,673,523**
Non Interest Bearing Liabilities						
Deposits	44,054,452	-	-	-	-	44,054,452
Accrued interest and expenditure	2,825,974	-	-	-	-	2,825,974
Tax Payable	202,167	-	-	-	-	202,167
Provision for gratuity	-	-	-	-	103,016	103,016
Other liabilities	6,350,823	-	-	-	-	6,350,823
Shareholders' funds	-	-	-	-	16,474,613	16,474,613
	53,433,416	**-**	**-**	**-**	**16,577,629**	**70,011,045**
Total Liabilities	**243,044,402**	**56,951,703**	**4,393,405**	**3,333,519**	**16,961,539**	**324,684,568**
Net Liquidity Gap - 2005	**(107,631,726)**	**(624,710)**	**64,089,781**	**34,705,472**	**9,461,183**	
Net Liquidity Gap - 2004	**(81,551,913)**	**(7,822,449)**	**46,292,580**	**32,094,058**	**10,987,724**	

45. Interest rate risk analysis of assets and liabilities

The table below analyses assets and liabilities at carrying amounts, categorised by the earlier of contractual repricing or maturity dates.

Bank	Up to 3 months Rs. '000	3 - 12 months Rs. '000	1 - 3 years Rs. '000	3 - 5 years Rs. '000	Over 5 years Rs. '000	Non Interest Bearing Rs. '000	Total Rs. '000
Assets							
Treasury Bills & other short term bills	21,560,370	5,414,843	-	-	-	-	26,975,213
GOSL treasury bonds	236,829	2,802,490	18,454,628	2,394,230	414,200	-	24,302,377
Securities purchased under agreement to resell	190,000	-	-	-	-	-	190,000
Placements with and loans to other banks	36,850,868	-	-	-	-	-	36,850,868
Investments & other assets	53,677	853,066	3,840,506	-	4,660,277	-	9,407,526
Bills of exchange	3,899,217	596,290	-	-	-	-	4,495,507
Loans and advances	42,501,610	29,916,260	42,806,224	34,854,206	10,244,636	-	160,322,936
Lease rentals receivable	38,541	42,143	551,920	300,998	1,216	-	934,818
GOSL - Restructuring bonds	-	9,336,300	-	-	8,547,000	-	17,883,300
Cash and balance with other banks	-	-	-	-	-	6,134,743	6,134,743
Balances with Central Banks	-	-	-	-	-	13,937,297	13,937,297
Accrued interest & others	-	-	-	-	-	3,525,341	3,525,341
Other assets	-	-	-	-	-	9,306,756	9,306,756
Property, plant and equipment	-	-	-	-	-	5,236,822	5,236,822
Total assets	**105,331,112**	**48,961,392**	**65,653,278**	**37,549,434**	**23,867,329**	**38,140,959**	**319,503,504**
Liabilities							
Deposits	129,683,461	52,630,543	3,217,257	3,231,726	18,925	44,054,453	232,836,365
Borrowings	836,271	669,016	752,643	418,135	111,503	-	2,787,568
Placements and call money borrowings	25,220,922	-	-	-	-	-	25,220,922
Securities sold under repurchase agreements	25,246,638	1,431,250	-	-	-	-	26,677,888
Debentures	3,500,000	3,850,000	-	-	-	-	7,350,000
Accrued interest and expenditure	-	-	-	-	-	2,685,315	2,685,315
Tax payable	-	-	-	-	-	76,179	76,179
Provision for gratuity	-	-	-	-	-	54,765	54,765
Other liabilities	-	-	-	-	-	5,631,950	5,631,950
Shareholders' funds	-	-	-	-	-	16,182,552	16,182,552
Total liabilities	**184,487,292**	**58,580,809**	**3,969,900**	**3,649,861**	**130,428**	**68,685,214**	**319,503,504**
Net interest gap - 2005	**(79,156,180)**	**(9,619,417)**	**61,683,378**	**33,899,573**	**23,736,901**	**(30,544,255)**	
Net interest gap - 2004	**(33,259,324)**	**(6,673,686)**	**29,072,790**	**14,830,496**	**18,996,694**	**(22,966,970)**	
Group							
Assets							
Treasury Bills & other short term bills	21,560,370	6,369,157	-	-	-	-	27,929,527
GOSL treasury bonds	242,037	2,802,490	18,454,628	2,394,230	414,200	-	24,307,585
Securities purchased under agreement to resell	458,178	-	-	-	-	-	458,178
Placement with and loans to other banks	37,047,553	-	-	-	-	-	37,047,553
Investments & other assets	65,620	854,563	4,058,882	-	445,027	-	5,424,092
Bills of exchange	3,899,673	596,290	-	-	-	-	4,495,963
Loans and advances	42,953,396	30,059,319	42,872,809	34,975,186	10,315,262	-	161,175,972
Lease rentals receivable	936,702	2,421,762	1,885,126	645,852	1,578	-	5,891,020
GOSL - Restructuring bonds	-	9,336,300	-	-	8,547,000	-	17,883,300
	107,163,529	**52,439,881**	**67,271,445**	**38,015,268**	**19,723,067**	**-**	**284,613,190**

45. Interest rate risk analysis of assets and liabilities contd.

Group	Up to 3 months Rs. '000	3 - 12 months Rs. '000	1 - 3 years Rs. '000	3 - 5 years Rs. '000	Over 5 years Rs. '000	Non Interest Bearing Rs. '000	Total Rs. '000
Non Interest Earning Assets							
Cash and balance with other banks	-	-	-	-	-	6,181,507	6,181,507
Balances with Central Banks	-	-	-	-	-	13,937,297	13,937,297
Accrued interest & others	-	-	-	-	-	3,590,181	3,590,181
Other assets	-	-	-	-	-	9,664,132	9,664,132
Property, plant and equipment	-	-	-	-	-	6,698,261	6,698,261
Total Assets	**107,163,529**	**52,439,881**	**67,271,445**	**38,015,268**	**19,723,067**	**40,071,378**	**324,684,568**
Liabilities							
Deposits	134,132,188	52,630,543	3,217,257	321,726	18,925	44,054,452	234,375,091
Borrowings	862,389	689,909	776,147	431,193	114,985	-	2,874,623
Placement and call money borrowings	25,869,773	-	-	-	-	-	25,869,773
Securities sold under repurchased agreement	25,246,638	1,431,250	-	-	-	-	26,677,888
Debentures	3,500,000	5,430,600	-	-	-	-	8,930,600
Accrued interest and expenditure	-	-	-	-	-	2,825,974	2,825,974
Tax Payable	-	-	-	-	-	202,167	202,167
Provision for gratuity	-	-	-	-	-	103,016	103,016
Other liabilities	-	-	-	-	-	6,350,823	6,350,823
Shareholders' funds	-	-	-	-	-	16,474,613	16,474,613
Total Liabilities	**189,610,988**	**60,182,302**	**3,993,404**	**752,919**	**133,910**	**70,011,045**	**324,684,568**
Net Interest Gap - 2005	**(82,447,459)**	**(7,742,421)**	**63,278,041**	**37,262,349**	**19,589,157**	**(29,939,667)**	
Net Interest Gap - 2004	**(65,639,597)**	**(7,548,597)**	**29,646,303**	**16,203,698**	**15,524,182**	**(22,024,917)**	

46 Directors' Interests in Contracts

Name of Related Company	Name of Director/ Relationship	Nature of Transaction	Limit Rs Mn	Amount O/S as at 31.12.2005 Rs Mn	Security
Merchant Bank of Sri Lanka Limited	Mr. Cubby Wijetunga Director (Resigned w.e.f. 05.12.2005)	Letter of Guarantee	1.0	1.0	Lease Agreement
		Overdraft Facility (Money Market revolving)	50.0	Nil	Lease Agreement
	Mr. Lalith Withana Director (Resigned w.e.f. 06.12.2005)	Short Term Loan	100.0	Nil	Lease Agreement
		Rent, rates, water charges paid to PDML amounting to Rs 14.95 million			
Property Development Limited	Mr. Manik Nagahawatte Chairman (Resigned w.e.f. 05.12.2005)	Received rent amounting to Rs. 305.2 million under the tenancy agreement between the two parties. Company holds' rent and fuel deposit amounting to Rs. 153.5 million as at 31st December 2005 in terms of the Tenancy Agreement.			
		Merchant Bank of Sri Lanka with which the company obtained Company secretarial services amounting to Rs. 391,925/=			
		BOC Property Development & Management (Pvt) Ltd. from whom a sum of Rs. 2,776,463 and a sum of Rs. 18,200/= was received as consultancy fee and supply of indoor plants respectively.			

46. Directors' Interests in Contracts contd.

Name of Related Company	Name of Director/ Relationship	Nature of Transaction	Limit Rs. Mn	Amount O/S as at 31.12.2005 Rs. Mn	Security
Hotels Colombo (1963) Limited	Mr. Manik Nagahawatte Chairman (Resigned w.e.f. 05.12.2005)	Electricity reimbursement payable by the Hotel Normal banking transaction.		23.9	
Mireka Capital Land (Private) Limited	Mr. Manik Nagahawatte Chairman (Resigned w.e.f. 05.12.2005)	Rs. 750 million worth of Land invested in Ordinary Shares and Preference Shares amounting to Rs. 408 million and Rs. 342 million, respectively Normal banking transaction.			

47. Related Party Transactions

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs. Mn	Amount O/S as at 31.12.2005 Rs. Mn	Security
Property Development Limited	Mr.S.N.P.Palihena Director	Received rent amounting to Rs. 305.2 million under the tenancy agreement between the two parties.			
	Mr. G.M Peiris Alternative Director	Company holds' rent and fuel deposit amounting to Rs. 153.5 million as at 31st December 2005 in terms of the Tenancy Agreement. Merchant Bank of Sri Lanka with which the company obtained Company secretarial services amounting to Rs. 391,925/= BOC Property Development & Management (Pvt) Ltd. from whom a sum of Rs. 2,776,463 and a sum of Rs. 18,200/= was received as consultancy fee and supply of indoor plants, respectively. Normal banking transaction.			Tenancy Agreement
Merchant Bank of Sri Lanka Limited	Mr.S.N.P.Palihena Chairman (Managing Director)	Letter of Guarantee	1.0	1.0	Lease Agreement
		Overdraft Facility (Money Market revolving)	50.0	Nil	Lease Agreement
	Mr. N.Vignesparamoorthy Director	Short Term Loan	100.00	Nil	Lease Agreement
	Mr M.Kiritharan Director	Rent, rates, water charges paid to PDML amounting to Rs. 14.95 million			

47. Related Party Transactions contd.

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs. Mn	Amount O/S as at 31.12.2005 Rs. Mn	Security
BOC Property Development & Management (Private) Limited	Mr. D. Weerasinghe Chairman Mr. S.N.P.Palihena Director Mr. K Dharmasiri Director	Received rent amounting to Rs. 92.2 million			
	Mr. P.J. Ratnayaka Managing Director	A sum of Rs. 246.9 million is invested in the company by the Bank, which will be converted to a loan.		146.9	
	Ms. K. Kulathunga Director Mr. M.T. Perera Alternate Director	Treasury Bond investment Treasury Bill investment		54.6 94.4	
BoC Management and Support Services (Private) Limited	Mr S.N.P. Palihena Director	The Bank has entered into a management contract with the company.			
	Ms. W. A. Nalani Director	A service charge of 7.5% of the salaries of employees hired to Bank of Ceylon is paid to the Company.			
	Mr. M.T. Perera Director	Gratuity payments paid by the company during the year 2003 was funded by the Bank of Ceylon.			
BoC Travels (Private) Limited	Mr. D. Weerasinghe Chairman Mr. S.N.P. Palihena Director Mr. K. Dharmasiri Director Mr. G.M. Peiris Alternate Director	Overdraft Facility		not utlised as at date	
Merchant Credit of Sri Lanka Limited	Mr. S.N.P. Palihena Chairman Ms. W.A. Nalani Director Mr. N. Vignesparamoorthy Director	Overdraft Facility Overdraft Interest paid to BOC Rs. 321,259/=	50.0	1.01	Lease debtors to the value of Rs. 100 million

47. Related Party Transactions contd.

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs. Mn	Amount O/S as at 31.12.2005 Rs. Mn	Security
Ceylease Financial Services Limited	Mr. S. N. P. Palihena Chairman	Revolving Line of Credit Facility - (a) Long Term Loans	750	336	
	Mr. B. A. C. Fernando Director	(b) Short Term Loans	Sub Limit 300	274	
	Mr. N.Vignesparamoorthy Director	(c) Overdraft Facility	Sub Limit 30	9	
		Loans Under Indian Line of Credit Loan facility	50	16.8	
Credit Information Bureau of Sri Lanka	Mr. S.N.P. Palihena Director	Bears out professional services			
DFCC Bank	Mr. S.N.P. Palihena Director	Normal Banking transactions			
Ceybank Holiday Homes (Private) Limited	Mr. B.A.C. Fernando Chairman Mr. K. Dharmasiri Director Mr. G. M. Peiris Director Mr. S. N. P. Palihena Director Ms. K. Kulathunga Director Ms. J. Siriwardana Director/ Secretary Mr. P. J. Ratnayake Alternate Director Mr. M. A. P. S. K. Perera Director	The Bank has entered into a management contract with the company.			
Ruhuna Venture Capital Company Limited	Mr. K.K.D.Karunaratne Director Mr. M.D.R. Thilakasiri Director	Normal Banking transactions			
Hotels Colombo (1963) Limited	Mr. S.N. P. Palihena Director Mr. K. Dharmasiri Director Mr . M. T. Perera Director Mr. N. Vignesparamoorthy Director	Electricity reimbursement payable by the Hotel Normal banking transaction		23.9	

47. Related Party Transactions contd.

Name of Related Company	Name of Executive/ Relationship	Nature of Transaction	Limit Rs. Mn	Amount O/S as at 31.12.2005 Rs. Mn	Security
The Unit Trust Management Company (Private) Limited	Mr. S.N.P. Palihena Director	No facilities granted during the year. Normal banking transaction			
Transnational Lanka Records Solutions (Private) Limited	Mr. J.B.V. Fernando Chairman Mr. G. M. Peiris Director	Overdraft	5.0	2.05	Mortgaged over Commercial Properties of Rs. 5 million
Mireka Capital Land (Private) Limited	Mr. S.N.P. Palihena Director Mr. K. Dharmasiri Alternate Director Mr N. Vignesparamoorthy Alternate Director Mr. M. Kiritharan Alternate Director	Rs. 750 million worth of Land invested in Ordinary Shares and Preference Shares amounting to Rs. 408 million and Rs. 342 million, respectively Normal banking transactions			
Capital Development and Investment Company Limited	Mr. K. Dharmasiri Director	Bridging loan	Nil	52.5	
Lanka Securities (Private) Limited	Mr. M. T. Perera Director	Company received brokerage income of Rs. 8.2 million from Bank of Ceylon.			
Kandurata Development Bank	Mr. W. Somaweera Director	Bank has contributed towards the capital		12.0	
Rajarata Development Bank	Mr. H. M. Dhanapala Director	Bank has contributed towards the capital		12.0	
Ruhuna Development Bank	Mr. M.R.D. Thilakasiri Director	Bank has contributed towards the capital		12.0	
Sabaragamuwa Development Bank	Mr. R. U. De S. Dharmawickrama Director	Bank has contributed towards the capital		12.0	
Wayamba Development Bank	Mr. W.D.F. Wimalarathne Director	Bank has contributed towards the capital		12.0	
Uva Development Bank	Mr. M. Jayawardena Director	Bank has contributed towards the capital Overdraft facility	 15.7	12.0 8.7	 Fixed Deposit - Rs. 16.59 million
The Lanka Hospital Corporation	Mr. S.N.P. Palihena Director	Normal Banking transactions			
Lanka Cement Limited	Mr. W. A. S. Wimalarathne (Observer)	TR & OD facilities amounting to Rs.118 million transferred to NPA			

48. Financial reporting by segment

(a) *Business Segments*

	Banking		Leasing		Treasury		Property/Investments		Unallocated		Total	
	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Revenue from external customers:												
Interest	15,571,561	14,764,985	-	-	5,319,048	2,042,914	4,568	3,418	204	2,451	20,895,381	16,813,768
Exchange	190,692	972,844	-	-	823,029	808,604	-	-	-	-	1,013,721	1,781,448
Lease income	-	-	893,120	773,435	-	-	-	-	-	-	893,120	773,435
Commissions	1,944,591	1,780,255	-	-	-	-	-	-	-	-	1,944,591	1,780,255
Other	1,625,568	1,319,795	-	-	690,975	643,455	588,962	552,749	518,769	641,286	3,424,274	3,157,285
Total revenue from external customers	19,332,412	18,837,879	893,120	773,435	6,833,052	3,494,973	593,530	556,167	518,973	643,737	28,171,087	24,306,191
Inter-segment revenue	(834,537)	(862,532)	-	-	834,537	862,532						
Total revenue	**18,497,875**	**17,975,347**	**893,120**	**773,435**	**7,667,589**	**4,357,505**	**593,530**	**556,167**	**518,973**	**643,737**	**28,171,087**	**24,306,191**
Segment result	**1,408,687**	**218,448**	**168,216**	**228,156**	**976,262**	**1,038,161**	**306,112**	**272,335**	**518,973**	**643,737**	**3,378,251**	**2,400,837**
Unallocated expenses	-	-	-	-	-	-	-	-	-	-	(331,280)	(324,139)
Profit from operations	-	-	-	-	-	-	-	-	-	-	3,046,971	2,076,698
Net financing costs	-	-	-	-	-	-	-	-	-	-	-	-
Income from Associates	-	-	-	-	-	-	-	-	-	-	45,057	559
Income tax expense	-	-	-	-	-	-	-	-	-	-	(1,024,313)	(595,582)
Minority interest	-	-	-	-	-	-	-	-	-	-	(42,891)	(41,405)
Net profit for the year	-	-	-	-	-	-	-	-	-	-	2,024,824	1,440,270
Segment assets	209,162,797	162,772,494	5,813,344	4,605,772	72,479,286	63,173,946	13,447,064	18,083,391	22,537,050	19,898,327	323,439,541	268,533,930
Investment in Associates	-	-	-	-	-	-	-	-	-	-	1,245,027	1,224,483
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-
Total assets	**209,162,797**	**162,772,494**	**5,813,344**	**4,605,772**	**72,479,286**	**63,173,946**	**13,447,064**	**18,083,391**	**22,537,050**	**19,898,327**	**324,684,568**	**269,758,413**
Segment liabilities	233,486,478	201,856,345	-	-	30,752,445	38,530,179	517,394	1,145,783	42,971,409	11,595,184	307,727,726	253,127,492
Unallocated liabilities												
Total liabilities	**233,486,478**	**201,856,345**	**-**	**-**	**30,752,445**	**38,530,179**	**517,394**	**1,145,783**	**42,971,409**	**11,595,184**	**307,727,726**	**253,127,492**
Cash flows from operating activities	(6,403,171)	894,371	(267,979)	37,746	(2,050,248)	219,367	(178,088)	27,142	460,310	23,361	(8,439,176)	1,201,987
Cash flows from investing activities	(6,485,637)	3,822,605	-	-	(1,772,284)	1,173,304	(153,943)	145,174	1,116,834	326,833	(7,295,030)	5,467,915
Cash flows from financing activities	19,729,492	5,357,822	-	-	6,315,795	1,314,139	-	-	(48,377)	528,663	25,996,910	7,200,624
Capital expenditure	(950,578)	(961,024)	-	-	-	-	-	-	-	-	(950,578)	(961,024)

48 Financial reporting by segment contd.

(b) Geographical segments

	Bank				Group			
	2005		2004		2005		2004	
	Rs. '000	*%*	*Rs. '000*	*%*	*Rs. '000*	*%*	*Rs. '000*	*%*
Assets								
Domestic Banking Unit	172,151,248	54	165,588,380	63	177,332,312	54	168,948,272	63
Off-shore Banking Division	99,892,440	31	67,840,297	25	99,892,440	31	67,840,297	25
Off-shore Banking Units	47,459,816	15	32,969,844	12	47,459,816	15	32,969,844	12
	319,503,504	**100**	**266,398,521**	**100**	**324,684,568**	**100**	**269,758,413**	**100**
Gross Income								
Domestic Banking Unit	20,394,959	75	18,788,366	79	21,439,953	76	19,137,970	79
Off-shore Banking Division	5,083,824	19	3,408,114	14	5,083,824	18	3,408,114	14
Off-shore Banking Units	1,647,310	6	1,760,107	7	1,647,310	6	1,760,107	7
	27,126,093	**100**	**23,956,587**	**100**	**28,171,087**	**100**	**24,306,191**	**100**
Profit Before Tax								
Domestic Banking Unit	515,354	17	923,307	36	584,166	19	441,864	21
Off-shore Banking Division	2,271,609	75	1,450,909	57	2,271,609	73	1,450,909	70
Off-shore Banking Units	236,253	8	184,484	7	236,253	8	184,484	9
	3,023,216	**100**	**2,558,700**	**100**	**3,092,028**	**100**	**2,077,257**	**100**
Profit After Tax								
Domestic Banking Unit	302,822	15	780,499	40	348,438	17	292,830	20
Off-shore Banking Division	1,844,383	91	1,167,336	59	1,844,383	89	1,167,336	79
Off-shore Banking Units	(125,106)	(6)	21,509	1	(125,106)	(6)	21,509	1
	2,022,099	**100**	**1,969,344**	**100**	**2,067,715**	**100**	**1,481,675**	**100**

Capital Adequacy

To monitor the adequacy of its capital the Bank uses ratios established by the Central Bank of Sri Lanka (CBSL).These ratios measure capital adequacy (minimum 10% as required by CBSL) by comparing the Bank's eligible capital with its balance sheet assets, off balance sheet commitments and market and other risk positions at weighted amounts to reflect their relative risk.

Assets are weighted according to broad categories of notional credit risk, being assigned a risk weighting according to the amount of capital deemed to be necessary to support them. Four categories of risk weights (0% , 20 % , 50 % , 100 %) are applied ; for example cash & Government instruments have a zero risk weighting which means that no capital is required to support the holding of these assets. Property plant & equipment carry a 100% risk weighting, meaning that it must be supported by Capital equal to 10% of the carrying amount.

Off balance sheet direct credit substitutes, short term self – liquidating trade related contingencies and foreign exchange and interest rate contracts are taken in to account by applying different categories of credit conversion factors, designed to convert these items in to balance sheet equivalents. The resulting credit equivalent amount are then weighted for credit risk using the same percentages as for balance sheet assets.

Tier 1 capital consists of shareholder's equity. Tier 2 capital includes the Bank's eligible subordinated debt instruments, general provision and 50 % of revaluation reserves.

The Bank's capital adequacy was as follows:

As at 31st December	Balance sheet Nominal amount		Risk weighted amount	
	2005 *Rs. Mn.*	2004 *Rs. Mn.*	2005 *Rs. Mn.*	2004 *Rs. Mn.*
Balance sheet assets (net of provisions)				
Cash & other zero rated securities	88,758	78,913	-	-
Due from other banks	39,706	29,232	7,942	5,846
Loans and advances to customers	167,097	131,145	53,528	62,354
Dealing & investment securities	6,800	8,042	6,800	8,042
Cash items in process of collection	8,247	5,423	1,649	1,084
Property, plant & equipment	5,237	4,947	5,237	4,947
Other assets	2,395	7,076	2,395	7,076
Total Assets *	**318,240**	**264,778**	**77,551**	**89,349**
Off-balance sheet positions				
Direct credit substitutes	52,909	28,026	46,543	20,294
Self - liquidating trade related contingencies	9,615	10,698	2,389	2,140
Foreign exchange and interest rate contracts	10,706	15,599	214	312
	73,230	**54,323**	**49,146**	**22,746**
Total risk - weighted assets			**126,697**	**112,095**

Capital ratios	Bank		Bank		CBSL Norm	
	2005 *Rs. Mn.*	2004 *Rs. Mn.*	2005 *%*	2004 *%*	2005 *%*	2004 *%*
Tier 1 capital	16,053	13,819	12.67	12.33	5.00	5.00
Tier 1 + Tier 2 capital	16,705	13,950	13.18	12.44	10.00	10.00

* The investments that have been deducted from the capital base are not included.

The group's capital adequacy was as follows:

As at 31st December	Balance sheet Nominal amount 2005 *Rs. Mn.*	Balance sheet Nominal amount 2004 *Rs. Mn.*	Risk weighted amount 2005 *Rs. Mn.*	Risk weighted amount 2004 *Rs. Mn.*
Balance sheet assets (net of provisions)				
Cash & other zero rated securities	90,032	79,789		
Due from other banks	39,904	29,232	7,981	5,846
Loans and advances to customers	172,210	137,768	58,107	68,976
Dealing & investment securities	5,369	3,531	5,369	3,531
Cash items in process of collection	8,247	5,423	1,650	1,085
Property, plant & equipment	6,698	6,505	6,698	6,505
Other assets	2,816	7,510	2,816	7,510
Total Assets *	**325,276**	**269,758**	**82,620**	**93,453**
Off-balance sheet positions				
Direct credit substitutes	52,909	28,026	46,543	20,294
Self - liquidating trade related contingencies	9,615	10,698	2,389	2,140
Foreign exchange and interest rate contracts	10,706	15,599	214	312
	73,230	**54,323**	**49,146**	**22,746**
Total risk - weighted assets			**131,767**	**116,199**

Capital ratios	Group 2005 *Rs. Mn.*	Group 2004 *Rs. Mn.*	Group 2005 *%*	Group 2004 *%*	CBSL Norm 2005 *%*	CBSL Norm 2004 *%*
Tier 1 capital	16,292	14,054	12.36	12.09	5.00	5.00
Tier 1 + Tier 2 capital	18,327	15,735	13.91	13.54	10.00	10.00

* The investments that have been deducted from the capital base are not included.

Income Statement - US $

For the year ended 31st December	Bank 2005 US$ '000	Bank 2004 US $ '000	Group 2005 US$ '000	Group 2004 US$ '000
Income	**265,799**	**228,801**	**276,038**	**232,140**
Interest income	201,464	158,631	212,389	167,969
Less: Interest expenses	109,734	78,851	113,346	81,871
Net interest income	**91,730**	**79,780**	**99,043**	**86,098**
Fee and commission income	18,913	16,911	19,099	16,996
Less: Fee and commission expenses	2,845	2,456	2,878	2,475
Net fee and commission income	**16,068**	**14,455**	**16,221**	**14,521**
Foreign exchange profit	9,933	17,014	9,933	17,014
Dividend income	1,787	2,259	1,829	2,266
Net gains from investment securities	7,498	6,505	7,498	6,505
Other operating income	21,525	22,646	24,849	21,384
Operating income	**148,541**	**142,659**	**159,373**	**147,788**
Less: Operating expenses				
Personnel costs	50,010	49,314	52,138	51,071
Staff retirement benefits	20,077	13,128	20,202	13,227
Premises, equipment and establishment expenses	16,788	13,948	18,431	15,685
Other operating expenses	12,178	10,781	13,535	11,063
Provision for loan losses	15,573	27,501	16,174	28,520
Provision for fall in value of investments & dealing securities		60	40	65
Operating Profit on ordinary activities before tax	**33,915**	**27,927**	**38,853**	**28,157**
Less: Value added tax on financial services	8,971	8,324	8,996	8,324
Operating profit on ordinary activities before income tax	**24,944**	**19,603**	**29,857**	**19,833**
Share of profit from subsidiaries & associates	4,680	4,834	441	5
Profit before income tax	**29,624**	**24,437**	**30,298**	**19,838**
Less: Provision for taxation	9,810	5,629	10,037	5,688
Profit after income tax	**19,814**	**18,808**	**20,261**	**14,150**
Less: Minority interest			420	395
Net profit for the year	**19,814**	**18,808**	**19,841**	**13,755**
Earnings per share (US $)	4.95	4.70	4.96	3.44

The Income Statement and Balance Sheet in US $ on page 100 and 101 are presented solely for the convenience of the readers of the Annual Report.

Exchange Rate 1 US $ was Rs 102.05 as at 31st December 2005 (Rs 104.71 as at 31st December 2004)

Balance Sheet - US $

As at 31st December	Bank 2005 US$ '000	Bank 2004 US $ '000	Group 2005 US$ '000	Group 2004 US$ '000
ASSETS				
Cash and short term funds	60,112	53,329	60,570	53,529
Balances with Central Banks	136,567	119,189	136,567	119,189
Treasury bills and other eligible bills	266,182	243,561	278,161	251,418
Dealing securities	526	4,839	643	4,860
Placement with and loans to other banks	361,088	261,320	363,016	261,320
Loans & advances to customers				
Bills of exchange	44,050	46,527	44,054	50,023
Loans & advances	1,570,946	1,195,579	1,579,305	1,200,575
Lease rentals receivable - within one year	791	3,021	32,908	17,122
Lease rentals receivable - one to five years	8,357	2,494	24,800	27,752
Lease rentals receivable - after five years	12	12	15	16
	1,624,156	1,247,633	1,681,082	1,295,488
Government of Sri Lanka restructuring bonds	175,232	170,797	175,232	170,797
Investment securities	263,295	208,475	265,486	210,806
Investment properties	12,467	10,982	12,467	10,982
Investments in associate companies	12,200	11,695	12,200	11,695
Investments in subsidiary companies	33,465	35,902	-	-
Other assets	125,737	119,367	129,874	123,521
Group balances receivable	8,359	9,941	535	639
Property, plant and equipment	51,314	47,246	65,634	62,122
Total assets	**3,130,700**	**2,544,276**	**3,181,467**	**2,576,366**
FINANCED BY ;				
LIABILITIES				
Deposits from customers	2,278,444	1,959,451	2,296,557	1,974,611
Debt securities in issue	315,299	214,016	330,787	227,658
Other borrowed funds	274,445	115,746	280,803	118,213
Group balances payable	3,038	9,739	853	326
Deferred tax liability	-	-	672	711
Tax payable	746	1,309	1,309	1,606
Other liabilities	82,034	87,406	86,164	91,062
Subordinated debentures	18,127	10,028	18,127	10,028
Total liabilities	**2,972,133**	**2,397,695**	**3,015,272**	**2,424,215**
Minority interest			4,765	2,807
SHAREHOLDER'S EQUITY				
Share capital	39,195	24,832	39,195	24,832
Permanent reserve fund	18,764	14,374	18,764	14,374
Retained profits	91,208	86,280	91,611	86,646
Reserves	9,400	21,095	11,859	23,492
Total shareholder's equity	**158,567**	**146,581**	**161,429**	**149,344**
Total equity and liabilities	**3,130,700**	**2,544,276**	**3,181,467**	**2,576,366**
Commitments and contingencies	**785,758**	**561,970**	**787,835**	**564,874**

Ten Year Statistical Summary

Rs. million	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Operating Results										
Gross Income	17,117	20,091	20,123	21,477	22,753	28,410	24,578	22,805	23,957	27,126
Interest Income	13,742	15,972	15,710	16,624	18,245	22,887	20,258	17,040	16,609	20,560
Interest Expense	(8,203)	(9,586)	(8,998)	(9,997)	(12,498)	(17,704)	(12,794)	(8,438)	(8,256)	(11,199)
Foreign Exchange Income	492	789	1,244	1,045	384	1,205	737	707	1,781	1,014
Other Income	2,883	3,330	2,472	2,848	3,153	2,996	2,985	4,343	4,804	4,784
Operating Expenses	(4,886)	(5,425)	(5,275)	(5,507)	(6,061)	(6,892)	(7,406)	(9,314)	(9,999)	(11,024)
Provision for bad and doubtful debts and fall in value of Investments & Properties	(739)	(1,280)	(4,081)	(2,018)	(2,412)	(1,875)	(2,941)	(3,012)	(2,886)	(1,589)
Operating Profit	3,289	3,800	1,072	2,995	811	617	839	1,326	2,053	2,546
Less- Special Levy	(400)									
Share of Profit/Loss of Related Companies	-	(406)	196	29	260	274	399	474	506	478
Profit before Income Tax	3,288	2,994	1,268	3,023	1,071	891	1,238	1,800	2,559	3,024
Income Tax on Profit	(827)	(935)	(1,150)	(969)	(370)	(74)	(219)	(168)	(590)	(1,001)
Profit after Taxation	2,462	2,059	118	2,055	701	817	1,019	1,632	1,969	2,023
Assets										
Cash and Short Term Funds	2,248	3,086	2,999	4,954	3,309	4,122	4,275	4,179	5,584	6,135
Balance with Central Bank	7,938	7,434	9,527	9,462	7,057	8,835	9,198	7,945	12,480	13,937
Treasury bills and other securities eligible for rediscounting with Central Bank	3,036	5,335	4,990	6,472	5,340	4,313	13,134	13,837	25,502	27,165
Dealing Securities	1,196	1,111	1,227	1,041	614	797	503	1,411	507	54
Placements with and Loans to Other Banks	11,152	15,871	21,154	20,063	28,685	10,642	13,494	26,412	27,362	36,851
Bills of exchange, Loans and Advances	61,318	74,253	82,794	88,314	112,168	142,478	114,609	113,078	130,055	164,818
Lease Rentals Receivables	429	420	357	323	341	266	276	406	579	935
Investment Securities	3,375	4,910	3,689	5,320	26,974	26,635	27,548	26,781	21,828	26,871
Investment Properties	-	-	-	-	-	-	-	1,150	1,150	1,272
Investment in Subsidiaries and Associates	1,824	1,673	1,602	2,717	2,947	2,822	2,831	4,008	4,984	4,660
Government of Sri Lanka Restructuring Bonds	19,883	18,883	18,883	17,883	17,883	17,883	17,883	17,883	17,883	17,883
Group balances Receivable	2,517	3,017	2,985	1,111	848	810	646	1,209	1,041	853
Property, Plant and Equipment	3,108	3,361	3,510	3,682	3,604	3,451	3,946	4,344	4,947	5,237
Other Aseets	15,347	11,642	13,733	17,300	23,146	14,619	19,532	17,746	12,499	12,832
Total Assets	**133,371**	**150,995**	**167,450**	**178,642**	**232,916**	**237,673**	**227,875**	**240,388**	**266,399**	**319,503**
Liabilities										
Deposits from Non Bank Customers	89,177	101,288	113,927	119,754	130,583	146,589	169,978	185,850	204,633	232,021
Deposits from Banks	2,045	1,042	1,047	821	544	581	443	451	531	506
Borrowings	20,004	25,438	28,675	34,240	73,266	65,835	31,735	26,258	34,528	60,186
Group balance payable	155	424	165	285	214	219	123	955	1,020	310
Deferred Taxation		231	294	318	262	-	-	-		
Other Liabilities	11,622	11,415	12,622	11,140	15,934	12,204	12,757	11,304	9,289	8,448
Subordinated debentures	-	-	1,000	1,000	1,000	1,000	1,000	1,250	1,050	1,850
Total Liabilities	**123,003**	**139,837**	**157,731**	**167,558**	**221,803**	**226,428**	**216,036**	**226,069**	**251,051**	**303,321**

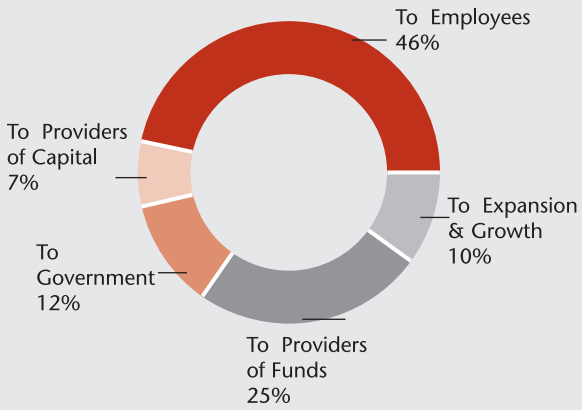
Rs. million	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Shareholders Equity										
Share Capital	1,000	1,000	1,000	1,000	1,000	2,600	2,600	2,600	2,600	4,000
Capital pending allotments	1,600	1,600	1,600	1,600	1,600	-	-	-	-	-
Reserves	7,768	8,558	7,119	8,484	8,513	8,645	9,238	11,720	12,748	12,183
Total Shareholders' Equity	**10,368**	**11,158**	**9,719**	**11,084**	**11,113**	**11,245**	**11,838**	**14,320**	**15,348**	**16,183**
Total Equity and Liabilities	**133,371**	**150,995**	**167,450**	**178,642**	**232,916**	**237,673**	**227,875**	**240,388**	**266,399**	**319,504**
Commitments and Contingencies	**62,833**	**76,637**	**84,500**	**67,510**	**79,870**	**73,316**	**62,996**	**50,087**	**58,841**	**80,191**
Ratios										
Return on Average Assets (%)	2.64	2.11	0.80	1.75	0.52	0.38	0.53	0.77	1.01	1.03
Return on Average Shareholders' Funds (%) - Before tax	33.86	27.81	12.15	29.07	9.66	7.97	10.73	13.77	17.25	19.18
Return on Average Shareholders' Funds (%) - After tax	25.35	19.13	1.13	19.75	6.32	7.31	8.83	12.48	13.28	12.83
Capital Adequacy Ratio (%)	13.61	9.82	9.94	12.06	11.53	13.05	12.44	13.11	12.44	13.18
Income Growth (%)	15.50	17.38	0.16	7.16	5.94	24.86	(13.49)	(7.21)	5.05	13.23
Capital Funds to Liabilities Including Contingent Liabilities (%)	5.58	5.15	4.01	4.72	3.68	3.75	4.24	5.19	4.95	4.22
Liquid Assets to Liabilities (%)	25.70	30.93	34.82	39.44	27.86	28.50	34.19	25.34	23.82	26.87
Other Information										
No of Employees	10,096	9,987	9,873	9,697	9,473	9,245	9,268	8,927	8,718	8,891
No of Branches	296	296	296	296	296	296	297	299	300	304
No of Advances (in 000)	470	613	696	694	695	718	796	1,061	1,218	1,285
No of Depositors (in 000)	3,606	3,841	4,386	4,561	4,749	4,896	5,089	5,274	5,491	5,782

Value Added Statement

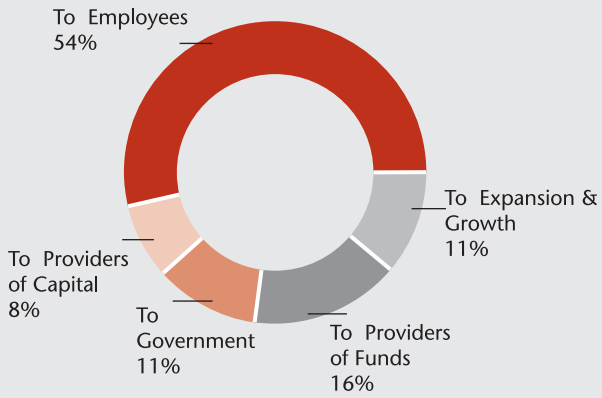
Value Added	2005 Rs. '000	2004 Rs. '000
Income earned by providing Banking Services	25,410,668	22,275,540
Cost of services	(9,766,867)	(8,473,728)
Value added by banking services	15,643,801	13,801,812
Non banking income	1,296,690	1,334,212
Provision for bad debts	(1,589,282)	(2,879,526)
Provision for fall in value of investments	-	(6,273)
	15,351,209	12,250,225

Value Allocated	%	2005 Rs. '000	%	2004 Rs. '000
To employee				
Salaries wages & other benefits	46%	7,152,735	54%	6,537,933
To providers of capital - Government of Sri Lanka				
Dividends to Government	7%	1,150,000	8%	1,000,000
To Government				
Taxes	12%	1,788,186	11%	1,371,262
To providers of funds				
Refinance & borrowings	25%	3,838,058	16%	1,994,801
To expansion & growth				
Retained income	6%	872,099	8%	969,344
Depreciation	4%	550,131	3%	376,885
		1,422,230		1,346,229
	100%	15,351,209	100%	12,250,225

Value Added Statement 2005



Value Added Statement 2004



Corporate Offices & Overseas Branches

Registered Head Office
4, Bank of Ceylon Mawatha,
Tel : 2446790-811 (22 lines) 2338741-55
Telegraphic Address : 'HEADBANK'
Telex : Colombo 21331 ABLANKA BK CE
22419 BCCEX CE
21868 INTBANK
Website : www.boc.lk

International Division
7th,8th,9th Floor, Head Office Building
4, Bank of Ceylon Mawatha,
Colombo 1. Sri Lanka.
Tel : 2445794,2445791-2,2445783,2445781-2-3-4-5
2447830-1,2345424,2345420,2448207,2338765,2544309,
2344845,2338741-55,2445793
Fax : 2445788,2447171

Corporate Branch
1st,2nd,3rd Floors. Head Office Building
4, Bank of Ceylon Mawatha,
Colombo 1, Sri Lanka
Tel : 2446814,2445803,2345428,2471613,2446818-20
Fax : 2446813,2446814,2399561
Telex : Colombo 21499
Email : boc660@boc.lk

Second Corporate Branch
3rd Floor, Head Office Building
4, Bank of Ceylon Mawatha
Colombo 1, Sri Lanka
Tel : 2325742, 2447812 Fax : 2446816
Email : boc822@sltnet.lk

Metropolitan Branch
Bank of Ceylon Building, York Street
Colombo 1. Sri Lanka
Tel : 2449063,2329419,2449663,2320223
2328521-10 lines
Fax 2325629,2320838,2472646,2328197
Email : boc618@boc.lk

Taprobane Branch
Bank of Ceylon Building, York Street,
Colombo 1. Sri Lanka.
Tel: 2422267, 2447173
2328521-10 lines
Fax: 2422267

Pettah Branch
Gas Work Street, Colombo 11, Sri Lanka
Tel : 2452368, 2393544, 2434478-9, 2435949
2431555 Fax : 2432629
Email : boc004@sltnet.lk

Offshore Banking Division
2nd Floor, Head Office Building,
4, Bank of Ceylon Mawatha, Colombo 1. Sri Lanka
Tel : 2338765, 2346536, 2346553, 2346551
Fax : 2445784, 2448776 Telex BO-FCBU-23481
Email : agmfcbu@sri.lanka.net

Overseas Branches

London Branch
Bank of Ceylon
No. 1, Devonshire Square,
London, EC 2M 4WD, United Kingdom
Tel : 00 44 2078800121, 00 44 2073771888
Telegraphic Address CEYBANK
Fax : 00 44 2073775430 Telex : 883587
Email : bankofceylon.uk@btclick.com

Male Branch
Bank of Ceylon, "Aage", 12, Boduthakurufaanu,
Magu, Male 20094, Republic of Maldives.
Tel : 00 960 3323045, 00960 3323046
Telex : 77080 BC MALE' MF
Fax : 00960 3320575
Email : bcmale@dhivehinet.net.mv

Chennai Branch
Bank of Ceylon
1090, Poonamalee High Road,
Chennai 600 084, India.
Tel : 009144-26423501, 26420972, 26420973
Fax : 009144 – 25325590
Telex : 08141 – 24094/08141 – 24095
Swift : BCEYIN5M
Email : ceybank@md3.vsnl.net.in

Province Offices & Branches

Western Province North
Tel: 2381366, 2381365, 2328521
Fax: 2449203
E-mail: bocwpn@sri.lanka.net

Andiambalama
Tel: 2258184
Fax: 2258184
E-mail: boc494@boc.lk

Biyagama
Tel: 5558970, 2488770
Fax: 2489905
E-mail: boc732@boc.lk

Borella
Tel: 4612617, 2694701
Fax: 2696524
E-mail: boc038@boc.lk

Borella 2nd
Tel: 2685140
Fax: 2684232
E-mail: boc668@boc.lk

Central Bus Stand
Tel: 5365118, 2326761
Fax: 2447310
E-mail: boc573@boc.lk

Central Super Market
Tel: 2446475, 5357573
Fax: 2433747
E-mail: boc672@boc.lk

City Office
Tel: 2329413, 2438453-5, 2320441-5
Fax: 2438454, 2329413
E-mail: boc001@boc.lk

Dematagoda
Tel: 5335594, 2698588
Fax: 2684234
E-mail: boc561@boc.lk

Divulapitiya
Tel: 031-2246280
Fax: 031-2246280
E-mail: boc433@boc.lk

Fifth City
Tel: 2449646, 2421544
Fax: 2436180
E-mail: boc060@boc.lk

Gampaha
Tel: 033-2226051, 033-2222034
Fax: 033-2226051
E-mail: boc045@boc.lk

Grandpass
Tel: 2448202
Fax: 2393545
E-mail: boc628@boc.lk

Hulftsdorp
Tel: 2424843, 2320374
Fax: 2424843
E-mail: boc032@boc.lk

IPZ Katunayake
Tel: 2225201, 2259583
Fax: 2252021
E-mail: boc658@boc.lk

Ja-Ela
Tel: 5342311, 5372456
Fax: 2236494
E-mail: boc039@boc.lk

Kadawatha
Tel: 2920687, 2925214
Fax: 2925214
E-mail: boc059@boc.lk

Kiribathgoda
Tel: 2906149, 2911304
Fax: 2911304
E-mail: boc543@boc.lk

Kirindiwela
Tel: 033-2267280
Fax: 033-2269690
E-mail: boc571@boc.lk

Kolonnawa
Tel: 5557286, 2572265
Fax: 2572265
E-mail: boc595@boc.lk

Kotahena
Tel: 2448632, 2393635
Fax: 5363567
E-mail: boc663@boc.lk

Lake House
Tel: 5363723, 2448492
Fax: 2448492
E-mail: boc636@boc.lk

Lake View
Tel: 5359693, 2314207
Fax: 5362878
E-mail: boc612@boc.lk

Main Street
Tel: 2447198, 2329631
Fax: 2447198
E-mail: boc026@boc.lk

Maradana
Tel: 2689403, 2696550
Fax: 2689403
E-mail: boc041@boc.lk

Minuwangoda
Tel: 2295214
Fax: 2295214
E-mail: boc045@boc.lk

Mirigama
Tel: 033-2275975, 033-2273280
Fax: 033-2273280
E-mail: boc088@boc.lk

Narahenpita
Tel: 2368514
Fax: 2368515
E-mail: boc762@boc.lk

Negombo
Tel: 031-2224711, 031-2222214
Fax: 031-2224263
E-mail: boc018@boc.lk

Negombo Bazaar
Tel: 031-2231297
Fax: 031-2231297
E-mail: boc572@boc.lk

Nittambuwa
Tel: 033-2287280
Fax: 033-2289700
E-mail: boc675@boc.lk

Peliyagoda
Tel: 2945078, 2930397
Fax: 2945078
E-mail: boc042@boc.lk

Personal Branch
Tel: 2446821, 2321174, 2321173
Fax: 2446823
E-mail: boc681@boc.lk

Prince Street
Tel: 5377730, 2320771
Fax: 2320771
E-mail: boc025@boc.lk

Pugoda
Tel: 2404821
Fax: 2404823
E-mail: boc765@boc.lk

Ragama
Tel: 2960291, 2960290
Fax: 2960290
E-mail: boc764@boc.lk

Regent Street
Tel: 2697035
Fax: 2697035
E-mail: boc627@boc.lk

Seeduwa
Tel: 2259590, 2252019
Fax: 5365049
E-mail: boc421@boc.lk

Veyangoda
Tel: 033-2287279
Fax: 033-2287279
E-mail: boc682@boc.lk

Wattala
Tel: 5368394, 2932280
Fax: 2942505
E-mail: boc505@boc.lk

Welisara
Tel: 2958485, 5361442
Fax: 2958485
E-mail: boc527@boc.lk

Yakkala
Tel: 033-2233591, 033-2233592
Fax: 033-2233591
E-mail: boc769@boc.lk

Western Province South
Tel: 2853905, 2853906, 2809677, 2854133
Fax: 2825611
E-mail: bocwps@sri.lanka.net

Agalawatta
Tel: 034-2247480
Fax: 034-2247480
E-mail: boc657@boc.lk

Aluthgama
Tel: 034-2271413, 034-2275188
Fax: 034-2275188
E-mail: boc680@boc.lk

Athurugiriya
Tel: 2561378
Fax: 2561378
E-mail: boc757@boc.lk

Bambalapitiya
Tel: 5368439, 2598390, 2583330
Fax: 2584183
E-mail: boc037@boc.lk

Bandaragama
Tel: 038-2290280
Fax: 4290079
E-mail: boc665@boc.lk

Battaramulla
Tel: 2862575, 2862576
Fax: 2862575
E-mail: boc679@boc.lk

Beruwala
Tel: 034-2279899,
034-2276006
Fax: 034-2276006
E-mail: boc058@boc.lk

Bulathsinhala
Tel: 034-2283116,
Fax: 034-2283116
E-mail: boc673@boc.lk

Dehiwala
Tel: 2712075, 2738335,
2738514
Fax: 2714468
E-mail: boc051@boc.lk

Dharga Town
Tel: 034-2275411,
034-2275247
Fax: 034-2275411
E-mail: boc563@boc.lk

Dodangoda
Tel: 034-2281628
Fax: 034-2281628
E-mail: boc293@boc.lk

Hanwella
Tel: 036-2253520,
036-2255079
Fax: 036-2255079
E-mail: boc741@boc.lk

Homagama
Tel: 2855059
Fax: 2748824
E-mail: boc568@boc.lk

Horana
Tel: 034-2260152, 034-
2261280
Fax: 034-2260152
E-mail: boc054@boc.lk

Hyde Park
Tel: 2687483, 2687281
Fax: 2687483
E-mail: boc521@boc.lk

Idama
Tel: 2646165, 2645427
Fax: 2646165
E-mail: boc061@boc.lk

Ingiriya
Tel: 034-2269280
Fax: 034-2269280
E-mail: boc604@boc.lk

Kaduwela
Tel: 2537999, 2571253
Fax: 2571253
E-mail: boc608@boc.lk

Kalutara
Tel: 034-2229804,
034-2222214
Fax: 034-2222363
E-mail: boc016@boc.lk

Katubedda
Tel: 2625438, 2605487
Fax: 2605487
E-mail: boc030@boc.lk

Kollupitiya
Tel: 4795036, 4795035,
4795034
Fax: 4795037
E-mail: boc034@boc.lk

Kollupitiya 2nd
Tel: 2574581, 2565380
Fax: 2574581
E-mail: boc670@boc.lk

Maharagama
Tel: 2746146, 2850339
Fax: 2851243
E-mail: boc055@boc.lk

Matugama
Tel: 034-2243590,
034-2247280
Fax: 034-2247280
E-mail: boc556@boc.lk

Malabe
Tel: 2760753, 2760744
Fax: 2760744
E-mail: boc763@boc.lk

Milagiriya
Tel: 2504627, 2589395
Fax: 2589395
E-mail: boc593@boc.lk

Mount Lavinia
Tel: 2721060, 2721059
Fax: 2721060
E-mail: boc766@boc.lk

Nugegoda
Tel: 2821287, 2852915,
2821288
Fax: 2854132
E-mail: boc049@boc.lk

Padukka
Tel: 2859112
Fax: 2859112
E-mail: boc678@boc.lk

Panadura
Tel: 038-2243323,
038-2232214
Fax: 038-2235651
E-mail: boc007@boc.lk

Panadura Bazaar
Tel: 038-2243324,
038-2232038
Fax: 038-2232038
E-mail: boc607@boc.lk

Parliament Complex
Tel: 2777309, 2777310
Fax: 2777309
E-mail: boc644@boc.lk

Pelawatte
Tel: 2785550, 2785512
Fax: 2785875
E-mail: boc690@boc.lk

Piliyandala
Tel: 2614165
Fax: 2619970
E-mail: boc736@boc.lk

Rajagiriya
Tel: 5368641, 2867189
Fax: 2867189
E-mail: boc746@boc.lk

Ratmalana
Tel: 2719735, 2738030
Fax: 2719735
E-mail: boc689@boc.lk

Thimbirigasyaya
Tel: 2594538, 2587345
Fax: 2594538
E-mail: boc512@boc.lk

Torrington Square
Tel: 2678073, 2692506
Fax: 2692506
E-mail: boc453@boc.lk

Union Place
Tel: 2314757, 2302470
Fax: 2314756
E-mail: boc043@boc.lk

Wadduwa
Tel: 038-2232538
Fax: 034-2232538
E-mail: boc584@boc.lk

Wellawatte
Tel: 2588941, 2584232,
2587216
Fax: 2587604
E-mail: boc023@boc.lk

Southern Province
Tel: 091-2232238,
091-2224390, 091-2232236,
091-2234299
Fax: 091-2234880
E-mail: bocsp@sri.lanka.net

Ahungalla
Tel: 091-2264107
Fax: 091-2264107

Akuressa
Tel: 041-2283280
Fax: 041-2283280
E-mail: boc613@boc.lk

Ambalangoda
Tel: 091-2256307
Fax: 091-2258390
E-mail: boc047@boc.lk

Ambalantota
Tel: 047-2223280
Fax: 047-2223280
E-mail: boc537@boc.lk

Baddegama
Tel: 091-2292280
Fax: 091-2292280

Batapola
Tel: 091-2260405
Fax: 091-2260405

Beliatta
Tel: 047-2243274
Fax: 047-2243274
E-mail: boc539@boc.lk

Bentota
Tel: 034-2275283,
034-2271796
Fax: 034-2275283
E-mail: boc102@boc.lk

Deniyaya
Tel: 041-2273870
Fax: 041-2273280

Devinuwara
Tel: 041-2222247
Fax: 041-2222247

Dickwella
Tel: 041-2255280
Fax: 041-2255280
E-mail: boc592@boc.lk

Elpitiya
Tel: 091-2291280
Fax: 091-2291280

Galle
Tel: 091-2232269,
091-2234214, 091-2234040
Fax: 091-2232269
E-mail: boc003@boc.lk

Galle Bazaar
Tel: 091-2234478,
091-2234006
Fax: 091-2234478
E-mail: boc089@boc.lk

Hakmana
Tel: 041-2286280
Fax: 041-2286280

Hambantota
Tel: 047-2220180
Fax: 047-2221328
E-mail: boc085@boc.lk

Hikkaduwa
Tel: 091-2277813
Fax: 091-2277813
E-mail: boc609@boc.lk

Imaduwa
Tel: 091-2286030
Fax: 091-2286030

Kamburupitiya
Tel: 041-2292213
Fax: 041-2292213

Kataragama
Tel: 047-2235280
Fax: 047-2235280
E-mail: boc616@boc.lk

Koggala
Tel: 091-2283380
Fax: 091-2283380

Matara
Tel: 041-2229280,
041-2222073
Fax: 041-2222216
E-mail: boc024@boc.lk

Matara Bazaar
Tel: 041.2223920,
041-2222218
Fax: 041-2223920
E-mail: boc614@boc.lk

Middeniya
Tel: 047-2247280
Fax: 047-2247280

Neluwa
Tel: 091-2237530
Fax: 091-2237530

Pitigala
Tel: 091-2291205
Fax: 091-2291205
E-mail: boc610@boc.lk

Tangalle
Tel: 047-2240280
Fax: 047-2242636
E-mail: boc056@boc.lk

Thalgaswela
Tel: 091-2296480
Fax: 091-2296480

Thawalama
Tel: 091-2224459
Fax: 091-2224459
E-mail: boc250@mail.ewisl.net

Tissamaharama
Tel: 047-2237280
Fax: 047-2237280
E-mail: boc538@boc.lk

University of Ruhuna
Tel: 041-2222681
E-mail: boc693@boc.lk

Urubokka
Tel: 041-2272280
Fax: 041-2272280

Walasmulla
Tel: 047-2245280
Fax: 047-2245280

Weeraketiya
Tel: 047-2246280
Fax: 047-2246280

Weligama
Tel: 041-2250280
Fax: 041-2252280

Yakkalamulla
Tel: 091-2286080
Fax: 091-2286080
E-mail: boc578@mail.ewisl.net

Central Province
Tel: 081-2201444,
081-2236942
Fax: 081-2223433
E-mail: boccp@sri.lanka.net

Alawathugoda
Tel: 066-2242327,
066-2224168
E-mail: boc768@boc.lk

2nd City Kandy
Tel: 081-2234292,
081-2237205
Fax: 081-2237206
E-mail: boc649@boc.lk

Dambulla
Tel: 066-2285270,
066-2284896
Fax: 066-2284896
E-mail: boc576@boc.lk

Digana
Tel: 081-2375851,
081-2374376
Fax: 081-2374376
E-mail: boc273@boc.lk

Galagedera
Tel: 081-2461214
Fax: 081-2461214
E-mail: boc615@mail.ewisl.net

Galaha
Tel: 081-2467213
Fax: 081-2467213

Galewela
Tel: 066-2289262
Fax: 066-2289262

Gampola
Tel: 081-2350108,
081-2352214
Fax: 081-2350928
E-mail: boc575@boc.lk

Gelioya
Tel: 081-2310214
Fax: 081-2310214
E-mail: boc524@mail.ewisl.net

Hatton
Tel: 051-2222015,
051-2222214
Fax: 051-2222214
E-mail: boc040@boc.lk

Kandapola
Tel: 052-2229636
Fax: 052-2229636

Kandy
Tel: 081-2223697,
081-2234212,
081-2237163-66
Fax: 081-2222382
E-mail: boc002@boc.lk

Katugastota
Tel: 081-2499398
Fax: 081-4471640
E-mail: boc666@boc.lk

Madawala Bazaar
Tel: 081-2476214
Fax: 081-2476214

Maskeliya
Tel: 052-2277280
Fax: 052-2277280
E-mail: boc506@boc.lk

Matale
Tel: 066-2222262,
066-2222214
Fax: 066-2222531
E-mail: boc068@boc.lk

Naula
Tel: 066-2246280
Fax: 066-2246280
E-mail: boc092@mail.ewisl.net

Nawalapitiya
Tel: 054-2222233
Fax: 054-2222233
E-mail: boc598@boc.lk

Nuwara Eliya
Tel: 052-2224047,
052-2222391
Fax: 052-2222864
E-mail: boc029@boc.lk

Padiyapelella
Tel: 052-2287035
Fax: 052-2287035
E-mail: boc492@mail.ewisl.net

Pallepola
Tel: 066-2247272
Fax: 066-2247272

Peradeniya
Tel: 081-4475283,
081-2388314
Fax: 081-2384335
E-mail: boc588@boc.lk

Pilimatalawa
Tel: 081-5740197,
081-2575229
Fax: 081-2575229
E-mail: boc587@boc.lk

Pundaluoya
Tel: 051-2233205
Fax: 051-2233205
E-mail: boc425@mail.ewisl.net

Pussellawa
Tel: 081-2478642
Fax: 081-2478642
E-mail: boc337@lanka.net

Rattota
Tel: 066-2255280
Fax: 066-2255280

Rikillagaskada
Tel: 081-2365314
Fax: 081-2365314
E-mail: boc167@mail.ewisl.net

Talatuoya
Tel: 081-2404334
Fax: 081-2404334

Talawakelle
Tel: 052-2258280
Fax: 052-2258280
E-mail: boc531@boc.lk

Ududumbara
Tel: 081-2402317
Fax: 081-2402317

Walapane
Tel: 052-2279180
Fax: 052-2279180
E-mail: boc743@mail.ewisl.net

Wattegama
Tel: 081-2475838,
081-2476248
Fax: 081-2476248
E-mail: boc340@mail.ewisl.net

Yatawatta
Tel: 066-2221084
Fax: 066-221084

Northern Province
Tel: 021-2226095
Fax: 021-2222735
E-mail: bocnp@sri.lannka.net

Area Office Jaffna
Tel: 021-2223126,
021-2222735
Fax: 021-2263382
E-mail: bocagmnp@hotmail.com

Area Office Wanni
Tel: 024-2222192
Fax: 024-2222221

Chavakachcheri
Tel: 021-2227396
Fax: 021-2227396
E-mail: boc501@sltnet.lk

Chunnakam
Tel: 021-2223969,
060-2212381
Fax: 060-2212381
E-mail: boc053@sltnet.lk

Jaffna
Tel: 021-2225624,
021-2222636
Fax: 021-2222760
E-mail: boc005@boc.lk

Jaffna Second
Tel: 021-2222598,
021-2222759
Fax: 021-2222759
E-mail: boc500@boc.lk

Kankesanthurai
Tel: 060-2212716
Fax: 060-2212716
E-mail: boc605@sltnet.lk

Karainagar
Tel: 021-2228278
E-mail: boc749@sltnet.lk

Kayts
Tel: 021-2225274
Fax: 021-2225274
E-mail: boc063@sltnet.lk

Kilinochchi
Tel: 021-2283949
Fax: 021-2283949
E-mail: boc093@sltnet.lk

Manipay
Tel: 021-2227456,
021-2222603
Fax: 021-2222603
E-mail: boc281@sltnet.lk

Mankulam
E-mail: Boc574@sltnet.lk

Mannar
Tel: 023-2232337
Fax: 023-2232338
E-mail: boc046@boc.lk

Mullaitivu
Tel: 021-2228941
E-mail: boc511@sltnet.lk

Nelliady
Tel: 021-2263260
Fax: 021-2263260
E-mail: boc638@sltnet.lk

Point Pedro
Tel: 021-2263570,
021-2263254
Fax: 021-2263254
E-mail: boc028@sltnet.lk

Thirunelvely
Tel: 021-2223948,
021-2223866
Fax: 021-2223866
E-mail: boc761@sltnet.lk

Vavuniya
Tel: 024-2222141,
024-2222358, 024-2222220
Fax: 024-2222141
E-mail: boc044@boc.lk

Eastern Province
Tel: 2323164, 2433741
Fax: 2323164
E-mail: bocep@sri.lanka.net

Area Office Ampara
Tel: 063-2222142
Fax: 063-2222142

Area Office Batticaloa
Tel: 065-2222731
Fax: 065-2222731

Area Office Trincomalee
Tel: 026-2222165
Fax: 026-2222465

Akkaraipattu
Tel: 067-2279242,
067-2277235
Fax: 067-2279242
E-mail: boc590@boc.lk

Ampara
Tel: 063-2222981,
063-2222137
Fax: 063-2222980
E-mail: Boc021@boc.lk

Batticaloa
Tel: 065-2227410,
065-2224451
Fax: 065-2227410
E-mail: boc012@boc.lk

Chenkalady
Tel: 065-2240492
Fax: 065-2240492
E-mail: boc630@boc.lk

Hingurana
Tel: 063-2240037
Fax: 063-2240037

Kalmunai
Tel: 067-2229340,
067-2229774
Fax: 067-2229340
E-mail: boc510@boc.lk

Kaluwanchikudy
Tel: 065-2250012
Fax: 065-2250012
E-mail: boc611@boc.lk

Kantale Bazaar
Tel: 026-2234361,
026-2234230
Fax: 026-2234361
E-mail: boc623@boc.lk

Kattankudy
Tel: 065-2246613
Fax: 067-2246613
E-mail: boc648@boc.lk

Kinniya
Tel: 026-2236270
Fax: 026-2236270

Muthur
Tel: 026-2238327
Fax: 026-2238327

Ninthavur
Tel: 067-2250039
Fax: 067-2250039

Pothuvil
Tel: 063-2248021
Fax: 063-2248021

Samanthurai
Tel: 067-2260054,
067-2260898
Fax: 067-2260054

Trincomalee
Tel: 026-2223084,
026-2222327
Fax: 026-2222554
E-mail: boc006@boc.lk

Trincomalee Bazaar
Tel: 026-2223880
Fax: 026-2222328
E-mail: boc624@boc.lk

Valaichchenai
Tel: 065-2257708
Fax: 065-2257708

North Central Province
Tel: 025-2222892,
025-2222651, 025-2222964
Fax: 025-2222011
E-mail: bocncp@sri.lanka.net

Anuradhapura
Tel: 025-2222715,
025-2222393
Fax: 025-2222715
E-mail: boc022@boc.lk

Anuradhapura Bazaar
Tel: 025-2222160
Fax: 025-2222160
E-mail: boc551@boc.lk

Aralaganwila
Tel: 066-2224257
Fax: 066-2224257
E-mail: boc599@boc.lk

Bakamuna
Tel: 066-2256680
Fax: 066-2256680

Dehiattakandiya
Tel: 027-2250287
Fax: 027-2250287

Eppawela
Tel: 025-2249180
Fax: 025-2249180

Galenbindunuwewa
Tel: 025-2258280
Fax: 025-2258280

Galkiriyagama
Tel: 025-2263062
Fax: 025-2263062

Galnewa
Tel: 025-2269580
Fax: 025-2269580
E-mail: boc514@boc.lk

Hingurakgoda
Tel: 027-2247642
Fax: 027-2246306
E-mail: boc601@boc.lk

Horowpothana
Tel: 025-2278416
Fax: 025-2278416

Ipalogama
Tel: 025-2264279
Fax: 025-2264279
E-mail: boc236@mail.ewisl.net

Jayanthipura
Tel: 027-2222266
Fax: 027-2222266
E-mail: boc600@boc.lk

Kaduruwela
Tel: 027-2222416
Fax: 027-2225025
E-mail: boc502@boc.lk

Kahatagasdigiliya
Tel: 025-2247480
Fax: 025-2247480
E-mail: boc622@boc.lk

Kebithigollewa
Tel: 025-2298680
Fax: 025-2298680

Kekirawa
Tel: 025-2264280
Fax: 025-2264280
E-mail: boc676@boc.lk

Madatugama
Tel: 025-2264283
Fax: 025-2264283
E-mail: boc654@mail.ewisl.net

Medawachchiya
Tel: 025-2245683
Fax: 025-2245683

Medirigiriya
Tel: 027-2248337
Fax: 027-2248337

Meegallewa
Tel: 025-2269609
Fax: 025-2269609

Mihinthale
Tel: 025-2266503
Fax: 025-2266503

New Town Anuradhapura
Tel: 025-2223685
Fax: 025-2223685
E-mail: boc098@boc.lk

Nochchiyagama
Tel: 025-2257880
Fax: 025-2257880

Padavi Parakramapura
Tel: 025-2254018
Fax: 025-2254018

Pemaduwa
Tel: 025-2223307
Fax: 025-2223307
E-mail: boc152@boc.lk

Polonnaruwa
Tel: 027-2223009
Fax: 027-2223009

Sewagama
Tel: 027-2222585
Fax: 027-2222555

Thambuttegama
Tel: 025-2276280
Fax: 025-2276280

Thirappane
Tel: 025-2223352
Fax: 025-2223352

North Western Province
Tel: 037-223401,
037-2232217, 037-2222420
Fax: 037-2223619
E-mail: bocnwp@mail.ewisl.net

Alawwa
Tel: 037-2278180
Fax: 037-2278180
E-mail: boc498@boc.lk

Anamaduwa
Tel: 032-2263280
Fax: 032-2263280
E-mail: boc548@boc.lk

Bingiriya
Tel: 032-2246107
Fax: 032-2246107
E-mail: boc554@boc.lk

Chilaw
Tel: 032-2223401,
032-2222335
Fax: 032-2222335
E-mail: boc020@boc.lk

Dankotuwa
Tel: 031-2258180
Fax: 031-2258180
E-mail: boc497@boc.lk

Dummalasooriya
Tel: 032-2240690
Fax: 032-2240690

Galgamuwa
Tel: 037-2253080
Fax: 037-2253080
E-mail: boc549@boc.lk

Giriulla
Tel: 037-2288080
Fax: 037-2288080
E-mail: boc553@boc.lk

Hettipola
Tel: 037-2291080
Fax: 037-2291080
E-mail: boc570@mail.ewisl.net

Hiripitiya
Tel: 037-2264080
Fax: 037-2264080

Kalpitiya
Tel: 032-2260702
Fax: 032-2260702
E-mail: boc589@boc.lk

Kobeigane
Tel: 037-2293101
Fax: 037-2293101
E-mail: boc172@mail.ewisl.net

Kuliyapitiya
Tel: 037-2281280
Fax: 037-2281269
E-mail: boc052@boc.lk

Kurunegala
Tel: 037-2233880,
037-2222036
Fax: 037-2222207
E-mail: boc009@boc.lk

Kurunegala Bazaar
Tel: 037-2222115,
037-2222331
Fax: 037-2222115
E-mail: boc513@boc.lk

Madampe
Tel: 032-2247680,
032-2247767
Fax: 032-2247680

Madurankuliya
Tel: 032-2268003
Fax: 032-2268003
E-mail: boc565@mail.ewisl.net

Maho
Tel: 037-2275280
Fax: 037-2275280

Mawathagama
Tel: 037-2299259
Fax: 037-2299259

Melsiripura
Tel: 037-2250165
Fax: 037-2250165

Narammala
Tel: 037-2249280
Fax: 037-2249280
E-mail: boc534@boc.lk

Nattandiya
Tel: 032-2254280
Fax: 032-2254280
E-mail: boc050@boc.lk

Nikaweratiya
Tel: 037-2260280
Fax: 037-2260280
E-mail: boc547@boc.lk

Pannala
Tel: 037-2246080
Fax: 037-2246080
E-mail: boc546@boc.lk

Polgahawela
Tel: 037-2243280
Fax: 037-2243280

Pothuhera
Tel: 037-2237619
Fax: 037-2237619
E-mail: boc664@mail.ewisl.net

Puttalam
Tel: 032-2265209
Fax: 032-2265216
E-mail: boc048@boc.lk

Ridigama
Tel: 037-2252080
Fax: 037-2252080

Waikkal
Tel: 031-2277280
Fax: 031-2277280
E-mail: boc558@boc.lk

Wariyapola
Tel: 037-2267348
Fax: 037-2267348
E-mail: boc379@mail.ewisl.net

Welpalla
Tel: 031-2299512
E-mail: boc104@mail.ewisl.net

Wennappuwa
Tel: 031-2255280
Fax: 031-2255280
E-mail: boc508@boc.lk

Sabaragamuwa Province
Tel: 045-2222746,
045-2223130
Fax: 045-2222314
E-mail: bocsbp@sri.lanka.net

Aranayake
Tel: 035-2258016
Fax: 035-2258016
E-mail: boc566@sltnet.lk

Avissawella
Tel: 036-2222099
Fax: 036-2222356
E-mail: boc530@boc.lk

Ayagama
Tel: 045-2250080
Fax: 045-2250080
E-mail: boc401@boc.lk

Balangoda
Tel: 045-2288390
Fax: 045-2287280
E-mail: boc688@boc.lk

Dehiowita
Tel: 036-2222580
Fax: 036-2222580
E-mail: boc634@boc.lk

Deraniyagala
Tel: 036-2249280
Fax: 036-2249280
E-mail: boc642@boc.lk

Eheliyagoda
Tel: 036-2258280
Fax: 036-2258280
E-mail: boc057@boc.lk

Embilipitiya
Tel: 047-2230980,
047-2230280
Fax: 047-2230280
E-mail: boc535@boc.lk

Kahawatta
Tel: 045-2270180
Fax: 045-2270180

Kalawana
Tel: 045-2255280
Fax: 045-2255280
E-mail: boc645@boc.lk

Kegalle
Tel: 035-2230600,
035-2222551
Fax: 035-2222821
E-mail: boc027@boc.lk

Kegalle Bazaar
Tel: 035-2222550
Fax: 035-2222550
E-mail: boc536@boc.lk

Kuruwita
Tel: 045-2262581
Fax: 045-2262680
E-mail: boc325@boc.lk

Mawanella
Tel: 035-2246280,
035-2247915
Fax: 035-2247915

Nivithigala
Tel: 045-2279280
Fax: 045-2279280

Pelmadulla
Tel: 045-2274380
Fax: 045-2274380

Rakwana
Tel: 045-2246280
Fax: 045-2246280

Rambukkana
Tel: 035-2265280
Fax: 035-2265280

Ratnapura
Tel: 045-2222100,
045-2222444
Fax: 045-2222225
E-mail: boc031@boc.lk

Ratnapura Bazaar
Tel: 045-2222710
Fax: 045-2222710
E-mail: boc684@boc.lk

Ruwanwella
Tel: 036-2266280
Fax: 036-2266280

Warakapola
Tel: 035-2267258
Fax: 035-2267258

Yatiyanthota
Tel: 036-2266281
Fax: 036-2266284

Uva Province
Tel: 055-2222842,
055-2229459
Fax: 055-2222460
E-mail: bocup@maile.wisl.net

Badalkumbura
Tel: 055-2288279
Fax: 055-2288279
E-mail: boc540@mail.ewisl.net

Badulla
Tel: 055-2222980,
055-2222129
Fax: 055-2224595
E-mail: boc011@boc.lk

Ballaketuwa
Tel: 055-2285160
E-mail: boc320@mail.ewisl.net

Bandarawela
Tel: 057-2230014
Fax: 057-2222292
E-mail: boc515@boc.lk

Bibile
Tel: 055-2265480
Fax: 055-2265480
E-mail: boc579@mail.ewisl.net

Buttala
Tel: 055-2273980
Fax: 055-2273980
E-mail: boc560@boc.lk

Diyatalawa
Tel: 057-2229092
Fax: 057-2229092
E-mail: boc260@mail.ewisl.net

Etampitiya
Tel: 055-2294080
Fax: 055-2294080
E-mail: boc476@mail.ewisl.net

Girandurukotte
Tel: 027-2254380
E-mail: boc669@boc.lk

Haputale
Tel: 057-2268080
Fax: 057-2268080

Haldummulla
Tel: 057-2268271
E-mail: boc463@mail.ewisl.net

Karametiya
Tel: 055-2245707
Fax: 055-2245707
E-mail: boc384@mail.ewisl.net

Koslanda
Tel: 057-2257780
Fax: 057-2257780
E-mail: boc629@boc.lk

Lunugala
Tel: 055-2263980
Fax: 055-2263980
E-mail: boc577@mail.ewisl.net

Lunuwatta
Tel: 057-2232742
Fax: 057-2232742
E-mail: boc647@mail.ewisl.net

Mahiyangana
Tel: 055-2258195
Fax: 055-2257280
E-mail: boc542@boc.lk

Medagama
Tel: 055-2265580
E-mail: boc238@mail.ewisl.net

Moneragala
Tel: 055-2276180
Fax: 055-2276180
E-mail: boc082@boc.lk

Passara
Tel: 055-2288280
Fax: 055-2288280

Padiyatalawa
Tel: 063-2246003
Fax: 063-2246003
E-mail: boc348@mail.ewisl.net

Siyambalanduwa
Tel: 072-2243900
Fax: 072-2243900

Thanamalwila
Tel: 047-2234080
Fax: 047-2234080

Uva Paranagama
Tel: 057-2246010
E-mail: boc343@mail.ewisl.net

Welimada
Tel: 057-2245984,
057-2245180
Fax: 057-2245180

Wellawaya
Tel: 055-2274880
Fax: 055-2274880

Extension Offices

Customs Extension Office Katunayake
Tel: 2252424, 2252861
Ext. 6524

DFCC
Tel: 2440366 - Ext. 139

Board of Investment of Sri Lanka

Ceylon Shipping Line

Department of Immigration & Emigration

Development Lottery Centre

Eravur Extension Office

Foreign Employment Assistant Centre

General Hospital – Kandy

Geuda Trading Centre
Tel: 045-2223561

Inland Revenue Department
Tel: 2337367, 2421241
Ext. 2170

Katubedda Campus

Laksiriseva (Pvt.) Ltd. Sri Lanka Customs

Matale Extension Office

Pallegama Extension Office

Sri Lanka Customs Imports
Tel: 2436663, 2421141

Sri Lanka Customs Information Centre

Sri Lanka Customs – Trico
Tel: 2433996

Tax Court

University of Peradeniya

UPB Bonded Warehouse
Tel: 2445268, 2423994

Vilasitha Nivasa Extension Office

Pinnawala
Tel: 2264294

Keppetipola
Tel: 057-2280043

Sri Jayewardenepura Hospital
Tel: 2779136

Murunkan
Tel: 023-2250935

Batticaloa Town
Tel: 065-2227032

Welamboda
Tel: 060-2804067

Kachcheri Branches

Ampara
Tel: 063-2222233

Anuradhapura
Tel: 025-2222142

Badulla
Tel: 055-2222360

Batticaloa
Tel: 065-2222666

Colombo
Tel: 2325511

Galle
Tel: 09-2234514

Gampaha
Tel: 033-222272

Hambantota
Tel: 034-2222286

Kandy
Tel: 081-2224214

Kegalle
Tel: 035-2222233

Kurunegala
Tel: 037-2223237

Mannar
Tel: 023-2232234

Matale
Tel: 066-2222024

Matara
Tel: 041-2222673

Moneragala
Tel: 055-2276080

Mullaitivu

Nuwara Eliya
Tel: 052-2222233

Polonnaruwa
Tel: 027-2222142

Puttalam
Tel: 032-2265351

Ratnapura
Tel: 045-2222454

Trincomalee
Tel: 026-2222465

Vavuniya
Tel: 024-2222234

Other Offices

Ceybank Card Centre
Tel: 2447823, 2544300,
2544301

Ceybank Insurance Services
Tel: 2447870

Ceybank Investment Management & Custodial Services Centre
Tel: 2448348

Leasing Department
Tel: 2445812

Ceybank Gold Shop
Tel: 2345420

Glossary of Financial/Banking Terms

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

Associate Company
A Company other than a subsidiary in which a holding company has a participating interest and exercise a significant influence over its operating and financial policies.

BIS Surplus
The total Capital Adequacy in excess of the minimum stipulated by Basel International Standards and as modified to suit local requirements by the Central Bank of Sri Lanka.

Capital Employed
Sum total of liabilities and shareholders' funds

Capital Reserve
Capital Reserves consists of revaluation reserves arising from revaluation of properties owned by the Bank and Reserve Fund set aside for specific purposes defined under the Banking Act of 1988 and shall not be reduced or impaired without the approval of the Monetary Board.

Capital Adequacy Ratio
The percentage of the risk-adjusted assets supported by capital, as defined under the framework of risk-based capital standards developed by the Bank for International Settlements (BIS) and as modified to suit local requirements by the Central Bank of Sri Lanka.

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.

Commitment to Extend Credit
Credit facilities available to clients either in the form of loans, bankers' acceptances' and other on-balance sheet financing, or through off-balance sheet products such as guarantees and letters of credit.

Contingent Liabilities
Conditions or situations at the balance sheet date, the financial effect of which are to be determined by the future events which may or may not occur.

Corporate Governance
The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Cost Income Ratio
Operating expenses as a percentage of net income.

Dealing Securities
Marketable securities that are acquired and held with the intention of reselling them in the short-term.

Deferred Taxation
Sum set aside for tax in the Financial Statements that will become payable in a financial year other than the current financial year.

Documentary Letters of Credit (L/C's)
Written undertakings by a bank on behalf of its customers (typically an importer), authorising a third party (e.g. an exporter) to draw drafts on the bank up to a stipulated amount under specific terms and conditions. Such undertakings are established for the purpose of facilitating international trade.

Earnings Per Share (EPS)
Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Effectiveness
Doing the right thing. Refers to the quality of output.

Efficiency
Doing the things right. Refers to the ratio of output to input. Mostly measured in Cost to Income Ratio.

Effective Tax Rate
Provision for taxation divided by the profit before taxation

Equity Method
A method of accounting whereby the investment is initially reordered at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The Income Statement reflects the investor's share of the results of operations of the investee.

Finance Lease
A lease that transfers substantially all the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Foreclosed Properties
Properties acquired in full or partial settlement of debts, which will be held with the intention of resale at the earliest opportunity.

Foreign Exchange Income
The realised gain recorded when assets or liabilities denominated in foreign currencies are translated into Sri Lankan rupees on the balance sheet date at prevailing rates which differ from those rates in force at inception or on the previous balance sheet date. Foreign exchange income also arises from trading in foreign currencies.

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

Free Capital
Excess of equity capital over net book value of Property, Plant & Equipment and Investments.

Gross Domestic Product
The value of all goods and services produced domestically by an economy during a specified period , usually an year. GDP, adjusted for inflation, gives GDP in real terms.

General Provisions
Are established for leasing transactions, housing loans and for pawning advances for anticipated losses on aggregate exposures where credit losses cannot be determined on an individual facility basis.

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

Historical Cost Convention
Recording transactions at the actual value received or paid.

Interest in Suspense
Interest suspended on non performing loans and advances.

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

Interest Spread
Represents the difference between the average interest rate earned and the average interest rate paid on funds.

Investment Properties
Land and buildings that are not occupied substantially for use by or in the operations of the Bank.

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

Leverage
Total Liabilities as number of times of Equity.

Liquid Assets
Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Liquid Assets Ratio
Liquid Assets as a percentage of total liabilities other than share holders' funds.

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

Materiality
The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of financial statements.

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

Non Performing Loans
A Loan placed on cash basis (i.e. interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectability of principal or interest. Loans are automatically placed on cash basis when a payment is 90 days past due. All loans are classified as non-performing when a payment is 90 days in arrears.

Off-Balance sheet Transactions
Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

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

Prudence
Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty. Such that assets or income are not overstated and liabilities or expenses are not understated.

REPOs
Repurchase Agreements. The Securities sold to creditors (who lend money for funding purposes), with the intention of buying them back at a set price.

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.

Return On Average Assets (ROA)
Net income expressed as a percentage of average total assets. Used along with ROE, as a measure of profitability and as a basis of intra-industry performance comparison.

Return On Average Equity (ROE)
Net income, less preferred share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserve
Reserves set aside for future distribution and investment.

Reverse Repo
A purchase of government securities with an agreement to resell them at a given price on specific future date.

Risk-adjusted Assets
Used in the calculation of risk-based capital ratios. The face amount of lower risk assets is discounted using risk weighting factors in order to reflect a comparable risk per rupee among all types of assets. The risk inherent in off-balance sheet instruments is also recognised, first by adjusting notional values to balance sheet (or credit) equivalents, and then by applying appropriate risk weighting factors.

Risk Weighted Assets
On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

Segment Reporting
Segment reporting indicates the contribution to the revenue derived from business segments such as banking operations, Leasing operations, stock broking & securities dealings, property and insurance.

Shareholders' Funds
Shareholders' funds consist of issued and fully paid ordinary share capital plus capital and revenue reserves.

Subsidiary Company
A company is a subsidiary of another company if the parent company holds more than 50% of the nominal value of its equity capital or holds some shares in it and controls the composition of its Board of Directors.

Substance Over Form
The consideration that the accounting treatment and the presenting in financial statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

Swaps (Currency)
The simultaneous purchase of an amount of a currency for spot settlement and the sale of the same amount of the same currency for forward settlement. Alternatively a simultaneous spot sale and forward purchase of a currency.

Tier 1 Capital
Consists of the sum total of paid up ordinary shares, non cumulative, non redeemable preference shares, share premium, statutory reserve fund, published retained profits, general and other reserves less goodwill.

Tier 2 Capital
Consists of the sum total of revaluation reserves, general provisions, hybrid capital instruments, and approved subordinated debentures.

Total Capital
Is the sum of Tier 1 and Tier 2 capital.

Unit Trust
An undertaking formed to invest in securities under the terms of a trust deed.

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.

Notes

ලංකා බැංකුව இலங்கை வங்கி
BANK OF CEYLON

Head Office
No 4, Bank of Ceylon Mawatha, Colombo 1, Sri Lanka

Tel:	+94 11 2446790-811 (22 lines)
	+94 11 2338741-55 (15 lines)
Telex No:	21331 BOCST CE
SWIFT Code:	BCEYLKLX
Website:	www.boc.lk