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If you have sold or transferred all your ordinary shares in MAA Holdings Berhad ("MAAH") (471403-A), you should at once hand this Information Circular to the purchaser or the stockbroker, bank or agent through whom the sale or transfer was contracted for transmission to the subsequent purchaser or transferee.

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MAA HOLDINGS BERHAD

(471403-A)

(Incorporated in Malaysia under the Companies Act, 1965)

INFORMATION CIRCULAR TO SHAREHOLDERS

in relation to

**DISPOSAL OF 1,766,470 GLOBAL DEPOSITORY RECEIPTS
REPRESENTING 17,664,700 ORDINARY SHARES OF SRI
LANKAN RUPEE ("LKR") 10.00 EACH ("HNB SHARES") FOR A
TOTAL CASH CONSIDERATION OF LKR2,208,087,500
(EQUIVALENT TO RM76,672,903 BASED ON AN EXCHANGE
RATE OF LKR100: RM3.47) OR LKR125 PER HNB SHARE VIA
AN OPEN MARKET TRANSACTION**

DEFINITIONS

Except where the context otherwise requires, the following definitions (*in alphabetical order*) shall apply throughout this Information Circular:

“Act”	:	Companies Act, 1965, as amended from time to time
“Board”	:	Board of Directors of MAAH
“Bursa Securities”	:	Bursa Malaysia Securities Berhad (635998-W)
“Disposal”	:	Disposal of 1,766,470 GDRs representing 17,664,700 HNB Shares or approximately 15.00% equity interests in HNB held by MAAII and MAAIC collectively for a total cash consideration of LKR2,208,087,500 (equivalent to RM76,672,903 based on the exchange rate of LKR100: RM3.47) or LKR125 per HNB Shares via an open market transaction
“GDR(s)”	:	Global Depository Receipt(s) issued by HNB
“HNB”	:	Hatton National Bank Limited (PBS/613)
“HNB Group”	:	HNB, its subsidiaries and associated companies collectively
“HNB Shares” or “Shares”	:	Voting ordinary shares of LKR10.00 each in HNB
“Listing Requirements”	:	Listing requirements of Bursa Securities, as at the date of this Information Circular
“LKR”	:	Sri Lanka Rupee
“MAAC”	:	MAA Corporation Sdn Bhd (160773-W), being a wholly-owned subsidiary of MAAH
“MAAH” or “Company”	:	MAA Holdings Berhad (471403-A)
“MAAH Group” or “Group”	:	MAAH, its subsidiaries and associated companies collectively
“MAAII”	:	MAA International Investment Ltd (LL03338), being a wholly-owned subsidiary of MAAC
“MAAIC”	:	MAA International Corporation Ltd (LL03884), being a wholly-owned subsidiary of MAAC
“NA”	:	Net assets
“RM” and “sen”	:	Ringgit Malaysia and sen, respectively
“USD”	:	United States dollars

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MAA HOLDINGS BERHAD
(471403-A)
(Incorporated in Malaysia under the Companies Act, 1965)

Registered Office:

Suite 20.03, 20th Floor
Menara MAA
No. 12, Jalan Dewan Bahasa
50460 Kuala Lumpur

15 December 2006

DIRECTORS

Tunku Tan Sri Abdullah ibni Almarhum Tuanku Abdul Rahman (*Non-Independent Non-Executive Chairman*)
Tunku Dato' Yaacob bin Tunku Tan Sri Abdullah (*Executive Deputy Chairman*)
Tunku Dato' Seri Iskandar bin Tunku Tan Sri Abdullah (*Non-Independent Non-Executive Director*)
Major General Lai Chung Wah (Rtd) (*Independent Non-Executive Director*)
Dato' Iskandar Michael bin Abdullah (*Independent Non-Executive Director*)
General Dato' Sri Hj Suleiman bin Mahmud (Rtd) (*Independent Non-Executive Director*)
Datuk Razman Md Hashim bin Che Din Md Hashim (*Independent Non-Executive Director*)
Tan Sri Ahmad bin Mohd Don (*Independent Non-Executive Director*)
Datuk Ramlan bin Abdul Rashid (*Non-Independent Non-Executive Director*)
Muhamad Umar Swift (*Group Managing Director/ Chief Executive Officer*)
Yeo Took Keat (*Non-Independent Executive Director/ Group Chief Operating Officer*)

To : The Shareholders of MAA Holdings Berhad

Dear Sir/Madam

DISPOSAL OF 1,766,470 GLOBAL DEPOSITORY RECEIPTS REPRESENTING 17,664,700 ORDINARY SHARES OF SRI LANKAN RUPEE ("LKR") 10.00 EACH ("HNB SHARES") FOR A TOTAL CASH CONSIDERATION OF LKR2,208,087,500 (EQUIVALENT TO RM76,672,903 BASED ON AN EXCHANGE RATE OF LKR100: RM3.47) OR LKR125 PER HNB SHARE VIA AN OPEN MARKET TRANSACTION

1. INTRODUCTION

On 16 October 2006, MAAH, on behalf of the Board, announced that the Company proposed to dispose of 1,766,470 GDRs in HNB held by MAHII and MAHIC collectively for a total cash consideration of LKR2,208,087,500 (equivalent to RM76,672,903). The Disposal was completed on 17 October 2006.

The Disposal was effected as an open market transaction in accordance with the rules and regulations of Central Depository Systems (Pvt) Limited and the rules and regulations of Automated Trading System, Colombo Stock Exchange.

THE PURPOSE OF THIS INFORMATION CIRCULAR IS TO PROVIDE YOU WITH DETAILS OF THE DISPOSAL AND IS INTENDED FOR YOUR INFORMATION ONLY.

NO ACTION IS REQUIRED ON YOUR PART.

2. DETAILS OF THE DISPOSAL

The Disposal involved the divestment by MAAIL and MAAIC of 1,766,470 GDRs representing 17,664,700 HNB Shares or approximately a 15.00% equity interest in HNB for a total cash consideration of LKR2,208,087,500 (equivalent to RM76,672,903 based on the exchange rate of LKR100: RM3.47) or LKR125 per HNB Shares via an open market transaction on 17 October 2006. The cash consideration was satisfied in one lump sum on 18 October 2006.

The 1,766,470 GDRs were subscribed to by MAAIL and MAAIC for a total cash consideration of LKR971,558,500 (equivalent to RM36,986,349 based on the exchange rate of LKR100: RM3.81) or LKR550 per GDR. The GDRs has been listed on the Luxembourg Stock Exchange since 20 June 2005.

After accounting for commissions and other expenses, the Disposal will result in a realised gain on disposal of approximately RM37.953 million, of which an amount of RM36.917 million has been recognised as a fair value gain in MAAH's group audited results for the year ended 31 December 2005 following the adoption of Financial Reporting Standards (in particular FRS 139 – Financial Instruments : Recognition and Measurement).

2.1 Basis of sales consideration

The sales consideration of LKR125 per share was arrived at on a willing-buyer willing-seller basis, after taking into consideration the following:

- (i) a 31.36% and 25.62% premium on the audited net assets per share of HNB Group of LKR95.16 as at 31 December 2005 and the unaudited net assets per share of LKR99.51 as at 30 June 2006.
- (ii) a price earning multiple of 7.74 times based on the audited earning per share of LKR16.14 as at 31 December 2005.
- (iii) a 0.84% discount on the five (5)-day weighted average market price up to 16 October 2006, being the last practicable date prior to the Disposal on 17 October 2006 of LKR126.06.

2.2 Utilisation of proceeds from the Disposal

The total proceeds of RM76,672,903 arising from the Disposal will be utilised in the following manner:

	RM'000
Repayment of bank borrowing	36,410*
Working capital	37,158
Expenses incidental to the Disposal	3,105
Total	76,673

* *Repayment of bank borrowings from DBS Bank Ltd, Labuan Branch used in the financing of the acquisition of the GDR in June 2005 amounting to USD9.814 million (RM36.41 million based on the exchange rate of USD1.00 : RM3.71) ("Term Loan Facility"). The Term Loan Facility which had a tenure of one (1) year, matured on 15 June 2006 and has extended to 18 December 2006.*

The repayment of the Term Loan Facility is expected to result in an interest saving of approximately USD556,000 (equivalent to RM2.062 million based on the exchange rate of USD1.00 : RM3.71) from 1 January 2006 till the maturity date of the Term Loan Facility on 18 December 2006, based on the prevailing average interest rate of 6.06% per annum.

2.3 Brief information on HNB

HNB is a public limited liability company incorporated in Colombo, Sri Lanka on 5 March 1970 under the Companies Ordinance (Cap. 145, Revised Legislative Enactment, 1956). The bank has been listed on the Colombo Stock Exchange since 1 January 1971. HNB's shares are actively traded and included in the computation of the Milanka Price Index. The HNB Group is principally involved in providing a range of financial services including corporate and investment banking, retail banking, international banking, insurance, development finance, equities and fixed income and insurance.

As at 31 December 2005, HNB had an authorised share capital of 10,000,000,000 voting and non-voting ordinary shares of LKR10.00 each. The issued and paid-up share capital of HNB is 94.66 million voting ordinary shares of LKR10.00 each and 23.10 million non-voting shares of LKR10.00 each.

The following financial information of HNB is extracted from the annual report of HNB for the financial year ended 31 December 2005:

	HNB		The HNB Group	
	LKR'000	USD'000*	LKR'000	USD'000*
Total deposits from customers	128,283,681	1,256,451	128,130,801	1,254,954
Total assets	166,012,410	1,625,979	174,987,105	1,713,880
NA	11,239,260	110,081	11,206,442	109,760
Profit after taxation	1,654,562	16,205	1,794,537	17,576

* Based on the exchange rate of USD1.00: LKR102.10.

3. RATIONALE FOR THE DISPOSAL

The Disposal provides a good opportunity for MAAH to realise its investment at an appreciated value after taking into consideration the following:

- (i) The disposal price per share of LKR125.00 per share represents a 31.36% and 25.62% premium to the audited net assets per share of HNB Group of LKR95.16 as at 31 December 2005 and the unaudited net assets per share of LKR99.51 as at 30 June 2006 respectively.
- (ii) The cash proceeds from the Disposal has reduced the gearing ratio of MAAH Group by 0.10 times from RM141.45 million to RM104.29 million based on the financial result as at 31 December 2005 by repayment of the Term Loan Facility.

Further, the management of MAAH is of the view that the current heightening political instability due to an apparently escalating conflict between the Sri Lanka government and the Tamil Tiger rebels would pose a threat to the current market price of HNB Share and consequently the value of MAAH's shareholding in HNB.

4. RISK FACTORS

Save as disclosed below, the Board is not aware of any specific factors or events to which the Company is vulnerable to as result of the Disposal.

4.1 Profit contribution

Prior to the Disposal, MAAH held 1,766,470 GDRs in HNB representing approximately a 15.00% equity interest in HNB, thus, HNB is neither a subsidiary nor associated company of MAAH. Accordingly, MAAH could not control HNB or exercise any significant influence over the financial and operating policy decisions of HNB. In such an instance, the only source of income derived from the investment were the dividends paid by HNB.

For the past two (2) financial years ended 2004 and 2005, HNB had declared and paid a gross dividend rate of 35% and 40% respectively to its shareholders. MAAH, with a 15% equity interest in HNB, has received a total gross dividend payment of LKR70,658,800 (equivalent to RM2,451,860 based on the exchange rate of LKR100: RM3.47) for the financial year ended 2005.

As disclosed in HNB's annual report 2005, HNB has a medium term goal to declare a total dividend of 30%. Given the 30% dividend rate from HNB in future, the Disposal is not expected to have any material effects on the future financial performance of MAAH.

4.2 Forward looking statement

Certain statements in this Information Circular are based on historical date which may not be reflective of future results, and others are forward looking in nature and are subject to uncertainties and contingencies. All forward looking statements are based on assumptions made by the Company and although believe to be reasonable, are subject to unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to differ materially from the future results, performance or achievements expressed or implied in such forward looking statements. Such factors include, inter-alia, general economic and business conditions, competition, the impact of new laws and regulations affecting the MAAH Group and the industry, changes in interest rates, changes in levies, duties and taxes, changes in foreign exchange rates and technological obsolescence. In the light of these and other uncertainties, the inclusion of forward looking statements in this Information Circular should not be regarded as a representation or warranty by the Company that the plans and objectives of the company will be achieved.

5. FINANCIAL EFFECTS OF THE DISPOSAL

5.1 Share Capital and Substantial Shareholding Structure of MAAH

The Disposal does not have any effects on the issued and paid-up share capital and substantial shareholding structure of the Company as the sale consideration is satisfied entirely by cash.

5.2 Earnings

The Disposal does not have material effects on the earnings of the MAAH Group for the financial year ending 31 December 2006 as a substantial portion of the gain on disposal amounting to RM36.917 million has been recognised as fair value gain in MAAH's group audited results for the year ended 31 December 2005 following the adoption of Financial Reporting Standards (in particular FRS 139 – Financial Instruments : Recognition and Measurement).

5.3 NA and Gearing

The Disposal does not have material effect on the NA of the MAAH Group. The gearing of the MAAH Group has reduced as part of the cash proceeds from the Disposal has been utilised to repay the Term Loan Facility.

Set out below are effects of the Disposal on the NA and gearing of the MAAH Group:

	Audited as at 31 December 2005	After completion of the bonus issue on 8 September 2006	Upon completion of the Disposal
	RM'000	RM'000	RM'000
Share capital	152,177	304,354	304,354
Share premium	11,744	-	-
Retained earnings	226,836	86,403	87,439
Other reserves	1,063	1,063	1,063
NA	391,820	391,820	392,856
No. of shares in issue ('000)	152,177	304,354	304,354
NA per share (RM)	2.57	1.29	1.29
Total borrowings (RM'000)	141,448	141,448	104,293
Gearing ratio (times)	0.37	0.37	0.27

6. INTEREST OF DIRECTORS, SUBSTANTIAL SHAREHOLDERS AND/OR PERSONS CONNECTED WITH THEM

None of the Directors or substantial shareholders of MAAH or persons connected to them have any interest, direct or indirect, in the Disposal.

7. APPROVALS REQUIRED

The Disposal is not subject to the approval of shareholders of MAAH as the percentage ratio of the Disposal in accordance to paragraph 10.02 (h), Chapter 10 of the Listing Requirements is less than 25%. This Information Circular is issued however pursuant to paragraph 10.05, Chapter 10 of the Listing Requirements.

8. DIRECTORS' STATEMENT

The Board, after careful deliberation, was of the opinion that the Disposal was in the best interest of the Company and its shareholders.

9. FURTHER INFORMATION

Shareholders are requested to refer to the Appendices for further information.

Yours faithfully
For and on behalf of the Board
MAA HOLDINGS BERHAD

MAJOR GENERAL LAI CHUNG WAH (RTD)
Independent Non-Executive Director

INFORMATION ON HNB

1. HISTORY AND BUSINESS

HNB is a public limited liability company incorporated in Colombo, Sri Lanka on 5 March 1970 under the Companies Ordinance (Cap. 145, Revised Legislative Enactment, 1956). The bank has been listed on the Colombo Stock Exchange since 1 January 1971. HNB's shares are actively traded and included in the computation of the Milanka Price Index. The HNB Group is principally involved in providing a range of financial services including corporate and investment banking, retail banking, international banking, insurance, development finance, equities and fixed income and insurance.

HNB services almost all market segments from large corporate and high net-worth individuals to small and medium enterprises, mass-market retail and micro finance. As at 31 December 2005, the HNB Group had total assets of LKR174.99 million (USD1,714 million), total customer deposits of LKR128,131 million (USD1,255 million) (based on exchange rate of LKR102.10/ USD1.00) and operated through 148 customer centres in Sri Lanka and two representative offices in India and Pakistan, with a total staff strength of 4,259 employees.

HNB also holds a 59.986% equity interest in HNB Assurance Limited, a life and general insurance company listed on the Main Board of Colombo Stock Exchange.

2. SHARE CAPITAL

The authorised and issued and paid-up share capital of HNB as at 31 December 2005 are as follows:

	No. of HNB Shares	LKR
Authorised	10,000,000,000	100,000,000,000
Issued and fully paid-up		
- Voting	94,664,700	946,647,000
- Non voting	23,100,000	231,000,000
	117,764,700	1,177,647,000

Details of the changes in the issued and paid-up share capital of HNB since incorporation are as follows:

Date of Allotment	No. of Ordinary Shares Allotted	Par Value LKR	Consideration	Cumulative Issued And Paid-Up Share Capital LKR
Prior to 1971	50,000	10.00	Issued prior to public issue	500,000
1971	220,000	10.00	Public issue	2,700,000
1977	230,000	10.00	Rights issue of new HNB Shares at an issue price of LKR10.00 per share on the basis of forty two (42) new shares for every fifty (50) existing shares held	5,000,000
1980	500,000	10.00	Rights issue of new HNB Shares at an issue price of LKR10.00 per share on the basis of one (1) new share for every one (1) existing share held	10,000,000
1982	1,000,000	10.00	Bonus issue of new HNB Shares on the basis of one (1) new share for every one (1) existing share held	20,000,000

INFORMATION ON HNB

Date of Allotment	No. of Ordinary Shares Allotted	Par Value LKR	Consideration	Cumulative Issued And Paid-Up Share Capital LKR
1988	2,000,000	10.00	Bonus issue of new HNB Shares on the basis of one (1) new share for every one (1) existing share held	40,000,000
1990	2,000,000	10.00	Bonus issue of new HNB Shares on the basis of one (1) new share for every two (2) existing shares held	60,000,000
1993	6,000,000	10.00	Bonus issue of new HNB Shares on the basis of one (1) new share for every one (1) existing share held	120,000,000
1996	8,000,000	10.00	Bonus issue of new HNB Shares on the basis of two (2) new shares for every three (3) existing shares held	200,000,000
1998	10,000,000	10.00	Bonus issue of new HNB Shares on the basis of one (1) new share for every two (2) existing shares held	300,000,000
1999	20,000,000	10.00	Bonus issue of new HNB Shares on the basis of two (2) new shares for every three (3) existing shares held	500,000,000
1999	15,000,000	10.00	Rights issue of non-voting HNB Shares at an issue price of LKR70.00 per share on the basis of three (3) new shares for every ten (10) existing shares held	650,000,000
2001	6,500,000	10.00	Bonus issue of new HNB Shares on the basis of one (1) new share for every ten (10) existing voting and non-voting shares held	715,000,000
2004	22,000,000	10.00	Rights issue of HNB Shares at an issue price of LKR55.00 per share on the basis of two (2) new shares for every five (5) existing shares held	935,000,000
2004	6,600,000	10.00	Rights issue of non-voting HNB Shares at an issue price of LKR33.00 per share on the basis of two (2) new non-voting shares for every five (5) existing non-voting shares held	1,001,000,000
2005	17,664,700	10.00	Issue of underlying shares for GDRs	1,177,647,000

INFORMATION ON HNB

3. SUBSTANTIAL SHAREHOLDERS

Based on the annual report 2005 of HNB, the substantial voting shareholders of HNB and their equity interests in the Company as at 31 December 2005 are as follows:

Shareholders	No. of shares	%
Deutsche Trust Company Americas*	17,664,700	15.00
Brown & Co. Ltd	8,441,760	7.17
CBD Exports Ltd	7,692,300	6.53
Milford Exports (Cey) Ltd	7,686,525	6.53
Stassen Exports Ltd	6,662,425	5.66
Panchalingam Associates (Pvt) Ltd	6,116,471	5.19

* *The underlying shares of GDRs*

4. DIRECTORS

Based on the annual report 2005 of HNB, the Directors of HNB and their respective shareholdings in HNB as at 31 December 2005 are as follows:

Directors	No. of Shares held	%
Rienzie T. Wijetilleke	3,913	*
Dr. V P Vittachi	5,005	-
Rejendra Theagarajah	9,322	0.01
D H S Jayawardena	5,005	*
M. V Theagarajah	120,974	0.68
R. K. Obeyesekere	5,005	*
Pamela C Cooray	12,505	0.01
Ratna Sivaratnam	5,040	*
Rashid Ghazalli	-	-

* *Insignificant*

INFORMATION ON HNB

5. SUBSIDIARY AND ASSOCIATE COMPANIES

The particulars of the subsidiary and associate companies of HNB as at 31 December 2005 are as follows:

Name	Year of investment	Effective equity interest %	Principal activities
<u>Subsidiary companies</u>			
Sithma Development (Pvt) Limited	1995	100.00	Property development
HNB Securities Ltd	2000	100.00	Dealing in Government Debt Securities
HNB Stockbrokers (Pvt) Ltd	1992	100.00	Stock broking
HNB Assurance Limited	2001	59.986	Insurance
<u>Associate companies</u>			
Browns Engineering (Pvt) Ltd	1992	32.63	Construction and engineering
Lanka Ventures Ltd	2001	20.07	Venture capital

6. PROFIT AND DIVIDEND RECORD

A summary of the audited financial statements of HNB for each of the past five (5) financial years ended 31 December 2001 to 2005 and the unaudited financial statements for the six (6) months financial period ended 30 June 2006 are as follows:

	Financial years ended 31 December					Six (6) months financial period ended 30 June
	2001	2002	2003	2004	2005	2006
	LKR'million	LKR'million	LKR'million	LKR'million	LKR'million	LKR'million
Revenue	11,564	11,799	14,831	14,087	16,997	9,913
Profit/(loss) before taxation	301	669	1,092	950	1,850	1,136
Less: Taxation	(2)	80	83	(26)	195	364
Profit/(loss) after taxation	303	589	1,009	976	1,655	772
Net earnings/(loss) per share (sen)	4.11	8.00	13.69	12.51	15.09	13.11
Gross dividend rate (%)	15.00	30.00	40.00	35.00	40.00	-

AUDITED FINANCIAL STATEMENTS OF HNB FOR THE FINANCIAL YEAR ENDED 31 DECEMBER 2005 TOGETHER WITH THE AUDITORS' REPORT THEREON

Auditors' Report



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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REPORT OF THE AUDITORS

**TO THE MEMBERS OF
HATTON NATIONAL BANK LIMITED**

We have audited the balance sheet of Hatton National Bank Ltd as at 31st December 2005, the consolidated balance sheet of the Company and its subsidiaries as at that date, and the related statements of income, changes in equity and cash flows for the year then ended, together with the accounting policies and notes exhibited on pages 88 to 137 of the Annual Report.

Respective Responsibilities of Directors & Auditors

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

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Company maintained proper books of account for the year ended 31st December 2005, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, changes in equity and cash flows and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No.17 of 1982 and the Banking Act No.30 of 1988 and give a true and fair view of the Company's state of affairs as at 31st December 2005 and of its profit and cash flow for the year then ended.

In our opinion, the consolidated balance sheet and 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 Companies Act No.17 of 1982, the Banking Act No. 30 of 1988 and the Sri Lanka Accounting Standards and give a true and fair view of the state of affairs as at 31st December 2005 and of its profit and cash flow for the year then ended of the Company and its subsidiaries dealt with thereby, so far as concerns the members of the Company.

Directors' Interest in Contracts with the Company

According to the information made available to us, the directors of the Company were not directly or indirectly interested in contracts with the Company during the year ended 31st December 2005 except as stated in Note 34 to these financial statements.

CHARTERED ACCOUNTANTS

Colombo
16th February, 2006

KPMG Ford, Rhodes, Thornton & Co.,
a Sri Lankan partnership, is the Sri Lankan member
firm of KPMG International, a Swiss cooperative

R.N. Asirwatham FCA
S. Sirikananathan FCA
Ms. M.P. Perera FCA
C.P. Jayatilake FCA
W.W.J.C Perera FCA

A.N. Fernando FCA
M.R. Mihular FCA
P.Y.S. Perera FCA
T.J.S. Rajakarier FCA
Ms. S. Joseph ACA

Income Statement

For the year ended 31st December	Note	Bank		Group	
		2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs. 000
INCOME	1	16,996,779	14,087,358	18,298,191	14,502,961
Interest income	2	14,129,874	11,469,335	14,740,829	11,579,556
Less: Interest expenses	3	7,280,851	5,962,041	8,069,768	6,361,766
Net interest income		6,849,023	5,507,294	6,671,061	5,217,790
Foreign exchange profit		646,460	662,176	646,166	662,860
Fee & commission income		1,663,545	1,519,924	1,639,249	1,574,282
Dividend income	4	65,050	166,406	65,866	75,317
Other income	5	491,850	269,517	1,206,081	610,946
		9,715,928	8,125,317	10,228,423	8,141,195
Less:					
OPERATING EXPENSES	6				
Personnel costs		2,415,295	2,169,689	2,535,274	2,274,277
Premises equipment & establishment expenses		1,861,421	1,620,796	1,664,923	1,409,430
Fee & commission expenses		116,611	122,894	117,571	117,396
Provision for staff retirement benefits		326,361	244,448	328,321	245,832
Bad debts written off		23,477	-	23,477	-
Provision for loan losses	7	1,759,444	1,566,493	1,759,444	1,566,493
Provision for/(writeback of) investments		81,465	(107,427)	82,699	(105,000)
Amortization of Goodwill/(Negative goodwill)	22	-	-	(353)	(353)
Other expenses		1,281,892	1,558,369	1,725,879	1,909,318
		7,865,966	7,175,262	8,237,235	7,417,393
PROFIT FROM OPERATIONS		1,849,962	950,055	1,991,188	723,802
Share of Associate Companies' profit before taxation		-	-	17,162	22,969
PROFIT BEFORE TAXATION		1,849,962	950,055	2,008,350	746,771
Add/(Less): Provision for taxation	8	(195,400)	26,326	(213,813)	15,114
PROFIT AFTER TAXATION		1,654,562	976,381	1,794,537	761,885
Less: Attributable to Minority Interest		-	-	24,116	6,279
NET PROFIT FOR THE YEAR		1,654,562	976,381	1,770,421	755,606
Attributable to Shareholders of the Bank		1,654,562	976,381	1,770,421	755,606
EARNINGS PER SHARE (Rs.)	9	15.09	12.51	16.14	9.68
DIVIDEND PER SHARE (Rs.)		4.00*	3.50	4.00*	3.50

The attached Accounting Policies and the Notes from Pages 92 to 137 form an integral part of these financial statements.

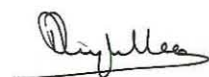
* Calculated on Interim Dividend paid and Final Dividend proposed, which is to be approved at the Annual General Meeting.

Balance Sheet

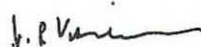
As at 31st December	Note	BANK		GROUP	
		2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
ASSETS					
Cash & short term funds	10	21,200,074	20,107,785	21,193,935	20,113,310
Statutory deposit with Central Bank of Sri Lanka	11	8,565,629	9,120,391	8,565,629	9,120,391
Government Treasury Bills		139,340	-	2,001,340	744,282
Commercial papers		434,073	682,115	434,073	682,115
Securities purchased under re-sale agreements		-	-	3,881,251	5,650,256
Dealing securities	12	313,113	403,233	319,707	416,933
Investment securities	13	17,284,945	17,739,946	18,816,694	18,760,838
Bills of Exchange	14	2,026,977	2,077,466	2,026,977	2,077,466
Loans and advances	15	96,242,465	84,378,688	95,675,726	83,701,444
Lease rentals receivable within one year	16	3,112,469	2,564,267	3,112,469	2,564,267
Lease rentals receivable after one year	17	5,751,882	4,274,100	5,751,882	4,274,100
Investments in Associate Companies	18	132,326	132,326	170,592	168,588
Investments in Subsidiary Companies	19	2,293,663	2,293,663	-	-
Other assets	20	5,145,085	5,619,176	5,144,676	5,526,803
Property, plant & equipment	21	3,370,369	3,386,538	7,892,154	7,959,040
Goodwill on consolidation	22	-	-	-	813
Total Assets		166,012,410	152,779,694	174,987,105	161,760,646
LIABILITIES					
Deposits from customers	23	128,283,681	118,523,934	128,130,801	118,341,938
Dividends payable	24	50,291	108,299	50,291	108,299
Borrowings	25	3,940,111	4,213,891	3,940,111	4,213,891
Securities sold under re-purchase agreements		6,113,644	4,610,598	12,103,873	11,089,485
Bills payable		2,226,745	1,668,174	2,226,745	1,668,174
Other liabilities	26	9,838,930	10,414,757	10,282,275	10,752,874
Long-term insurance funds	27	-	-	300,818	169,493
Non life insurance reserves	28	-	-	267,020	210,611
Current tax liability		5,992	(162,195)	36,826	(157,981)
Deferred tax liability	29	313,756	350,356	316,317	352,529
Subordinated debentures	30	4,000,000	4,000,000	5,976,791	5,983,450
Total Liabilities		154,773,150	143,727,814	163,631,868	152,732,763
SHAREHOLDERS' FUNDS					
Share capital - Voting	31	946,647	770,000	946,647	770,000
Share capital - Non-Voting	31	231,000	231,000	231,000	231,000
Statutory Reserve Fund		624,707	569,707	624,707	569,707
Reserves		9,436,906	7,481,173	9,404,088	7,332,496
		11,239,260	9,051,880	11,206,442	8,903,203
MINORITY INTEREST		-	-	148,795	124,680
		11,239,260	9,051,880	11,355,237	9,027,883
Total Liabilities, Shareholders' Funds & Minority Interest		166,012,410	152,779,694	174,987,105	161,760,646
Commitments & Contingencies	32	44,763,208	45,246,343	44,763,208	45,246,343

The attached Accounting Policies and the Notes from pages 92 to 137 form an integral part of these financial statements.

For and on behalf of the Board



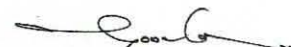
RIENZIE T WIJETILLEKE
Chairman



DR V P VITTACHI
Deputy Chairman



RAJENDRA THEAGARAJAH
Managing Director/
Chief Executive Officer



INDRANI GOONESEKERA
Deputy General Manager
Legal/Board Secretary

Thursday, 16th February 2006
Colombo, SRI LANKA.

Statement of Changes in Equity

For the year ended 31 December, 2005

Bank	Share Capital			Reserves					Total
	Voting	Non-Voting	Statutory	Share	Capital	General	Repairs &	Retained	
	Shares	Shares	Reserve	Premium	Reserve	Reserve	Renovation	Profit	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Balance as at 31.12.2003	550,000	165,000	549,707	822,645	325,890	3,895,000	6,700	678,156	6,993,098
Rights issue of shares	220,000	66,000	-	1,139,601	-	-	-	-	1,425,601
Net profit for the year 2004	-	-	-	-	-	-	-	976,381	976,381
Final dividend for 2003	-	-	-	-	-	-	-	(143,000)	(143,000)
Interim dividend for 2004	-	-	-	-	-	-	-	(200,200)	(200,200)
Transfers during the year 2004	-	-	20,000	-	-	500,000	-	(520,000)	-
Balance as at 31.12.2004	770,000	231,000	569,707	1,962,246	325,890	4,395,000	6,700	791,337	9,051,880
Transfer of revaluation surplus on property disposed	-	-	-	-	(19,251)	-	-	19,251	-
Share issue as underlying for Global Depository Receipts	176,647	-	-	741,850	-	-	-	-	918,497
Net profit for the year 2005	-	-	-	-	-	-	-	1,654,562	1,654,562
Final dividend for 2004	-	-	-	-	-	-	-	(150,150)	(150,150)
Interim dividend for 2005	-	-	-	-	-	-	-	(235,529)	(235,529)
Transfers during the year 2005	-	-	55,000	-	-	850,000	-	(905,000)	-
Balance as at 31.12.2005	946,647	231,000	624,707	2,704,096	306,639	5,245,000	6,700	1,174,471	11,239,260

Group	Share Capital			Reserves					Total
	Voting	Non-Voting	Statutory	Share	Capital	General	Repairs &	Retained	
	Shares	Shares	Reserve	Premium	Reserve	Reserve	Renovation	Profit	
	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000	Rs. 000
Balance as at 31.12.2003	550,000	165,000	549,707	822,645	334,575	3,895,000	6,700	778,133	7,101,760
Rights issue of shares	220,000	66,000	-	1,139,601	-	-	-	-	1,425,601
Net profit for the year 2004	-	-	-	-	-	-	-	755,606	755,606
Final dividend for 2003	-	-	-	-	-	-	-	(143,000)	(143,000)
Interim dividend for 2004	-	-	-	-	-	-	-	(200,200)	(200,200)
On merger of Subsidiaries	-	-	-	-	(8,685)	-	-	(27,879)	(36,564)
Transfers during the year 2004	-	-	20,000	-	-	500,000	-	(520,000)	-
Balance as at 31.12.2004	770,000	231,000	569,707	1,962,246	325,890	4,395,000	6,700	642,660	8,903,203
Transfer of revaluation surplus on property disposed	-	-	-	-	(19,251)	-	-	19,251	-
Share issue as underlying for Global Depository Receipts	176,647	-	-	741,850	-	-	-	-	918,497
Net profit for the year 2005	-	-	-	-	-	-	-	1,770,421	1,770,421
Final dividend for 2004	-	-	-	-	-	-	-	(150,150)	(150,150)
Interim dividend for 2005	-	-	-	-	-	-	-	(235,529)	(235,529)
Transfers during the year 2005	-	-	55,000	-	-	850,000	-	(905,000)	-
Balance as at 31.12.2005	946,647	231,000	624,707	2,704,096	306,639	5,245,000	6,700	1,141,653	11,206,442

Statutory Reserve Fund represents the statutory requirement in terms of section 20 (1) and (2) of the Banking Act No. 30 of 1988.

Share Premium account is generally used for writing-off of share issue expenses. There are no restrictions on the distribution of balance to shareholders.

Capital Reserve relates to revaluation of Land & Buildings carried out in 1989 and 1993 and includes the increase in the fair value of the properties. (Refer Note 21)

General Reserve comprises of the amounts appropriated by the Directors as a general banking reserve.

Repairs and Renovation Reserve includes the amounts allocated for repairs and renovation.

The attached Accounting Policies and the Notes from pages 92 to 137 form an integral part of these financial statements.

Cash Flow Statement

For the year ended 31st December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
Cash flows from operating activities				
Interest and commission receipts	15,793,419	12,989,259	16,380,078	13,153,838
Interest payments	(7,280,851)	(5,962,041)	(8,069,768)	(6,361,766)
Receipts from other operating activities	860,276	740,621	1,572,249	980,717
Cash payments to employees	(2,741,656)	(2,414,137)	(2,863,595)	(2,520,109)
Cash payments to suppliers	(1,367,100)	(1,182,138)	(1,070,864)	(871,889)
Payments for other operating activities	(1,404,849)	(1,743,315)	(1,831,088)	(1,886,053)
Operating profit before changes in operating assets and liabilities [Note (a)]	3,859,239	2,428,249	4,117,012	2,494,738
(Increase)/Decrease in operating assets:				
Treasury bills/commercial papers	108,702	202,966	(1,009,016)	(3,795,655)
Deposits held for regulatory or monetary control purposes	554,762	(3,057,946)	554,762	(3,057,946)
Funds advanced to customers	(14,898,628)	(17,069,462)	(14,769,828)	(18,224,688)
Other short-term assets	525,299	1,049,752	2,202,340	2,896,299
Increase/(Decrease) in operating liabilities:				
Deposits from customers	10,573,449	18,911,945	10,602,565	18,801,867
Negotiable certificates of deposit	(813,702)	(1,413,523)	(813,702)	(1,407,677)
Other liabilities	558,571	418,190	558,571	418,190
Net cash from operating activities before income tax	467,692	1,470,171	1,442,704	(1,874,872)
Income taxes (paid)/credit	-	-	(9,509)	(92,912)
Net cash generated from/(used in) operating activities	467,692	1,470,171	1,433,195	(1,967,784)
Cash flows from investing activities				
Income from dealing and investment securities	64,818	107,183	64,818	83,315
Income from unquoted investment securities	122,665	182,164	122,665	114,664
Proceeds from sales of securities	284,526	628,394	284,526	628,394
Proceeds from disposal of associate company	-	27,237	-	27,237
Net proceeds from investment securities	(496,038)	(1,548,251)	(1,042,139)	576,996
Purchase of property, plant & equipment	(496,611)	(516,281)	(545,656)	(701,865)
Proceeds from sale of property, plant & equipment	10,710	98,750	10,734	98,750
Net cash generated/(used in) investing activities	(509,930)	(1,020,804)	(1,105,052)	827,491
Cash flows from financing activities				
Increase in debentures	-	-	(6,659)	2,000,000
Increase of long-term borrowings	1,229,267	1,298,519	740,608	911,170
Net increase in other borrowings	(569,550)	(1,746,321)	(456,277)	(1,821,026)
Dividends paid	(443,687)	(275,658)	(443,687)	(275,658)
Proceeds from share issue	918,497	1,425,601	918,497	1,425,601
Net cash generated from financing activities	1,134,527	702,141	752,482	2,240,087
Net increase in cash and cash equivalents				
Cash and cash equivalents at beginning of the year	1,092,289	1,151,508	1,080,625	1,099,794
Cash and cash equivalents at end of the year [Note (10)]	20,107,785	18,956,277	20,113,310	19,013,516
	21,200,074	20,107,785	21,193,935	20,113,310
Note (a) Reconciliation of operating profit				
Operating profit before income tax	1,849,962	950,055	2,008,350	746,771
Income from dealing and investment securities	(64,818)	(107,183)	(64,818)	(83,315)
Income from investment securities	(122,665)	(182,164)	(122,665)	(114,664)
(Profit)/loss on sale of property, plant & equipment	7,749	(26,295)	7,749	(26,295)
Bad debts recovered	(142,095)	(103,888)	(142,095)	(103,888)
Depreciation	494,321	438,658	594,059	537,541
Provision for loan losses	1,759,444	1,566,493	1,759,444	1,566,493
Provision for diminution in value of investments	77,341	(107,427)	77,341	(27,552)
Goodwill amortization	-	-	(353)	(353)
	3,859,239	2,428,249	4,117,012	2,494,738

The attached Accounting Policies and Notes from Pages 92 to 137 form an integral part of these financial statements.

Significant Accounting Policies

GENERAL

Hatton National Bank Limited ("Bank") is a public quoted company incorporated on 5th March 1970 with limited liability and domiciled in Sri Lanka. The registered office of the Bank is situated at No. 479 T B Jayah Mawatha, Colombo 10. The staff strength as at 31st December 2005 is 4,259 (2004 - 4,180).

The consolidated financial statements of the Bank for the year ended 31st December 2005 cover the Bank and its Subsidiaries, HNB Securities Limited, HNB Stockbrokers (Pvt) Limited, HNB Assurance Limited and Sithma Development (Pvt) Limited (together referred to as the "Group") and the Group's interest in its Associate companies M/s Lanka Ventures Limited and Browns Engineering (Pvt) Limited. The financial statements were authorised for issue by the Board of Directors on 16th February, 2006.

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, corporate and retail credit, personal financial services, off shore banking, foreign currency operations, trade services, investment banking, development banking, rural finance, project finance, dealing in government securities, etc.

The principal activities of HNB Securities Limited, HNB Stockbrokers (Pvt) Limited, HNB Assurance Limited and Sithma Development (Pvt) Limited are dealing in government securities as primary dealer, stock brokering, insurance services and property development respectively.

The principal activities of Lanka Ventures Limited and Browns Engineering (Pvt) Limited are providing venture capital services, construction and engineering respectively.

There were no significant changes in the nature of principal activities of the Bank and the Group during the financial year under review.

1 STATEMENT OF COMPLIANCE

The Balance Sheet, Income Statement, Statement of Changes in Equity and Cash Flow Statement have been prepared in accordance with generally accepted accounting principles and the Sri Lanka Accounting Standards laid down by the Institute of Chartered Accountants of Sri Lanka.

2. BASIS OF PREPARATION

The financial statements are presented in Sri Lanka rupees, rounded to the nearest thousand.

The financial statements are prepared under historical cost convention and applied consistently with no adjustments being made for inflationary factors affecting the financial statements, except that certain land and buildings, dealing securities and foreclosed properties are stated at valuation. Where appropriate, the policies are explained in the succeeding notes.

The accounting policies have been consistently applied by Group enterprises and any deviations disclosed accordingly.

3. MATERIALITY AND AGGREGATION

Each material item is presented separately in the financial statements. Immaterial amounts are aggregated with amounts of similar nature or function.

4. BASIS OF CONSOLIDATION

All entities which are controlled by the Bank are consolidated in the financial statements. The consolidated financial statements are prepared on the historical cost basis except that certain assets are stated at their fair value. Such assets are dealing securities, certain land and buildings and foreclosed properties.

4.1 Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The consolidated accounts are prepared to a common financial year end of 31st December. A list of subsidiaries within the group is provided in Note 19.

4.2 Associates

Associates are those enterprises in which the Group has significant influence, but not control, over the financial and operating policies. The consolidated financial statements include the Group's share of the total recognised gains and losses of Associates on the equity method, from the date that significant influence effectively commences until the date that significant influence effectively ceases. A list of Associates within the group is provided in Note 18.

4.3 Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised gains arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated to the extent of the Group's interest in the enterprise. Unrealised gains resulting from transactions with associates are eliminated against the investments in the associate. Unrealised losses are eliminated in the same way as unrealised gains except that they are only eliminated to the extent that there is no evidence of impairment.

Significant Accounting Policies

4.4 Goodwill

Goodwill arising on an acquisition represents the excess of the cost of the acquisition over the fair value of the net identifiable assets acquired. Goodwill is stated at cost less accumulated amortization. In respect of associates, the carrying amount of goodwill is included in the carrying amount of the investment in the associates. Goodwill is amortized over a period of 5 years from the date of initial recognition.

4.5 Negative Goodwill

Negative goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. In respect of associates, the carrying amount of negative goodwill is included in the carrying amount of the investment in the associate. The carrying amount of other negative goodwill is deducted from the carrying amount of intangible assets until such excess is completely eliminated.

5. FOREIGN CURRENCY TRANSLATION

5.1 Transactions in foreign currencies are translated to Sri Lanka Rupees at the middle rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are stated at historical cost and are translated at the middle rate of exchange ruling on the date of the Balance Sheet. Foreign 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 in the Income Statement.

Non-monetary assets and liabilities denominated in foreign currency that are stated at fair value are translated to Sri Lanka rupees at the foreign exchange rates ruling at the dates that the values were determined.

5.2 Forward Exchange Contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Resulting net unrealised gains and losses are dealt with through the Income Statement.

6. ASSETS AND BASES OF THEIR VALUATION

6.1 Cash and short term funds

Cash and short term funds include cash in hand, balances with banks, placements with banks, money at call and short notice and money market funds. They are brought to account at the face value or the gross value where appropriate. Interest is taken to profit when earned.

6.2. Statutory Deposit with Central Bank of Sri Lanka

The Monetary Law Act requires that all commercial banks operating in Sri Lanka shall maintain reserves against all deposit liabilities denominated in Sri Lanka Rupees. The reserve shall be an amount equal to 10% of the total of such rupee deposit liabilities.

6.3 Securities purchased under re-sale agreements

Securities purchased under re-sale agreements are recorded separately in the financial statements at cost. The difference between the purchase and sale price represents interest income and is recognized in the income statement over the period of the resale agreement.

6.4 Investments

6.4.1 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. Adjustment for fall in market value below cost, if relevant, is accounted for by charging the difference to the Income Statement.

6.4.2 Investment securities

These are acquired and held for yield or capital growth in the medium/long term with the positive intent and ability to hold until maturity. Such securities are recorded at cost. Interest and dividend income are accrued. Changes in market values of these securities are not taken into account, unless there is considered to be a diminution in value which is other than temporary.

6.4.2(a) Amortization of premium/discount on foreign bonds

The Bank holds foreign treasury bonds as long term investments. The premium/discount on the bonds is amortized over the period to maturity.

6.4.3 Foreclosed properties (formerly classified as Investment Properties)

Foreclosed properties represent properties acquired in full or partial settlement of loans and advances and are yet to be disposed off. These are accounted for at the lower of cost or market value on an individual property basis. The shortfall between the prevailing market value of the foreclosed property and the related loan outstanding is recognised as a provision for loan losses in the Income Statement during the year of acquiring the foreclosed property in satisfaction of the debt. Any shortfall between the carrying amount of the foreclosed properties and their respective market values identified subsequently is charged as a provision for loan losses in the Income Statement. Subsequent gains and losses on the disposal of the foreclosed properties are treated as provisions written back or charged to Income Statement respectively. Foreclosed properties are recorded under loans and advances until they are disposed off.

Significant Accounting Policies

6.5 Loans and advances to customers

Loans and advances to customers are stated in the Balance Sheet at the recoverable amount represented by the gross value of the outstanding balance adjusted for provision for loan losses and interest in suspense (interest which is not accrued to revenue).

6.5.1 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. Provision for possible loan losses are made on the basis of a continuous review of all advances to customers, in accordance with the Sri Lanka Accounting Standard 23, "Revenue Recognition" and the directions issued by the Central Bank of Sri Lanka and disclosed in the financial statements of the Bank.

6.5.2 Provision for Loan Losses

Specific provisions for loan losses have been made as follows:

Period Outstanding	Classification	Provision Made Net of Realisable Value of Security
6-12 months	Sub-standard	20%
12-18 months	Doubtful	50%
18 months and over	Loss	100%

The provision made relates to all categories of advances including pawning and leasing identified as sub-standard, doubtful and loss.

6.5.3 Revenue Recognition on Non-performing Loans

When an advance is classified as non-performing, interest income ceases to be recognized and is taken to income only on cash basis.

6.5.4 General Provision for Pawning and Shanthy Housing Loans

A general provision of 0.1% on total portfolio of pawning facilities and 0.2% on total portfolio of Shanthy housing loans is made in conformity with the industry practice.

6.6 Finance Leases

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

6.6.1 Provision for Lease Receivables

Specific provision has been made in relation to identified bad and doubtful leases as set out above. In addition a general provision of 2% of the lease receivables (net of specific provision) is made in conformity with industry practice.

6.7 Property Plant and Equipment

6.7.1 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 cost less accumulated depreciation which is provided for on the basis specified in 6.7.2 below.

6.7.2 Depreciation is provided at the following rates on a straight line basis over the periods appropriate to the estimated useful lives of the different types of assets:

(i) Hatton National Bank			
Freehold Buildings	2.5%	per annum	
Leasehold Buildings	Lease period		
Motor Vehicles	25%	per annum	
Computer Equipment - Additions before 1.7.2000	25%	per annum	
- Additions after 1.7.2000	16.7%	per annum	
Office Equipment	20%	per annum	
Furniture and Fittings	10%	per annum	
Fixtures	10%	per annum	
(ii) Subsidiary Company - HNB Securities Ltd		Up to 31.12.2004	From 01.01.2005
Office Equipment	25%	per annum	20% per annum
Computer Equipment	33.33%	per annum	16.7% per annum
Furniture and Fittings	15%	per annum	10% per annum
(iii) Subsidiary Company - Sithma Development (Pvt) Ltd.			
Freehold Buildings - Sithma Building	1%	per annum	
Smart Building	2.5%	per annum	
Generators, Generator Panels and associated power cables	2%	per annum	
Chillers, Cooling Towers and associated equipment	4%	per annum	
Lifts and escalator	4%	per annum	
Building Management System	4%	per annum	
Motor Vehicles	25%	per annum	
Plant & Machinery	20%	per annum	
Equipment	20%	per annum	

Significant Accounting Policies

6.7 Property Plant and Equipment (Contd.....)

Applicable to Bank, HNB Securities Ltd and Sithma Development (Pvt) Ltd

Year of Purchase:-

Assets purchased in the first half of the year	1/2 year depreciation
Assets purchased in the second half of the year	No depreciation

Year of Disposal:-

Assets disposed in the first half of the year	No depreciation
Assets disposed in the second half of the year	1/2 year depreciation

Depreciation is not provided on freehold land.

(iv) Subsidiary Company - HNB Stockbrokers (Pvt) Ltd	Up to 31.12.2004		From 01.01.2005	
Furniture and Fittings	15%	per annum	10%	per annum
Office Equipment	25%	per annum	20%	per annum
Computer Equipment	33.33%	per annum	16.7%	per annum
Motor Vehicles	25%	per annum		
Improvements to leasehold property	20%	per annum		

Property plant and equipment are depreciated from the month of purchase to the month of sale.

(v) Subsidiary Company - HNB Assurance Ltd	Up to 31.12.2004		From 01.01.2005	
Office Equipment and Machinery	20%	per annum	20%	per annum
Computer Equipment	25%	per annum	16.7%	per annum
Furniture and Fittings	10%	per annum		
Motor Vehicles	25%	per annum		

Full depreciation is provided in the month of purchase and no depreciation is provided in the month of disposal.

The depreciation rates of the subsidiaries have been ammended where applicable to conform with the rates applied by the Bank.

6.7.3 Capital Work in Progress

Capital work in progress is stated at cost. These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system developments awaiting capitalization.

6.7.4 Borrowing Costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset have been capitalised as part of the cost of the asset in accordance with Sri Lanka Accounting Standard 20, "Borrowing Costs". Capitalisation of borrowing costs cease when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed.

7. LIABILITIES AND PROVISIONS

7.1 Deposits from Customers

Deposits include demand deposits, savings deposits, term deposits and certificate of deposits. They are brought to account at the gross value of the outstanding balance. Interest is charged to Income Statement.

7.2 Dividends Payable

Provision for dividends is recognised at the time the dividend is declared or recommended by the Directors and approved by the shareholders.

7.3 Borrowings

Borrowings include refinance borrowings, call and time deposits and borrowings from financial institutions. They are brought to accounts at the gross value of the outstanding balance.

7.4 Securities sold under re-purchase agreement

Securities sold under agreements to re-purchase are recorded separately in the financial statements. The difference between the sale and the purchase price represents interest expense and is recognized in the income statement over the period of the re-purchase agreement.

7.5 Bills Payable and Other Liabilities

Bills payable and Other liabilities include all other financial liabilities and include interest, fee and other expenses payable and securities purchased not delivered. These liabilities are recorded at the cash value to be realized when settled.

Significant Accounting Policies

7.6. Employee Benefits

7.6.1 Pensions and Retirement Benefits

The Bank operates an approved Pension Fund for the payment of pensions to retiring staff. Monthly provision is made by the Bank to the Pension Fund based on a percentage of the gross salary of employees. The percentage of contributions will be determined by an independent actuary and retirement benefits are provided to all members of the permanent staff. The Bank carries out an actuarial valuation of the Pension Fund once in three years, or earlier where it deems appropriate to ascertain the full liability of the Fund.

An actuarial valuation of the pension fund was carried out as at 30th June 2005, by M/s Actuarial and Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the Fund is the "Projected Unit Credit Method", the benchmark method recommended by the Sri Lanka Accounting Standard No. 16, "Retirement Benefit Cost".

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

Long term rate of interest (Gross)	10% p.a.
Salary increases (long term)	10% p.a.
Increase in Cost of Living Allowance (long term)	10% p.a.
Increase in Pension Payment	0% p.a.

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

The results of the actuarial valuation indicate that the actuarial present value of the promised retirement benefit is Rs. 4,222.7 Mn and that the fair value of the fund assets is Rs. 2,336.8 Mn. resulting in a past service deficit of Rs. 1,885.9 Mn. in the Pension Fund due to the changes in actuarial assumptions that took place since the previous actuarial valuation as at 31st December 2002 as well as differences in experience compared to actuarial assumptions.

However, since Pension Fund is solvent on discontinuance basis (i.e. assuming that the Fund is terminated on the valuation date) the actuary recommended the amortization of the past service deficit by regular contributions over the full working life time of the current employees by incorporating it into the ongoing contribution rate.

Accordingly, the Bank increased the rate of contribution to the Fund commencing October 2005. Apart from this increase in the provision to the Fund, the Bank also introduced an optional scheme for pension to staff members, who are not covered by the Collective Agreement with a view to further reducing the burden on the Pension Fund.

The amount recognised as an expense for the current year is Rs. 326.3 Mn. (2004 – 244.4 Mn). The assets of the Fund, which are independently administered by the Trustees as per the provision of the Trust Deed are held separately from those of the Bank.

No additional provision has been made in the accounts of the Bank for gratuities to employees who complete five or more years of service, payable under the Payment of Gratuity Act No.12 of 1983, as the Bank contributes for all permanent employees to its own non-contributory pension scheme, which is in force.

7.6.2 Widows, Widowers and Orphans Pension Fund

The Bank operates a separate Widows, Widowers and Orphans Pension Scheme (WW & OP) which was established with effect from 1st September 1995.

The actuarial valuation of Widows, Widowers and Orphans Pension Scheme is carried out by the same actuary who carried out the actuarial valuation of the Pension Fund using the same method and same assumptions detailed in Note 7.6.1 above.

The results of the actuarial valuation of the Widows, Widowers and Orphans Pension Scheme indicates that the actuarial present value of the promised benefit is Rs. 406 Mn. and that the fair value of the fund assets is Rs. 189.2 Mn. resulting in a past service deficit of Rs. 216.8 Mn. in the Widows, Widowers and Orphans Pension Scheme as at 30th June 2005.

However, since the Widows, Widowers and Orphans Pension Scheme is solvent on discontinuance basis the actuary has recommended similar course of action as recommended for the Pension Fund as detailed in Note 7.6.1 above.

With the introduction of the optional scheme for pension in June 2005, 477 members have opted out from the WWOP scheme thereby reducing the liability of the Fund.

The amount contributed by the members for the current year is Rs. 24.6 Mn. (2004 - Rs. 24.8 Mn.)

7.6.3 Defined Contribution Plans

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

Provident fund

The Bank and employees contribute to the approved private Provident Fund. The total amount recognised as an expense for the current year is Rs.180 Mn. (2004 - Rs. 171.5 Mn.).

Trust fund

The Bank contributes to the Employees' Trust Fund. The total amount recognised as an expense for the current year is Rs.45 Mn. (2004 - Rs. 42.9 Mn.).

Significant Accounting Policies

7.6.4 ESOP

The Bank introduced an Employee Share Option Plan for its' Executives in January 2005. Under the plan, 626 employees were offered Non-voting shares of the Bank. The total number of shares allocated at Rs. 33/- (market value as at 31 December 2005 - Rs. 41.50) to the employees amounted to 4,566,633. The individual share allocation was based on the service and position of each employee.

7.6.5 HNB Securities Limited

Provision for retiring gratuity

Provision for retirement gratuity, payable under the Payment of Gratuity Act No. 12 of 1983 has been made for employees who have completed more than one year of continuous service with the Company. The gratuity liability is not externally funded.

Defined contribution plan

Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in the Income Statement.

7.6.6 HNB Stockbrokers (Pvt) Limited

Defined benefit plan for retirement

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with SLAS - 16. However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continual service.

The gratuity liability is not externally funded.

Defined contribution plan

Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in the Income Statement.

7.6.7 HNB Assurance Limited

Defined benefit plan

Provision is made for retirement gratuities for employees who have completed more than one year's service with the Company, permitted as an allowed alternative in the Sri Lanka Accounting Standard - 16 "Retirement Benefit Cost". However under the Payment of Gratuities Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

The gratuity liability is not externally funded.

Defined contribution plan

All employees of the Company are members of the Employees' Provident Fund (EPF) and Employees' Trust Fund (ETF) to which the Company contributes 12% and 3% respectively which are charged to the Statement of Income.

7.6.8 Sithma Development (Pvt) Limited

Defined benefit plan

No provisions have been made for gratuities as no employee has completed more than one year's service with the company.

Defined contribution plan

Obligations for contributions to Employee's Provident and Trust Fund are recognized as an expense in the Income Statement.

8. INCOME STATEMENT

8.1 Revenue Recognition

8.1.1 Interest income

Interest receivable is recognised on an accrual basis. Interest ceases to be accrued when the recovery of interest or principal is in arrears for three (3) months. Interest on non-performing loans and advances is accounted for on a cash basis. Interest on non-performing loans and advances is credited to the 'Interest in suspense account' which is netted in the Balance Sheet against the relevant loans and advances.

Interest income from Investments is recognized on an accrual basis.

8.1.2 Dividend income

Dividend income from shares is recognised in the period in which it is declared.

8.1.3 Accounting for lease income

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned lease income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease commencing with the month in which the lease is executed in proportion to the declining receivable balance.

Gross earnings under finance leases in respect of lease rentals due, cease to be taken to revenue when they are in arrears for three (3) months. Thereafter, such income is recognised on a cash basis.

8.1.4 Income on discounting of Bills of Exchange is recognised proportionately over the period of the instrument.

Significant Accounting Policies

8.1.5 Trading income

Gains or losses arising from the sale of investment securities, dealing securities, shares, units and property, plant and equipment are accounted for on the date of transaction in the Income Statement.

8.1.6 Fee and commission income

Fee and commission income are recognised in the Income Statement when the services are provided.

8.1.7 Profit/loss from sale of fixed assets

Profit/loss from sale of fixed assets are classified as other income.

8.2 Interest and Other Expenses

8.2.1 Interest expenses and other expenses

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

8.2.2 Operating leases

Payments made under operating leases are recognised in the Income Statement on a straight-line basis over the term of the lease. The future commitments on operating leases are shown in Note 32(c).

8.2.3 Fee and commission expenses

Fee and commission expenses are recognised on accrual.

8.3 Terminal Benefits

The Bank subscribes to a managed fund to provide pensions for all eligible salaried staff. Pension costs are charged to Income Statement in the year in which such costs are determined.

The actual amounts paid as pensions and retirement gratuities are charged to the Pension Fund as per 7.6.1 above.

8.4 Taxation

8.4.1 Income tax

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 38 of 2000, as amended by subsequent legislation at the rates specified in Note No. 8 of the financial statement.

8.4.2 Deferred tax

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

No provision has been made for deferred taxation on assets leased to customers since timing differences on these assets are not expected to reverse for the next three years and is unlikely to reverse within a reasonable period or thereafter, in view of the bank maintaining or increasing its scale of leasing activity.

8.4.3. Withholding Tax on Dividends distributed by Subsidiaries and Associate Company

Dividend distributed out of taxable profit of the Subsidiaries and Associate company attracts a 10% deduction at source and is not available for set off against the tax liability of the Bank. Thus, the withholding tax deducted at source is added to the tax expense of the Subsidiary companies and Associate company in the Group Financial Statements as a consolidation adjustment.

9. COMMITMENTS AND CONTINGENCIES

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

10 INSURANCE BUSINESS

10.1 Non-life (general) insurance business

10.1.1 Gross written premium

Premiums are generally recognised as written upon inception of the policy. Upon inception of the contract, premiums are recorded as written and are earned primarily on a pro-rata basis over the term of the related policy coverage. However, for those contracts for which the period of risk differs significantly from the contract period, premiums are earned over the period of risk in proportion to the amount of insurance protection provided.

10.1.2 Outward reinsurance

Premiums ceded to reinsurers is recognised as an expense in accordance with the pattern of reinsurance services received. Accordingly, a portion of outward reinsurance premium is treated at the Balance Sheet date as a prepayment.

10.1.3 Unearned premium

The unearned premium reserve represents the portion of the premiums and outward reinsurance premiums written in the current year in respect of risks related to subsequent periods. Unearned premiums are calculated on the 24ths basis in accordance with the Regulation of Insurance Industry Act No. 43 of 2000.

Significant Accounting Policies

10.1.4 Unexpired risk

Provision is made where appropriate for the estimated amount required over and above unearned premiums to meet future claims and related expenses on the business in force as at end of the year.

10.1.5 Deferred acquisition expenses

Deferred acquisition expenses represent net commissions relating to unearned premiums.

10.1.6 Receivables

All premiums and other debtors are recognised at the amounts receivable, as they are due for settlement no more than 60 days from the date of recognition. Collectibility of premiums and other debtors is reviewed on an ongoing basis. Debts, which are known to be uncollectible, are written off. A provision for doubtful debts is provided at 5% on total debts outstanding.

Reinsurance assets include the balances due from both insurance and reinsurance companies for paid and unpaid losses and loss adjustment expenses. Amounts recoverable from reinsurers are estimated in a manner consistent with the claim liability associated with the reinsured policy. Reinsurance is recorded gross in the Balance Sheet unless a right to offset exists.

10.1.7 Claims

Claims incurred include provisions for the estimated cost of claims and related handling expenses in respect of incidents up to 31st December, including those which had not been notified, net of salvage, anticipated reinsurance and other recoveries. The provision in respect of Claims Insured But Not Reported (IBNR) is provided as a defined percentage of claims incurred.

Whilst the Directors consider that the provision for claims are fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustments to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

10.2 Life (long term) insurance business

10.2.1 Premiums (Revenue)

Premiums are accounted for as and when received and in the same period as the policy liabilities are created.

10.2.2 Reinsurance

Reinsurance premium expense is accrued on active policies on a monthly basis.

10.2.3 Benefits, losses and expenses

Expenses on the life insurance revenue account relate to the acquisition and maintenance of life insurance business and include investment expenses not treated as part of the capital cost of investment.

Claims by death and maturity are charged against revenue on notification of death or on expiry of the term.

The interim payments and surrenders are accounted for only at the time of settlement.

The actuarial valuation takes into account all liabilities and is based on assumptions recommended by the Consultant Actuary.

11. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments which is based on the group management and internal reporting structure. The Group comprise of following major business segments which are banking, leasing, dealing, property and insurance.

Measurement of segment assets, liabilities, segment revenue and results is based on the accounting policies set out above. Segment revenue results, assets and liabilities include items directly attributable to segments as well as those that can be allocated on a reasonable basis.

Unallocated items include depreciation and amortization costs.

12. CASH FLOW STATEMENT

The Cash Flow Statement has been prepared by using the "Direct Method" of preparing of Cash Flows in accordance with the Sri Lanka Accounting Standard 9 "Cash Flow Statements". Cash and Cash equivalents comprise cash in-hand, balances with banks, placements with banks, money at call and short notice and money market funds.

13. COMPARATIVE INFORMATION

Where necessary, comparative information has been restated to conform to the current year's presentation and classification.

14. DIRECTORS' RESPONSIBILITY STATEMENT

The Board of Directors is responsible for the preparation and presentation of these financial statements. Please refer page 85 for the statement of the Directors' Responsibility for Financial Reporting.

Notes to the Financial Statements

For the year ended 31st December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
1. INCOME				
Interest income (Note 2)	14,129,874	11,469,335	14,740,829	11,579,556
Foreign exchange profit	646,460	662,176	646,166	662,860
Fees & commission income	1,663,545	1,519,924	1,639,249	1,574,282
Dividend income (Note 4)	65,050	166,406	65,866	75,317
Other income (Note 5)	491,850	269,517	1,206,081	610,946
	16,996,779	14,087,358	18,298,191	14,502,961
2. INTEREST INCOME				
Customer advances	12,670,259	10,225,782	12,668,067	9,902,188
Government securities	952,475	881,666	952,475	881,666
Placements with Banks	418,585	312,524	418,585	313,907
Other interest income	88,555	49,363	701,702	481,795
	14,129,874	11,469,335	14,740,829	11,579,556
Notional Credit for With Holding Tax on Government Securities on Secondary Market Transactions.				
Section 123 A of the Inland Revenue (Amendment) Act, No. 19 of 2003, provides that a company which derives interest income from the secondary market transactions in Government securities (on/after 1st April 2002) would be entitled to a notional credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the company for that year of assessment.				
Accordingly, the net income earned from secondary market transactions in Government securities for the year, has been grossed up in the financial statements and the resulting notional tax credit amounts to Rs. 1.137 Mn. (2004 - Rs. 13.7 Mn.) for the Bank and Rs.7.91Mn. (2004 - Rs. 21.6 Mn.) for the Group.				
3. INTEREST EXPENSES				
Customer deposits	5,533,455	4,344,167	5,522,777	4,153,970
Refinance borrowings	109,798	102,221	109,798	102,221
Short term borrowings	900,399	821,397	900,399	923,618
Interest paid on debentures	472,405	484,042	472,405	476,047
Other interest expenses	264,794	210,214	1,064,389	705,910
	7,280,851	5,962,041	8,069,768	6,361,766
4. DIVIDEND INCOME				
Dealing securities	6,173	22,507	6,173	22,507
Investment securities - quoted	58,645	70,246	59,461	46,657
Investment securities - unquoted	232	73,653	232	6,153
	65,050	166,406	65,866	75,317
5. OTHER INCOME				
Income from dealing securities (quoted)	141,839	13,276	143,803	14,333
Income from investment securities	122,433	108,511	122,433	108,511
Bad debts recovered [Notes 15(a) & 17(a)]	142,095	103,888	142,095	103,888
Profit/(Loss) from sale of property, plant & equipment (net)	(7,749)	26,295	(7,749)	26,295
Profit from sale of foreclosed property	21,483	7,512	21,483	7,512
Gain on sale of government securities	4,179	90,238	19,433	90,237
Profit/(Loss) on gold/silver trading	19,026	(228,467)	19,026	(228,467)
Gain on interest rate Swaps	-	71,162	-	71,162
Gain/(Loss) on FCBU revaluation	28	42,990	28	42,990
Others	48,516	34,112	745,529	374,485
	491,850	269,517	1,206,081	610,946

Notes to the Financial Statements

For the year ended 31st December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
6. OPERATING EXPENSES				
Operating expenses, among other expenses, include the following:				
Legal expenses	14,430	6,215	14,430	6,215
Depreciation of property, plant and equipment	494,321	438,658	594,059	537,541
Directors' emoluments (Note 6.1)	8,911	12,597	8,911	12,597
Auditors' remuneration	2,600	2,600	3,560	3,385
Non audit fees	230	148	230	148
Donations	19,642	155	19,642	155
6.1 Directors' Emoluments				
Emoluments of Chairman (fee only)	168	79	168	79
Emoluments of highest paid Director	7,723	12,123	7,723	12,123
Emoluments of other Directors (fee only)	1,020	395	1,020	395
	<u>8,911</u>	<u>12,597</u>	<u>8,911</u>	<u>12,597</u>
7. PROVISION FOR LOAN LOSSES				
Specific provision for loans and advances	1,314,321	1,326,494	1,314,321	1,326,494
Specific Provision for foreclosed properties	315,865	95,317	315,865	95,317
Provision for Tsunami affected customers	-	60,000	-	60,000
General provision for pawning advances	8,250	3,000	8,250	3,000
General provision for housing advances	4,300	3,600	4,300	3,600
Provision for loans and advances [Note 15(a)]	1,642,736	1,488,411	1,642,736	1,488,411
Provision for bills of exchange	772	1,245	772	1,245
General provision for leases [Note 17(a)]	42,826	40,067	42,826	40,067
Specific provision for leases [Note 17(a)]	73,110	36,770	73,110	36,770
Total provision made during the year	<u>1,759,444</u>	<u>1,566,493</u>	<u>1,759,444</u>	<u>1,566,493</u>
8. TAXATION				
a) Charge to Taxation				
Income tax on profits for the year	(232,000)	(10,409)	(267,518)	(21,432)
Under/(over) provision during prior years	-	-	18,923	845
On Associate company's share of profit	-	-	(1,429)	(1,034)
Reversal from/(transfer to) deferred taxation	36,600	36,735	36,211	36,735
	<u>(195,400)</u>	<u>26,326</u>	<u>(213,813)</u>	<u>15,114</u>
b) Reconciliation of Accounting Profit and Taxable Income				
Net Profit as per the Income Statement	1,849,962	950,055	1,991,187	723,802
Disallowable expenses	5,163,131	850,653	5,221,949	1,139,539
Allowable expenses	(3,505,447)	(1,962,018)	(3,714,434)	(2,049,703)
Other income not chargeable with income tax	(2,159,340)	(166,406)	(2,188,206)	(159,089)
Losses applicable for Off Shore Banking Unit	-	313,393	-	313,393
Losses of prior periods set off against current year liabilities	(497,426)	(83,367)	(511,832)	(96,317)
Tax losses brought forward and not utilised	(3,614,574)	(3,972,974)	(3,717,506)	(4,025,361)
Tax losses not utilised and carried forward	3,624,465	4,112,000	3,891,881	4,229,338
Taxable Income	<u>860,771</u>	<u>41,336</u>	<u>973,039</u>	<u>75,602</u>
Income tax provision for the year is made up of the following:				
Income taxable at 30%	179,537	8,418	179,537	8,418
Income taxable at 20%	52,463	-	54,013	183
Income taxable at 32.5%	-	-	33,968	10,840
Income taxable at 15%	-	1,991	-	1,991
	<u>232,000</u>	<u>10,409</u>	<u>267,518</u>	<u>21,432</u>
Effective tax rate	<u>12.54%</u>	<u>1.10%</u>	<u>13.44%</u>	<u>2.96%</u>

- c) The Bank's Domestic Banking Unit (DBU) is liable for income taxation on its income from banking operations at the rate of 30% (2004 - 30%) for the year. The non banking income of the Bank is liable for income taxation at the rate of 20% on Off Shore business income/profit and on sale of unquoted shares, (2004 - 30% on non banking income and 15% on profits from share trading activities). The taxable income of On Shore Operations of Foreign Currency Banking Unit (FCBU) is liable for income taxation at the rate 30% for the year (2004 - 30%). The taxable income from Off Shore Operations of FCBU is liable for income taxation at the rate of 20% with effect from 1st April 2004. The income of Off Shore Operations of FCBU was exempt from income taxation prior to that.

Notes to the Financial Statements

8. TAXATION - (Contd.)

The Bank has recorded a taxable income of Rs.860.7 Mn. during the year 2005. The cumulative tax losses, which is available for setting off against future taxable income amounts to Rs.3,624 Mn. as at 31 December 2005 (31 December 2004 - Rs. 4,112 Mn.). The amounts reflected above are provisional.

Sithma Development (Pvt) Ltd. enjoys a tax holiday as per the agreement signed with the Board of Investment of Sri Lanka. As such no provision for income taxation has been made in the financial statements of the company.

HNB Stock brokers (Pvt) Ltd., is liable for income taxation at the rate of 32.5% (2004 - 32.5%) on its taxable profits. Provision has been made in the financial statements accordingly.

HNB Assurance Ltd., is liable for income tax at the rate of 30% (2004 - 30%) on its taxable profit and at the rate of 20% on its non business profits. Provision has been made in the financial statements accordingly.

HNB Securities Ltd., is liable for income taxation at the rate of 32.5% (2004 - 32.5%) on its taxable profits. Provision has been made in the financial statements accordingly.

Taxes Imposed with Retrospective Effect

The profits arising from the trading in the government securities were exempt from income tax in terms of section 15 (t) of the Inland Revenue Act, No. 38 of 2000. The Inland Revenue (Amendment) Act, No. 12 of 2004 withdrew this exemption with effect from 1st April 2002. The Fiscal Proposals included in the Government budget for 2005 intimated that the repeal of this section would be deferred to the year of Assessment 2003/2004.

The income tax liability on the profits arising from trading in Government securities as per the above, earned during the year 2003, amounting to Rs.71.6 Mn, which has been paid by HNB Securities Ltd, has been treated as a prior year adjustment and charged against the retained profits of 2003.

9. EARNINGS PER SHARE

Earnings per share (EPS) has been calculated by dividing the profit after taxation for the year attributable to ordinary shareholders, by the weighted average number of ordinary shares on issue (both Voting & Non-Voting) during the year ended 31st December 2005, calculated as per the requirements of Sri Lanka Accounting Standard 34 - "Earnings Per Share".

		Bank		Group	
		2005	2004	2005	2004
For the year ended 31st December					
Profit attributable to ordinary shareholders	(Rs.000)	1,654,562	976,381	1,770,421	755,606
Weighted average number of ordinary shares used as the denominator	('000)	109,682	78,054	109,682	78,054
Basic Earnings per Share	(Rs.)	15.09	12.51	16.14	9.68

	As at 31st December		As at 31st December	
	2005	2004	2005	2004
10. CASH AND SHORT-TERM FUNDS	Rs.000	Rs.000	Rs.000	Rs.000
Local currency in hand	1,946,367	1,693,161	1,940,228	1,698,686
Foreign currency in hand	138,042	258,132	138,042	258,132
Balances with local banks	15,107	19,440	15,107	19,440
Balances with foreign banks	9,930,384	13,529,169	9,930,384	13,529,169
Money at call and short notice	1,150,000	-	1,150,000	-
Money market funds	5,366,187	4,215,046	5,366,187	4,215,046
Placements with banks by FCBU	2,653,987	392,837	2,653,987	392,837
	21,200,074	20,107,785	21,193,935	20,113,310

11. STATUTORY DEPOSIT WITH CENTRAL BANK OF SRI LANKA

Statutory deposit with Central Bank of Sri Lanka	8,565,629	9,120,391	8,565,629	9,120,391
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A cash balance is maintained with the Central Bank of Sri Lanka according to statutory requirements. As at 31st December 2005, the minimum cash reserve requirement is 10% of the rupee deposit liabilities. There is no reserve requirement for deposit liabilities of the Foreign Currency Banking Unit.

Notes to the Financial Statements

12. DEALING SECURITIES

Bank

Quoted shares

As at 31st December

	No of Ordinary Shares of Rs.10/- each	2005 Cost of Investment Rs.000	% of Total Cost	Market Value Rs.000	No of Ordinary Shares of Rs.10/- each	2004 Cost of Investment Rs.000	Market Value Rs.000
Banks, Finance and Insurance							
Central Finance Co. Ltd.	-	-	-	-	30,000	3,913	8,100
Commercial Bank, Non-voting	-	-	-	-	229,900	24,161	20,691
Housing Development Finance Corporation Bank of Sri Lanka	16,600	3,828	1.11	3,171	-	-	-
Merchant Bank of Sri Lanka Ltd.	-	-	-	-	604,150	6,765	5,588
National Development Bank Ltd.	-	-	-	-	461,700	40,266	73,872
Nations Trust Bank Ltd.	-	-	-	-	588,300	14,907	10,737
Seylan Bank Ltd.	17,400	826	.24	639	297,300	14,417	8,919
Seylan Bank Ltd, Non-voting	839,300	20,446	5.91	13,639	-	-	-
The Finance Co Ltd.	-	-	-	-	131,180	2,880	2,492
Union Assurance Ltd.	335,400	23,689	6.85	32,198	-	-	-
		<u>48,789</u>	<u>14.11</u>	<u>49,647</u>		<u>107,309</u>	<u>130,399</u>
Chemicals and Pharmaceuticals							
Haycarb Ltd.	-	-	-	-	62	3	3
Construction & Engineering							
Colombo Dockyard Ltd.	100,000	3,543	1.02	2,225	-	-	-
Diversified Holdings							
Hayleys Ltd.	-	-	-	-	553,829	78,303	69,921
Hemas Holdings Ltd.	50,000	3,509	1.01	5,187	289,000	22,844	27,889
John Keells Holdings Ltd	150,000	21,348	6.17	19,388	436,793	45,824	48,047
		<u>24,857</u>	<u>7.18</u>	<u>24,575</u>		<u>146,971</u>	<u>145,857</u>
Footwear and Textile							
Veyangoda Textiles Ltd	-	-	-	-	5,000	122	-
Kuruwita Textiles Ltd	-	-	-	-	247,500	1,980	12,004
		-	-	-		<u>2,102</u>	<u>12,004</u>
Hotel and Travel							
Aitken Spence Hotel Holdings Ltd	54,500	5,738	1.66	3,706	-	-	-
Asian Hotels & Properties Ltd.	135,300	8,420	2.43	5,615	-	-	-
Galadari Hotel Lanka Ltd.	170,600	3,178	.92	1,919	55,000	972	880
Hotel Developers (Lanka) Ltd.	-	-	-	-	7,800	876	796
John Keells Hotels Ltd.	25,051	2,529	.73	2,029	25,051	2,529	2,186
Riverina Hotels Ltd.	32,300	1,046	.30	703	-	-	-
Trans Asia Hotels Ltd.	-	-	-	-	22,000	1,782	1,639
		<u>20,911</u>	<u>6.04</u>	<u>13,972</u>		<u>6,159</u>	<u>5,501</u>
Health Care							
Ceylon Hospitals Ltd.	-	-	-	-	10,800	273	248
Land and Property							
Ceylinco Housing and Real Estate Co. Ltd.	-	-	-	-	25	1	-
Collettes Ltd.	-	-	-	-	50	11	-
		-	-	-		<u>12</u>	<u>-</u>

Notes to the Financial Statements

12. DEALING SECURITIES - (Contd.)

As at 31st December

	No of Ordinary Shares of Rs.10/- each	2005 Cost of Investment Rs.000	% of Total Cost	Market Value Rs.000	No of Ordinary Shares of Rs.10/- each	2004 Cost of Investment Rs.000	Market Value Rs.000
Manufacturing							
ACL Plastics Ltd.	-	-	-	-	257,600	10,256	7,342
Caltex Lanka Lubricants Ltd	726,200	56,525	16.34	42,119	276,200	25,929	17,608
Dankotuwa Porcelain Ltd	1,207,400	30,230	8.74	18,111	390,700	11,670	6,154
Kelani Tyres Ltd	346,800	6,278	1.82	3,208	346,800	6,278	3,381
Lanka Cement Ltd	-	-	-	-	210,000	2,100	1,627
Lanka Ceramics Ltd	-	-	-	-	2,044,400	49,488	40,888
Pelwatte Sugar Industries Ltd	-	-	-	-	350,000	4,855	3,325
Richard Peiris and Co Ltd	374,700	34,546	10.00	25,386	-	-	-
Sierra Cables Limited (Rs.1 per share)	4,432,000	13,464	3.89	11,080	-	-	-
		<u>141,043</u>	<u>40.79</u>	<u>99,904</u>		<u>110,576</u>	<u>80,325</u>
Motors							
Lanka Ashok Leyland Ltd	-	-	-	-	1,000	141	97
Power & Energy							
Lanka IOC Ltd.	927,900	41,702	12.06	30,621	600,000	18,445	25,950
Plantations							
Balangoda Plantations Ltd	-	-	-	-	54,700	1,454	902
Kelani Valley Plantations Ltd	-	-	-	-	90,100	1,904	1,577
		-	-	-		<u>3,358</u>	<u>2,479</u>
Telecommunications							
Dialog Telekom (Rs.1 per share)	550,000	10,300	2.98	9,075	-	-	-
Sri Lanka Telecom Ltd.	2,334,800	54,604	15.78	38,524	408,900	7,883	6,338
		<u>64,904</u>	<u>18.76</u>	<u>47,599</u>		<u>7,883</u>	<u>6,338</u>
Trading							
Odd lots & delisted shares	-	135	0.04	-	-	1	-
Total		<u>345,884</u>	<u>100.00</u>	<u>268,543</u>		<u>403,233</u>	<u>409,201</u>
Less:							
Provision for diminution in Market Value b/f		-	-	-		(36,372)	-
Provision written back/(made)		(77,341)	-	-		36,372	-
		<u>268,543</u>		<u>268,543</u>		<u>403,233</u>	<u>409,201</u>
Government of Sri Lanka Treasury Bonds							
Face Value	Year of Maturity	Discounted Value (Rs. 000)					
Rs. 50 Mn.	2009	48,694	48,694				
Less:							
Marked to market revaluation loss		(4,124)					
		<u>44,570</u>		<u>44,570</u>			
Total for Bank		<u>313,113</u>		<u>313,113</u>		<u>403,233</u>	<u>409,201</u>

Notes to the Financial Statements

12. DEALING SECURITIES - (Contd.)

As at 31st December

	No of Ordinary Shares of Rs.10/- each	2005 Cost of Investment Rs.000	% of Total Cost	Market Value Rs.000	No of Ordinary Shares of Rs.10/- each	2004 Cost of Investment Rs.000	Market Value Rs.000
Subsidiaries							
Quoted Shares							
Commercial Bank of Ceylon Ltd. (Voting)	-	-	-	-	8,900	864	801
NDB Bank Ltd.	-	-	-	-	29,200	812	759
Nations Trust Bank Ltd.	-	-	-	-	108,900	2,502	1,987
Chemical Industries (Col.) Ltd.	-	-	-	-	13,587	1,990	1,699
Caltex Lanka Lubricants Ltd.	-	-	-	-	97,700	7,337	6,229
Grain Elevators Ceylon Ltd.	-	-	-	-	33,700	541	362
John Keells Hotels Ltd.	-	-	-	-	37	2	3
Lanka IOC Ltd.	25,000	1,265	12.07	819	-	-	-
Sri Lanka Telecom Ltd.	350,000	9,211	87.93	5,775	120,000	2,079	1,860
		<u>10,476</u>	<u>100.00</u>	<u>6,594</u>		<u>16,127</u>	<u>13,700</u>
Less: Provision for diminution in market value (made)		(3,882)		-		(2,427)	-
Total for Subsidiaries		<u>6,594</u>		<u>6,594</u>		<u>13,700</u>	<u>13,700</u>
Total for Group		<u>319,707</u>		<u>319,707</u>		<u>416,933</u>	<u>422,901</u>

13. INVESTMENT SECURITIES

For the year ended 31st December

	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
13.1 Quoted - shares/units				
Balance b/f	633,969	667,744	641,377	674,994
Additions	-	-	-	158
Disposals	(16,200)	(36,951)	(16,358)	(36,951)
Transfers	-	(23,770)	-	(23,770)
Provision written back/(made)	-	26,946	(181)	26,946
Balance c/f (Note 13.4)	<u>617,769</u>	<u>633,969</u>	<u>624,838</u>	<u>641,377</u>
13.2 Unquoted - shares				
Balance b/f	25,956	25,956	25,956	25,956
Additions	-	-	-	-
Disposals	(250)	-	(250)	-
Balance c/f (Note 13.5)	<u>25,706</u>	<u>25,956</u>	<u>25,706</u>	<u>25,956</u>
13.3 Bonds and debentures				
Balance b/f	17,080,021	17,308,924	18,093,505	19,118,795
Additions	97,917	3,919,955	559,113	3,919,955
Redemptions	(536,468)	(4,148,858)	(486,468)	(4,945,245)
Balance c/f (Note 13.6)	<u>16,641,470</u>	<u>17,080,021</u>	<u>18,166,150</u>	<u>18,093,505</u>
Total Investment Securities	<u>17,284,945</u>	<u>17,739,946</u>	<u>18,816,694</u>	<u>18,760,838</u>

Notes to the Financial Statements

13. INVESTMENT SECURITIES (Contd.)

13.4 Quoted shares/units

Bank

As at 31st December

	No. of Ordinary Shares of Rs.10/- each	2005 Cost of Investment Rs.000	Market Value of Shares Rs.000	No. of Ordinary Shares of Rs.10/- each	2004 Cost of Investment Rs.000	Market Value of Shares Rs.000
Asha Central Hospital Ltd	120,000	1,578	2,850	120,000	1,578	1,830
Browns Beach Hotels Ltd	75,000	1,622	1,725	75,000	1,622	2,344
Commercial Bank of Ceylon Ltd	825,332	61,645	111,832	412,666	61,645	65,923
DFCC Bank	7,054,025	519,711	1,551,886	7,054,025	519,711	1,453,129
Distilleries Company of Sri Lanka Ltd (Rs.1/- per share)	1,481,500	11,158	51,853	1,481,500	11,158	42,223
Lanka Hospital Corporation Ltd	1,455,000	22,055	26,918	1,455,000	22,055	18,551
Magpek Exports Ltd	359,000	14,360	*	359,000	14,360	*
Metal Recyclers Colombo Ltd	69	3	*	69	3	*
Namal National Equity Fund (units)	-	-	-	1,629,450	16,200	22,144
		632,132	1,747,064		648,332	1,606,144
Provision for diminution in market value b/f		(14,363)				
Provision written back/(made)					(14,363)	-
Total Quoted - Shares / Units - Bank		617,769	1,747,064		633,969	1,606,144

*Shares delisted - Market value shown as Nil.

Subsidiaries

Commercial Bank of Ceylon Ltd.						
Cumulative Redeemable Preference Shares	725,000	7,250	7,069	725,000	7,250	7,250
Lanka IOC Ltd.	-	-	-	5,800	158	251
		7,250	7,069		7,408	7,501
Provision for diminution in value of investment		(181)				
Total Quoted - Shares / Units - Group		624,838	1,754,133		641,377	1,613,645

13.5 Unquoted Shares

	No. of Ordinary Shares of Rs.10/- each	Cost Rs.000	Directors' Valuation Rs.000	No. of Ordinary Shares of Rs.10/- each	Cost Rs.000	Directors' Valuation Rs.000
Bank and Subsidiaries						
Browns Group Motels Ltd	50,000	500	500	50,000	500	500
Credit Information Bureau of Sri Lanka (Shares of Rs.100/- each)	5,300	530	530	5,300	530	530
Fitch Rating Lanka Ltd	62,500	625	625	62,500	625	625
Janashakthi Insurance Co Ltd	-	-	-	25,000	250	250
Lanka Clear (Pvt) Ltd	2,200,000	22,000	22,000	2,200,000	22,000	22,000
S.W.I.F.T.	21	2,051	2,051	21	2,051	2,051
Total Unquoted Shares - Bank and Group		25,706	25,706		25,956	25,956

Notes to the Financial Statements

13. INVESTMENT SECURITIES (Contd.)

13.7 Investment Securities - Group

As at 31 December	2005 Cost Rs.000	2004 Cost Rs.000
Total cost of investment securities for Bank (as per Note 13.4, 13.5 and 13.6)	17,284,945	17,739,946
Subsidiaries - HNB Assurance Ltd / HNB Securities Ltd.		
Quoted shares	7,069	7,408
Quoted debentures	7,250	7,250
Government of Sri Lanka Treasury Bonds	1,517,430	1,056,234
Less: Investment in subsidiary debentures by the Bank	-	(50,000)
Total Investment Securities - Group	18,816,694	18,760,838

As at 31 December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
14. BILLS OF EXCHANGE				
Inland bills	335,258	340,047	335,258	340,047
Import bills	222,831	276,727	222,831	276,727
Export bills	1,060,293	1,158,182	1,060,293	1,158,182
	1,618,382	1,774,956	1,618,382	1,774,956
Foreign Currency Banking Unit bills	696,639	591,273	696,639	591,273
	2,315,021	2,366,229	2,315,021	2,366,229
Less: Specific Loan loss provision [Note 15(b)]	288,044	288,763	288,044	288,763
	2,026,977	2,077,466	2,026,977	2,077,466

15. LOANS AND ADVANCES

Sri Lanka rupee loans and advances

Overdrafts	22,952,834	20,165,063	22,386,095	19,486,668
Trust receipts	5,193,080	4,957,006	5,193,080	4,957,006
Packing credit loans	523,517	521,945	523,517	521,945
Staff loans	4,104,142	3,634,411	4,104,142	3,635,562
Term loans	31,988,279	27,804,595	31,988,279	27,804,595
Housing loans	10,224,844	7,593,169	10,224,844	7,593,169
Pawning advances	12,521,666	11,432,733	12,521,666	11,432,733
Foreclosed properties [Note 15 (f)]	139,224	249,959	139,224	249,959
	87,647,586	76,358,881	87,080,847	75,681,637

Foreign currency loans and advances

Overdrafts	1,668,881	1,249,346	1,668,881	1,249,346
Trust receipts	1,423,649	1,424,943	1,423,649	1,424,943
Packing credit loans	812,883	895,731	812,883	895,731
Term loans	10,737,166	9,654,803	10,737,166	9,654,803
Foreclosed properties [Note 15 (f)]	418,316	477,757	418,316	477,757
	15,060,895	13,702,580	15,060,895	13,702,580

Total Sri Lanka rupee and Foreign currency loans and advances

	102,708,481	90,061,461	102,141,742	89,384,217
Less:				
Specific loan loss provision	5,099,566	4,488,324	5,099,566	4,488,324
Specific provision for foreclosed properties [Note 15 (f)]	420,451	138,727	420,451	138,727
General provision for pawning advances	16,473	11,020	16,473	11,020
General provision for housing loans	20,500	16,200	20,500	16,200
Total loan loss provision [Note 15(a)]	5,556,990	4,654,271	5,556,990	4,654,271
Loans & advances after loan loss provision	97,151,491	85,407,190	96,584,752	84,729,946
Less: Interest in suspense [Note 15(e)]	909,026	1,028,502	909,026	1,028,502
	96,242,465	84,378,688	95,675,726	83,701,444

Notes to the Financial Statements

15. LOANS AND ADVANCES (Contd.)

As at 31 December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
15(a) MOVEMENT IN LOAN LOSS PROVISION				
Balance brought forward	4,654,271	3,298,859	4,654,271	3,298,859
Reclassified to Bills of Exchange	-	42,418	-	42,418
Exchange rate variance on foreign currency provision	(55,550)	142,183	(55,550)	142,183
	<u>4,598,721</u>	<u>3,483,460</u>	<u>4,598,721</u>	<u>3,483,460</u>
Additional provision made (Note 7)	1,642,736	1,488,411	1,642,736	1,488,411
Fully provided debts written off	(549,337)	(216,458)	(549,337)	(216,458)
Recoveries made during the year	(132,334)	(101,142)	(132,334)	(101,142)
Reversals made from General Provision	(2,796)	-	(2,796)	-
	<u>5,556,990</u>	<u>4,654,271</u>	<u>5,556,990</u>	<u>4,654,271</u>

15(b) ANALYSIS OF PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE - BANK

As at 31 December	LOAN LOSS PROVISION			INTEREST IN SUSPENSE		
	2005 Rs.000	2005 Rs.000	2004 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
Bills of Exchange (Note 14)	288,044		288,763			
Loans and advances (Note 15)	5,556,990	5,845,034	4,654,271	4,943,034	909,026	1,028,502
Lease rental receivable within 1 year (Note 16)	281,422		205,004			
Lease rental receivable after 1 year (Note 17)	115,727	397,149	85,997	291,001		
Total		<u>6,242,183</u>		<u>5,234,035</u>	<u>909,026</u>	<u>1,028,502</u>

15(c) ASSET QUALITY - BANK

As at 31 December	2005 Rs.000		2004 Rs.000	
Non performing advances				
Bills of Exchange		300,081		326,540
Loans and advances		8,442,066		9,167,850
Foreclosed properties		557,540		727,716
Lease rental receivable		363,664		343,920
		<u>9,663,351</u>		<u>10,566,026</u>
Less: Specific provisions				
- Bills of Exchange	288,044		288,763	
- Loans and advances	5,099,566		4,488,324	
- Foreclosed properties	420,451		138,727	
- Lease rental receivable	214,484		150,384	
		<u>6,022,545</u>		<u>5,066,198</u>
		<u>3,640,806</u>		<u>5,499,828</u>
Less: Interest in suspense		909,026		1,028,502
Net non-performing advances		<u>2,731,780</u>		<u>4,471,326</u>

15(d) SECURITY WISE ANALYSIS OF GROSS NON-PERFORMING ADVANCES - BANK

As at 31 December	Amount Outstanding			
	2005 Rs.000	%	2004 Rs.000	%
Secured by immovable assets	4,960,486	51	5,388,673	51
Secured by movable assets	2,290,430	24	2,007,545	19
Secured by cash/shares	380,469	4	211,321	2
Other securities	1,522,389	16	1,584,904	15
Clean	509,577	5	1,373,583	13
	<u>9,663,351</u>	<u>100</u>	<u>10,566,026</u>	<u>100</u>

Notes to the Financial Statements

15. LOANS AND ADVANCES (Contd.)**15(e) MOVEMENT IN INTEREST IN SUSPENSE - BANK**

	2005	2004
	Rs.000	Rs.000
Balance brought forward	1,028,502	1,156,410
Interest suspended	352,025	579,693
Amounts recovered	(375,520)	(381,150)
Interest written off	(95,981)	(326,451)
	<u>909,026</u>	<u>1,028,502</u>

Bank, as a policy, seals off interest on non-performing advances which are in arrears over one year. However, at the time of recovery, further interest on such advances is calculated from the date on which interest is sealed off.

15(f) MOVEMENT IN FORECLOSED PROPERTIES

	2005	2004
	Rs.000	Rs.000
Balance as 01st January	588,989	928,657
Additions during the year	-	3,331
Disposals during the year	(170,175)	(287,664)
Transfers during the year	-	(10,210)
Exchange translation	(1)	50,192
Provision for the year	(315,865)	(95,317)
Provision recoveries during the year	34,141	-
Balance as at 31st December	<u>137,089</u>	<u>588,989</u>

The net total of foreclosed properties has been included under
Sri Lanka rupee loans and advances
Foreign currency loans and advances
Specific provision for foreclosed properties

	139,224	249,959
	418,316	477,757
	(420,451)	(138,727)
	<u>137,089</u>	<u>588,989</u>

15(g) PROVISIONS FOR DISCOUNT OF SECURITIES

As per an amendment to the directions issued by the Central Bank of Sri Lanka on 15th August 2003 (effective from 1st January 2004) under section 46 (A) of the Banking Act No. 30 of 1988, as amended by Banking (Amendment) Act No. 33 of 1995, the initial and progressive discounts that need to be applied to the forced sale value of immovable properties held as collateral are as follows:

At the time of first provisioning for a loan, only 75% of the forced sale value (FSV) of the property based on a current professional valuation report can be considered as the value of collateral (i.e. an initial haircut of 25% will be applied);

When an advance is transferred to the 'Loss' category, the following progressive discounts will apply to the forced sale value of immovable property held as collateral, based on a current professional valuation report, depending on the time period for which it remains in the 'Loss' category:

No. of years in Loss category	% of FSV of immovable property that can be considered as the value of collateral
1 - 2 years	60%
2 - 3 years	50%
3 - 4 years	40%

All immovable property held as collateral, relating to loans in the 'Loss' category for more than 4 years should be reviewed on a regular basis, and discounted further at the discretion of the Management.

15(h) PROVISION FOR KABOOL LANKA (PVT) LTD.

The Bank continued to increase the provisions against the Kabool Lanka (Pvt) Ltd., (KLPL) liability of approximately Rs. 2.68 Bn., as a measure of prudence, despite the fact that land, building and machinery has a realizable value, adequate to cover the un-provided exposure.

Several investors have been evaluating the project for revival, however as at Balance Sheet date no formal agreement has been entered into for the sale of the assets jointly owned by Hatton National Bank Ltd. and Bank of Ceylon, acquired through the legal process.

A total provision of Rs. 2.4 Bn., has been made by the Bank up to 31st December 2005 leaving an exposure of Rs. 0.28 Bn, covered by assets.

Notes to the Financial Statements

As at 31 December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
16. LEASE RENTALS RECEIVABLE WITHIN ONE YEAR				
Total Lease rentals receivable [Note 16(a)]	11,337,968	8,635,918	11,337,968	8,635,918
Lease rentals receivable after one year from Balance Sheet date	(6,817,535)	(5,001,262)	(6,817,535)	(5,001,262)
Lease rentals receivable within one year from Balance Sheet date	4,520,433	3,634,656	4,520,433	3,634,656
Unearned lease income	(1,126,542)	(865,385)	(1,126,542)	(865,385)
Provision for lease receivables - Specific [Note 17 (a)]	(214,484)	(150,384)	(214,484)	(150,384)
- General [Note 17 (a)]	(66,938)	(54,620)	(66,938)	(54,620)
	3,112,469	2,564,267	3,112,469	2,564,267
16(a)TOTAL LEASE RENTALS RECEIVABLE				
Cost of equipment	14,365,569	10,792,259	14,365,569	10,792,259
Unearned lease income	4,587,847	3,516,769	4,587,847	3,516,769
Total lease rentals receivable	18,953,416	14,309,028	18,953,416	14,309,028
Initial rentals received (prepaid)	(137,873)	(124,617)	(137,873)	(124,617)
Lease rentals received	(7,477,575)	(5,548,493)	(7,477,575)	(5,548,493)
Lease rentals receivable	11,337,968	8,635,918	11,337,968	8,635,918
17. LEASE RENTALS RECEIVABLE AFTER ONE YEAR				
Lease rentals receivable after one year from Balance Sheet date	6,817,535	5,001,262	6,817,535	5,001,262
Unearned lease income	(949,926)	(641,165)	(949,926)	(641,165)
Provision for lease receivables - General [Note 17 (a)]	(115,727)	(85,997)	(115,727)	(85,997)
	5,751,882	4,274,100	5,751,882	4,274,100
There were no lease rentals receivable beyond 5 years.				
17(a)MOVEMENT IN PROVISION OF LEASE RECEIVABLES				
For the year ended 31 December	2005	2005	2004	2004
Bank	Rs.000	Rs.000	Rs.000	Rs.000
	Specific	General	Specific	General
Balance brought forward	150,384	140,617	116,360	100,468
Exchange rate variance on foreign currency provision	-	(27)	-	82
	150,384	140,590	116,360	100,550
Additional provision made (Note 7)	73,110	42,826	36,770	40,067
Recoveries made during the year	(9,010)	(751)	(2,746)	-
	214,484	182,665	150,384	140,617
Group				
Balance brought forward	150,384	140,617	116,360	100,468
Exchange rate variance on foreign currency provision	-	(27)	-	82
	150,384	140,590	116,360	100,550
Additional provision made (Note 7)	73,110	42,826	36,770	40,067
Recoveries made during the year	(9,010)	(751)	(2,746)	-
	214,484	182,665	150,384	140,617

Notes to the Financial Statements

17(b) ANALYSIS OF LOANS AND ADVANCES AND LEASES BY SECTOR

Sector/Type of Loan	Overdrafts	Short Term Loans	Medium Term Loans	Long Term Loans	Pawning	Total
Bank - 2005	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Food, beverages and tobacco	772,303	1,210,154	1,034,262	482,100	-	3,498,819
Agriculture, agro business and fisheries	1,063,720	1,373,757	1,545,722	842,548	-	4,825,747
Textile and wearing apparel	1,363,807	1,311,776	1,569,483	1,535,139	-	5,780,205
Wood and paper products	177,822	216,582	285,091	150,130	-	829,625
Rubber and leather products	353,902	795,298	118,226	247,894	-	1,515,320
Metals, chemicals and engineering	1,894,105	1,222,324	1,685,961	3,383,443	-	8,185,833
Hotels	444,224	28,032	640,918	808,628	-	1,921,802
Services	2,022,454	1,311,845	3,094,082	3,110,230	-	9,538,611
Foreclosed properties	-	-	-	557,540	-	557,540
Others	16,529,378	10,094,855	17,999,786	20,247,262	12,521,666	77,392,947
Total	24,621,715	17,564,623	27,973,531	31,364,914	12,521,666	114,046,449
Loans and Advances (Note 15)						102,708,481
Leases (Note 16(a))						11,337,968
						<u>114,046,449</u>

The "others" category comprises the following advances:

Exports	207,751	235,096	87,909	335,869	-	866,625
Imports	1,115,525	2,749,100	303,541	485,202	-	4,653,368
Trading	3,299,676	127,768	578,999	698,638	-	4,705,081
Financial	1,117,581	260,263	1,536,820	1,747,281	-	4,661,945
Housing	-	66,944	723,083	8,269,358	-	9,059,385
Consumption	4,867,381	3,222,888	6,940,532	4,715,741	-	19,746,542
Miscellaneous	5,921,464	3,432,796	7,828,902	3,995,173	12,521,666	33,700,001
Total	16,529,378	10,094,855	17,999,786	20,247,262	12,521,666	77,392,947

Bank - 2004

Food, beverages and tobacco	862,376	1,351,291	1,154,885	538,326	-	3,906,878
Agriculture, agro business and fisheries	1,317,152	1,701,055	1,913,990	1,043,285	-	5,975,482
Textiles and wearing apparel	1,377,810	2,306,168	2,161,002	2,113,715	-	7,958,695
Wood and paper products	337,007	410,464	540,304	284,525	-	1,572,300
Rubber and leather products	516,206	1,160,033	172,448	361,582	-	2,210,269
Metals, chemicals and engineering	819,388	528,776	729,345	1,463,673	-	3,541,182
Hotels	714,498	45,088	1,030,865	1,300,613	-	3,091,064
Services	1,222,423	792,917	1,870,143	1,879,903	-	5,765,386
Foreclosed properties	-	-	-	727,716	-	727,716
Others	14,247,550	7,742,476	13,089,272	17,436,376	11,432,733	63,948,407
Total	21,414,410	16,038,268	22,662,254	27,149,714	11,432,733	98,697,379
Loans and Advances (Note 15)						90,061,461
Leases (Note 16(a))						8,635,918
						<u>98,697,379</u>

The "others" category comprises the following advances:

Exports	599,643	678,570	253,735	969,437	-	2,501,385
Imports	906,561	2,234,130	246,681	394,312	-	3,781,684
Trading	4,411,394	228,769	1,886,700	1,897,606	-	8,424,469
Financial	1,007,899	234,720	1,385,993	1,575,799	-	4,204,411
Housing	-	65,441	706,848	8,083,690	-	8,855,979
Consumption	3,737,939	1,647,797	2,548,552	2,161,716	-	10,096,004
Miscellaneous	3,584,114	2,653,049	6,060,763	2,353,816	11,432,733	26,084,475
Total	14,247,550	7,742,476	13,089,272	17,436,376	11,432,733	63,948,407

Notes to the Financial Statements

17(b) ANALYSIS OF LOANS AND ADVANCES AND LEASES BY SECTOR (Contd.)

Sector/Type of Loan	Overdrafts	Short Term	Medium Term	Long Term	Pawning	Total
Group - 2005	Rs.000	Loans Rs.000	Loans Rs.000	Loans Rs.000	Rs.000	Rs.000
Food, beverages and tobacco	772,303	1,210,154	1,034,262	482,100	-	3,498,819
Agriculture, agro business and fisheries	1,063,720	1,373,757	1,545,722	842,548	-	4,825,747
Textile and wearing apparel	1,363,807	1,311,776	1,569,483	1,535,139	-	5,780,205
Wood and paper products	177,822	216,582	285,091	150,130	-	829,625
Rubber and leather products	353,902	795,298	118,226	247,894	-	1,515,320
Metals, chemicals and engineering	1,894,105	1,222,324	1,685,961	3,383,443	-	8,185,833
Hotels	444,224	28,032	640,918	808,628	-	1,921,802
Services	2,022,454	1,311,845	3,094,082	3,110,230	-	9,538,611
Foreclosed properties	-	-	-	557,540	-	557,540
Others	15,962,639	10,094,855	17,999,786	20,247,262	12,521,666	76,826,208
Total	24,054,976	17,564,623	27,973,531	31,364,914	12,521,666	113,479,710

Loans and Advances (Note 15)	102,141,742
Leases (Note 16(a))	11,337,968
	113,479,710

The "others" category comprises the following advances:

Exports	207,751	235,096	87,909	335,869	-	866,625
Imports	1,115,525	2,749,100	303,541	485,202	-	4,653,368
Trading	3,299,676	127,768	578,999	698,638	-	4,705,081
Financial	1,117,581	260,263	1,536,820	1,747,281	-	4,661,945
Housing	-	66,944	723,083	8,269,358	-	9,059,385
Consumption	4,867,381	3,222,888	6,940,532	4,715,741	-	19,746,542
Miscellaneous	5,354,725	3,432,796	7,828,902	3,995,173	12,521,666	33,133,262
Total	15,962,639	10,094,855	17,999,786	20,247,262	12,521,666	76,826,208

Group - 2004

Food, beverages and tobacco	862,376	1,351,291	1,154,885	538,326	-	3,906,878
Agriculture, agro business and fisheries	1,317,152	1,701,055	1,913,990	1,043,285	-	5,975,482
Textiles and wearing apparel	1,377,810	2,306,168	2,161,002	2,113,715	-	7,958,695
Wood and paper products	337,007	410,464	540,304	284,525	-	1,572,300
Rubber and leather products	516,206	1,160,033	172,448	361,582	-	2,210,269
Metals, chemicals and engineering	819,388	528,776	729,345	1,463,673	-	3,541,182
Hotels	714,498	45,088	1,030,865	1,300,613	-	3,091,064
Services	1,222,424	792,917	1,870,143	1,879,903	-	5,765,387
Foreclosed properties	-	-	-	727,716	-	727,716
Others	13,570,305	7,742,476	13,089,272	17,436,376	11,432,733	63,271,162
Total	20,737,166	16,038,268	22,662,254	27,149,714	11,432,733	98,020,135

Loans and Advances (Note 15)	89,384,217
Leases (Note 16(a))	8,635,918
	98,020,135

The "others" category comprises the following advances:

Exports	599,643	678,570	253,735	969,437	-	2,501,385
Imports	906,561	2,234,130	246,681	394,312	-	3,781,684
Trading	4,411,394	228,769	1,886,700	1,897,606	-	8,424,469
Financial	1,007,899	234,720	1,385,993	1,575,799	-	4,204,411
Housing	-	65,441	706,848	8,083,690	-	8,855,979
Consumption	3,737,939	1,647,797	2,548,552	2,161,716	-	10,096,004
Miscellaneous	2,906,869	2,653,049	6,060,763	2,353,816	11,432,733	25,407,230
Total	13,570,305	7,742,476	13,089,272	17,436,376	11,432,733	63,271,162

Notes to the Financial Statements

18. INVESTMENTS IN ASSOCIATE COMPANIES

As at 31st December	BANK		GROUP	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
Balance as at 1st January	132,326	157,582	168,588	190,309
Disposal	-	(68,149)	-	(19,548)
Transfer to Dealing Securities	-	(1,216)	-	-
Provision Written Back	-	44,109	-	-
Consolidation Adjustment	-	-	2,004	(2,173)
Balance as at 31st December	<u>132,326</u>	<u>132,326</u>	<u>170,592</u>	<u>168,588</u>

As at 31st December	2005		2004		Market Value		
	Principal Activity	% Holding	Balance Rs.000	Market Value Rs.000	% Holding	Balance Rs.000	Market Value Rs.000
18.1 Bank							
Quoted							
Lanka Ventures Ltd (10,036,250 shares of Rs.10/- each)	Venture Capital	20.07	132,326	122,944	20.07	132,326	97,853
			<u>132,326</u>	<u>122,944</u>		<u>132,326</u>	<u>97,853</u>
Unquoted							
Browns Engineering (Pvt) Ltd. (2,056,000 ordinary shares of Rs.10/- each)	Engineering	32.63	20,560		32.63	20,560	
Less: Provision for diminution in value			(20,560)			(20,560)	
Total for the Bank			<u>132,326</u>			<u>132,326</u>	

Browns Engineering (Pvt) Limited is under liquidation and the Bank's investment has been fully provided for.

18.2 Group

Quoted Investments

Investment in associate companies (at cost)	132,326	132,326
Negative goodwill on acquisition	5,830	5,830
Group share of associate company retained profits		
Balance as at 1st January	31,598	34,992
Current year's share of profits after tax	15,734	21,531
Dividends received during the year	(14,896)	(24,925)
Balance as at 31st December	<u>32,436</u>	<u>31,598</u>
Group share of associate company net assets	170,592	169,754
Unamortized negative goodwill carried forward [Note 18.2(a)]	-	(1,166)
Group investment in associate companies (equity basis)	<u>170,592</u>	<u>168,588</u>
18.2(a) Negative goodwill on acquisition	<u>5,830</u>	<u>5,830</u>
Amortization of negative goodwill		
Balance as at 1st January	(4,664)	(3,498)
Amortized during the year	(1,166)	(1,166)
Balance as at 31st December	<u>(5,830)</u>	<u>(4,664)</u>
Unamortized negative goodwill	-	1,166

Notes to the Financial Statements

19. INVESTMENTS IN SUBSIDIARY COMPANIES

As at 31 December	Bank	
	2005 Rs.000	2004 Rs.000
19.1 Quoted		
Balance as at 1st January	<u>149,965</u>	149,965
Balance as at 31st December	<u>149,965</u>	<u>149,965</u>
Unquoted		
Balance as at 1st January	<u>2,143,698</u>	1,193,698
Additions	-	900,000
On merger of subsidiaries (Net)	-	50,000
Balance as at 31st December	<u>2,143,698</u>	<u>2,143,698</u>
Total	<u>2,293,663</u>	<u>2,293,663</u>

As at 31st December	Principal Activity	% Holding	2005		2004		Market Value Rs.000
			Balance Rs.000	Market Value Rs.000	% Holding	Balance Rs.000	
19.2 Quoted							
HNB Assurance Ltd. (14,996,500 shares of Rs. 10/- each)	Insurance	60	<u>149,965</u>	<u>191,205</u>	60	<u>149,965</u>	<u>187,456</u>
19.3 Unquoted							
Bank				Directors' Valuation			Directors' Valuation
Sithma Development (Pvt) Ltd (106,000,000 ordinary shares of Rs.10/- each/Rs.9/- each called up, 100,000,000 ordinary shares of Rs. 9/- each called up as at 31 December 2003)	Property Development	100	<u>1,973,000</u>	<u>1,973,000</u>	100	<u>1,973,000</u>	<u>1,973,000</u>
HNB Securities (Pvt) Ltd (15,000,000 ordinary shares of Rs.10/- each)	Primary Dealer in Government Securities	100	<u>150,000</u>	<u>150,000</u>	100	<u>150,000</u>	<u>150,000</u>
HNB Stock brokers (Pvt) Ltd (3,600,000 ordinary shares of Rs.10/- each)	Share Broking	100	<u>20,698</u>	<u>20,698</u>	100	<u>20,698</u>	<u>20,698</u>
Total for Bank			<u>2,143,698</u>	<u>2,143,698</u>		<u>2,143,698</u>	<u>2,143,698</u>

20. OTHER ASSETS

As at 31 December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
Deposits and prepayments	<u>2,191,046</u>	2,115,150	<u>2,191,046</u>	2,126,800
Items in transit	<u>1,583,030</u>	2,053,362	<u>1,583,030</u>	2,053,362
Claims receivable	<u>170,476</u>	130,692	<u>170,476</u>	130,692
Other debtors	<u>1,200,533</u>	1,319,972	<u>1,200,124</u>	1,215,949
	<u>5,145,085</u>	<u>5,619,176</u>	<u>5,144,676</u>	<u>5,526,803</u>

Notes to the Financial Statements

21. PROPERTY PLANT AND EQUIPMENT

	Leasehold Buildings	Freehold Land and Buildings	Computer Equipment	Equipment Furniture and Fixtures	Motor Vehicles	Capital Work-in Progress	2005 Total	2004 Total
	Note 21.3 Rs.000	Note 21.2 Rs.000	Note 21.1 Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Bank								
Cost/Valuations								
as at 31.12.2004	579,314	1,624,754	1,787,119	1,651,972	86,881	60,043	5,790,083	5,509,502
Additions for the year	42,695	58,940	134,081	121,090	1,830	137,975	496,611	516,281
Disposals	(10,274)	-	(29,644)	(42,896)	(1,117)	-	(83,931)	(203,526)
Adjustments	-	-	-	-	-	-	-	427
Capitalized during the year	11,521	30,870	51,924	15,877	-	(110,192)	-	-
Write-down/Deletions	-	-	-	-	-	-	-	(32,601)
Cost/Valuation								
as at 31.12.2005	<u>623,256</u>	<u>1,714,564</u>	<u>1,943,480</u>	<u>1,746,043</u>	<u>87,594</u>	<u>87,826</u>	<u>6,202,763</u>	<u>5,790,083</u>
Accumulated Depreciation								
as at 31.12.2004	231,240	114,058	1,083,958	908,014	66,275	-	2,403,545	2,095,958
Charge for the year	64,702	21,359	226,925	172,065	9,270	-	494,321	438,658
On disposals	(9,553)	-	(21,193)	(33,609)	(1,117)	-	(65,472)	(131,071)
Accumulated Depreciation								
as at 31.12.2005	<u>286,389</u>	<u>135,417</u>	<u>1,289,690</u>	<u>1,046,470</u>	<u>74,428</u>	<u>-</u>	<u>2,832,394</u>	<u>2,403,545</u>
Net book Value								
as at 31.12.2005	<u>336,867</u>	<u>1,579,147</u>	<u>653,790</u>	<u>699,573</u>	<u>13,166</u>	<u>87,826</u>	<u>3,370,369</u>	
Net book Value as at 31.12.2004	<u>348,074</u>	<u>1,510,696</u>	<u>703,161</u>	<u>743,958</u>	<u>20,606</u>	<u>60,043</u>		<u>3,386,538</u>
Group								
Cost/Valuation as								
at 31.12.2004	579,314	4,213,846	1,846,139	3,775,458	98,468	60,043	10,573,268	10,107,103
Additions for the year	42,695	66,539	162,952	133,577	1,918	137,975	545,656	701,865
Disposals	(10,274)	-	(29,644)	(42,896)	(1,514)	-	(84,328)	(203,526)
Adjustments	-	-	-	-	-	-	-	427
Capitalized during the year	11,521	30,870	51,924	15,877	-	(110,192)	-	-
Write downs/Deletions	-	-	-	-	-	-	-	(32,601)
Cost/Valuation								
as at 31.12.2005	<u>623,256</u>	<u>4,311,255</u>	<u>2,031,371</u>	<u>3,882,016</u>	<u>98,872</u>	<u>87,826</u>	<u>11,034,596</u>	<u>10,573,268</u>
Accumulated Depreciation								
as at 31.12.2004	231,240	174,936	1,102,332	1,030,953	74,767	-	2,614,228	2,207,758
Charge for the year	64,702	52,940	237,365	228,852	10,200	-	594,059	537,541
On disposals	(9,553)	-	(21,193)	(33,609)	(1,490)	-	(65,845)	(131,071)
Accumulated Depreciation								
as at 31.12.2005	<u>286,389</u>	<u>227,876</u>	<u>1,318,504</u>	<u>1,226,196</u>	<u>83,477</u>	<u>-</u>	<u>3,142,442</u>	<u>2,614,228</u>
Net Book Value								
as at 31.12.2005	<u>336,867</u>	<u>4,083,379</u>	<u>712,867</u>	<u>2,655,820</u>	<u>15,395</u>	<u>87,826</u>	<u>7,892,154</u>	
Net Book Value as at 31.12.2004	<u>348,074</u>	<u>4,038,910</u>	<u>743,807</u>	<u>2,744,505</u>	<u>23,701</u>	<u>60,043</u>		<u>7,959,040</u>

There were no significant changes in the Bank's or Group's property, plant and equipment during the year. The market value of land does not differ substantially from the book value.

The Bank had a valuation carried out on all its freehold properties during the year 1993, excluding the Pettah Branch premises which was under construction, and the land in Jaffna, by a panel of Chartered Valuers/Licensed Surveyors and one half of the increase in the valuation of properties amounting to Rs.152,575,000/- was written up in the book value of the freehold properties in 1993 and the balance of Rs.152,575,000/- was written up in 1994. The Bank has obtained the necessary approval of the Monetary Board for the increase in the valuation.

A freehold property situated at No. 455/1 Baudhaloka Mawatha, Colombo 8 was disposed of in the financial year 2004 and the revaluation surplus realised on disposal amounting to Rs. 19.251 Mn. was transferred from the Capital Reserve to Retained Profit.

Notes to the Financial Statements

21. PROPERTY PLANT AND EQUIPMENT (Contd.)

21.1 COMPUTER EQUIPMENT - BANK

	Additions Prior to 1.7.2000 Rs.000 (25%)	Additions After 1.7.2000 Rs.000 (16.67%)	2005 Total Rs.000	2004 Total Rs.000
Rate of depreciation Cost/Valuations as at 01.01.2005	661,529	1,125,590	1,787,119	1,641,151
Additions for the year	-	186,005	186,005	97,107
Transfers	-	-	-	103,197
Disposals during the year	(15,482)	(14,162)	(29,644)	(54,336)
Cost/Valuation as at 31.12.2005	<u>646,047</u>	<u>1,297,433</u>	<u>1,943,480</u>	<u>1,787,119</u>

21.2 FREEHOLD LAND AND BUILDINGS - BANK

	Buildings Sq.ft.	Extent (perches)	Cost of Land Rs.000	Cost of Buildings Rs.000	Total Value Rs.000	Accumulated Depreciation Rs.000	Net Book Value Rs.000
Within Colombo City Limits							
Borella 53/1 D. S. Senanayake Mawatha Borella	7,530	28.00	21,702	37,232	58,934	1,011	57,923
Colombo 12 property 11, Mohandiram's Road Colombo 12	4,835	37.53	28,411	7,948	36,359	1,306	35,053
Bambalapitiya Branch 285, Galle Rd, Colombo 4	12,786	20.00	10,000	27,763	37,763	5,703	32,060
City Office 16, Janadhipathi Mawatha Colombo 1 25, Chatham Street Colombo 1	28,900	84.00	100,800	85,053	185,853	21,603	164,250
Head Office Property 479, T B Jayah Mawatha Colombo 10	Land	100.00	75,781	-	75,781	-	75,781
Centralized Operations Bldg. 90 Vidyalkankara Mawatha Colombo 10	92,008	249.00	145,599	31,776	177,375	393	176,982
Main Branch 10, R A De Mel Mawatha Colombo 3	36,379	40.00	32,000	80,848	112,848	19,749	93,099
Independence Avenue 23 & 23 1/1 Independence Avenue Colombo 7	9,975	60.40	37,081	47,729	84,810	4,366	80,444
* Pettah Branch 88, Main Street, Colombo 11	3,708	7.60	9,099	14,842	23,941	3,060	20,881
Sea Street Branch 60, Sea Street Colombo 11	3,652	6.93	8,200	52,640	60,840	8,723	52,117

Notes to the Financial Statements

21. PROPERTY PLANT AND EQUIPMENT (Contd.)

21.2 FREEHOLD LAND AND BUILDINGS - BANK (Contd.)

	Buildings Sq.ft.	Extent (perches)	Cost of Land Rs.000	Cost of Buildings Rs.000	Total Value Rs.000	Accumulated Depreciation Rs.000	Net Book Value Rs.000
Janadhipathi Mawatha property 21 21A, 23 & 25 Janadhipathi Mawatha Colombo 1	39,410	26.62	34,889	-	34,889	-	34,889
Wellawatte Property 102 Galle Road Wellawatte	18,040	36.05	29,854	64,082	93,936	5,383	88,553
Grandpass Property 182 St. Joseph Street Colombo 14	9,325	24.00	9,359	22,051	31,410	1,659	29,751
Colombo Central 149-151 Main Steet Colombo 11	9,732	7.56	30,000	80,868	110,868	5,199	105,669
			<u>572,775</u>	<u>552,832</u>	<u>1,125,607</u>	<u>78,155</u>	<u>1,047,452</u>
* Condominium property							
Outside Colombo City Limits							
Akkaraipattu Property 1, Main Street, Akkaraipattu Ambalangoda Branch 94/1, New Road Ambalangoda Badulla Branch No:15, 151/1, Udayaraja Mawatha,Badulla	7,700	19.32	3,351	20,748	24,099	233	23,866
Boralesgamuwa Branch 24, Maharagama Road Boralesgamuwa Dambulla Branch 622, Anuradhapura Road Dambulla Galle Branch 3, Wakwella Road Galle	4,950	29.90	3,129	8,801	11,930	1,926	10,004
Gampola Branch 12, Kandy Road Gampola	3,584	28.44	2,418	11,374	13,792	2,493	11,299
Hatton Branch 78, Dimbulla Rd Hatton	3,500	30.34	5,048	15,057	20,105	1,384	18,721
"Mount Bungalow" 7, Mount Road Hatton	6,600	100.00	14,565	14,911	29,476	-	29,476
Jaffna Property 181/5C, Ponnambalam Road Jaffna	4,988	13.80	11,000	11,095	22,095	2,126	19,969
	5,604	11.88	8,319	3,221	11,540	1,042	10,498
	5,500	53.50	1,075	4,736	5,811	752	5,059
		2.72	989	-	989	-	989
		13.80	8,392	-	8,392	-	8,392
	4,200	160.00	3,620	5,018	8,638	1,060	7,578
	Under Development	80.00	1,994	30	2,024	2	2,022

Notes to the Financial Statements

21. PROPERTY PLANT AND EQUIPMENT (Contd.)

21.2 FREEHOLD LAND AND BUILDINGS - BANK (Contd.)

	Buildings Sq.ft.	Extent (perches)	Cost of Land Rs.000	Cost of Buildings Rs.000	Total Value Rs.000	Accumulated Depreciation Rs.000	Net Book Value Rs.000
Kandy Branch 1, Dalada Veediya Kandy	10,600	78.90	38,627	16,031	54,658	3,507	51,151
Kurunegala Branch 6, St. Anne's Street Kurunegala	9,600	16.25	3,250	8,177	11,427	1,669	9,758
Nawalapitiya Branch 92, Gampola Road Nawalapitiya	2,324	46.00	875	7,783	8,658	1,201	7,457
Negombo Branch 18, Rajapakse Broadway Negombo	3,504	8.88	1,776	14,930	16,706	3,353	13,353
Nittambuwa Branch 22, Kandy Road Nittambuwa	4,000	14.50	687	10,162	10,849	2,006	8,843
Nochchiyagama Branch 10, Puttalam Rd Nochchiyagama	1,800	40.00	320	10,986	11,306	1,711	9,595
Wattala Property 270, 270/1 Negombo Road Wattala	6,400	53.00	10,399	19,813	30,212	2,461	27,751
Kuliyapitiya (Additional property) 225 Madampe Road Kuliyapitiya	3,795	8.80	883	-	883	-	883
Kurunegala (New premises) 34/16 St. Anne's Street Kurunegala	Bare Land	20.00	6,759	-	6,759	-	6,759
Monaragala (New premises) Kumaradola Road Monaragala	Bare Land	20.00	1,455	-	1,455	-	1,455
Nugegoda Branch 181, High Level Road Nugegoda	11,639	19.50	7,550	27,719	35,269	6,094	29,175
Nuwara Eliya Branch/Bungalow 42, Queen Elizabeth Drive Nuwara Eliya	7,150	64.36	11,504	23,934	35,438	2,192	33,246
Trincomalee Branch 59, Ahambaram Rd Trincomalee	6,802	20.51	1,451	16,214	17,665	2,996	14,669
Anuradhapura Branch 30, Maithripala Senanayake Mawatha, Anuradhapura	2,000	25.59	5,337	12,979	18,316	2,436	15,880
Maskeliya Branch 9, New Town Maskeliya	1,900	20.32	1,948	2,571	4,519	460	4,059
Mannar Branch 68, Main Street Mannar	4,200	23.00	619	5,221	5,840	799	5,041
Ratnapura Branch 21 & 23 Senanayake Mawatha Ratnapura	3,048	21.01	12,479	10,777	23,256	1,765	21,491

Notes to the Financial Statements

21. PROPERTY PLANT AND EQUIPMENT (Contd.)

21.2 FREEHOLD LAND AND BUILDINGS - BANK (Contd.)

	Buildings Sq.ft.	Extent (perches)	Cost of Land Rs.000	Cost of Buildings Rs.000	Total Value Rs.000	Accumulated Depreciation Rs.000	Net Book Value Rs.000
Ja-Ela Branch 73, Old Negombo Road, Ja-Ela	4,300	19.00	2,729	9,623	12,352	1,674	10,678
Matale Branch 660, Trincomalee Road Matale	7,615	22.08	3,459	11,814	15,273	2,352	12,921
Kuliyapitiya Branch 225, Main Street, Kuliyapitiya	2,750	24.00	3,483	5,561	9,044	1,592	7,452
Mount Lavinia Branch 100, Galle Road Mount Lavinia	12,674	28.46	10,294	26,651	36,945	3,501	33,444
Marawila Branch 534, Chilaw Road, Marawila	4,640	23.30	3,916	8,372	14,715	1,827	12,888
Marawila Staff Quarters	1,733	23.30	2,427				
Matara Branch 29, Anagarika Dharmapala Mw Matara	6,988	26.00	5,136	21,361	26,497	2,648	23,849
Narammala Property Hewankumbura Narammala	Bare Land	40.00	4,159	-	4,159	-	4,159
Kegalle Property Main Street, Kegalle	Bare Land	48.70	15,600	-	15,600	-	15,600
Kahawatte Property Main Street, Kahawatte	Bare Land	-	2,265	-	2,265	-	2,265
Total freehold land and building outside Colombo city limits			223,287	365,670	588,957	57,262	531,695
Total freehold land and building as at 31st December 2005			796,062	918,502	1,714,564	135,417	1,579,147

21.3 LEASEHOLD BUILDINGS

As at 31 December	Bank 2005		Group 2005		Bank 2004		Group 2004	
	Cost of Buildings Rs.000	Accumulated Depreciation Rs.000	Cost of Buildings Rs.000	Accumulated Depreciation Rs.000	Net Book Value Rs.000	Net Book Value Rs.000	Net Book Value Rs.000	Net Book Value Rs.000
Lease Period								
Up to 1 year	-	-	-	-	-	10,586	-	10,586
1 - 05 years	120,259	96,166	120,259	96,166	24,093	45,330	24,093	45,330
6 - 10 years	121,690	78,927	121,690	78,927	42,763	18,785	42,763	18,785
11 - 15 years	48,753	24,444	48,753	24,444	24,309	4,795	24,309	4,795
16 - 20 Years	332,554	86,852	332,554	86,852	245,702	268,578	245,702	268,578
	623,256	286,389	623,256	286,389	336,867	348,074	336,867	348,074

21.4 FREEHOLD LAND AND BUILDINGS - SUBSIDIARIES

As at 31 December	Buildings Sq.ft.	Cost of Buildings Rs.000	Total Value Rs.000	Accumulated Depreciation Rs.000	2005 Net Book Value Rs.000	2004 Net Book Value Rs.000
Smart Building 21, 21A, 23, 25, Janadhipathi Mawatha Colombo 1	42,765	128,115	128,115	19,072	109,043	112,246
Sithma Building 479 T B Jayah Mawatha Colombo 10	499,554	2,468,576	2,468,576	73,387	2,395,189	2,415,968
	542,319	2,596,691	2,596,691	92,459	2,504,232	2,528,214

Notes to the Financial Statements

21. PROPERTY PLANT AND EQUIPMENT (Contd.)

21.5 IDLE PROPERTY, PLANT AND EQUIPMENT

	Buildings Sq.ft.	Extent (perches)	Cost of Land Rs.000	Cost of Buildings Rs.000	Total Value Rs.000	Accumulated Depreciation Rs.000	Net Book Value Rs.000
Building at No. 88, Main Street (Pettah Branch) Kurunegala (New premises) 34/16 St. Anne's Street Kurunegala	3,708	7.60	9,099	14,842	23,941	3,060	20,881
Kegalle Property Main Street, Kegalle Kahawatte Property Main Street, Kahawatte Monaragala	-	20.00	6,759	-	6,759	-	6,759
	-	48.70	15,600	-	15,600	-	15,600
	-	-	2,265	-	2,265	-	2,265
Land at No. 67/11, Kumaradola Road, Monaragala Narammala	-	40	4,159	-	4,159	-	4,159
Land at No. 118A, Negombo Road Narammala	-	20	1,455	-	1,455	-	1,455
			<u>39,337</u>	<u>14,842</u>	<u>54,179</u>	<u>3,060</u>	<u>51,119</u>

21.6 FULLY DEPRECIATED PROPERTY

The gross value of fully depreciated plant, machinery and equipment as at 31 December 2005 was Rs. 399,116,705.

As at 31st December

2005

2004

Goodwill	Negative Goodwill	Goodwill	Negative Goodwill
Rs.000	Rs.000	Rs.000	Rs.000

22. GOODWILL ON CONSOLIDATION

Group

Balance brought forward	2,600	1,787	5,200	3,574
Arising during the year	-	-	-	-
Less: Amortization during the year	2,600	1,787	2,600	1,787
Balance c/f	-	-	2,600	1,787
Goodwill arising on acquisition	13,000	8,935	13,000	8,935
Less: Amortization as at 31st December	13,000	8,935	10,400	7,148
	-	-	2,600	1,787
C/F in Balance Sheet	-	-	813	
Goodwill on Consolidation charged to Income Statement				
Acquisition of Subsidiaries	2,600	1,787	2,600	1,787
Investment in Associate companies	-	1,166	-	1,166
	2,600	2,953	2,600	2,953
Net charge to Income Statement		(353)		(353)

Notes to the Financial Statements

As at 31st December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
23. DEPOSITS FROM CUSTOMERS				
Local Currency Deposits				
Current account deposits	12,511,256	8,852,609	12,369,491	8,809,217
Savings deposits	47,380,753	42,108,475	47,373,887	42,080,321
Time deposits	33,587,699	31,920,537	33,583,449	31,810,087
Certificates of deposit	3,634,393	4,448,095	3,634,393	4,448,095
Foreign Currency Deposits				
Current account deposits	1,013,589	2,331,555	1,013,589	2,331,555
Savings deposits	14,166,198	15,009,655	14,166,199	15,009,655
Time deposits	15,989,793	13,853,008	15,989,793	13,853,008
	128,283,681	118,523,934	128,130,801	118,341,938
23(a) ANALYSIS OF DEPOSITS				
Deposits From Non-Bank Customers	127,577,487	118,072,406	127,428,685	117,890,410
Deposits From Banks	462,778	90,078	462,778	90,078
Deposits From Finance Companies	243,416	361,450	239,338	361,450
	128,283,681	118,523,934	128,130,801	118,341,938
24. DIVIDENDS PAYABLE				
Balance as at 1st January	108,299	40,757	108,299	40,757
Dividends declared during the year	385,679	343,200	385,679	343,200
Dividends settled	(443,687)	(275,658)	(443,687)	(275,658)
Balance as at 31st December	50,291	108,299	50,291	108,299
<p>The 20% interim dividend paid on 9th December 2005 included a re-distribution of tax exempt dividends of Rs. 23,120,368/- (2004 - Rs.37,618,955/-) received by the Bank. Under the Inland Revenue Amendment Act No.10 of 2002, a withholding tax of 10% has been imposed on dividends declared from 1st April 2004.</p> <p>Directors have recommended the payment of a final dividend of 20% for the year ended 31st December, 2005 (2004 - 15%), which will be approved at the Annual General Meeting to be held on 29th March, 2006. In accordance with Sri Lanka Accounting Standard No. 12-(Revised), "Events After the Balance Sheet Date", this proposed final dividend has not been recognised as a liability as at 31st December, 2005.</p>				
25. BORROWINGS				
Call and time deposits from banks	510,517	1,104,650	510,517	1,104,650
Refinance borrowings	2,711,810	2,066,198	2,711,810	2,066,198
Foreign bank borrowings	717,784	1,043,043	717,784	1,043,043
	3,940,111	4,213,891	3,940,111	4,213,891

Notes to the Financial Statements

As at 31 December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
26. OTHER LIABILITIES				
Cheques sent on clearing	2,395,504	1,836,378	2,395,504	1,836,378
Accrued expenditure and interest	3,389,960	3,396,237	3,389,960	3,404,282
Claims payable	183,323	642,288	183,323	642,288
Margins	1,004,758	854,777	1,004,758	907,102
Pension fund	745,715	289,546	745,715	289,546
Widows'/widowers' & orphans' pension fund	225,119	188,588	225,119	188,588
Employees provident fund	1,004,823	2,227,254	1,004,023	2,227,254
Gold Investment Account	2,103	3,235	2,103	3,235
Other creditors	887,625	976,454	1,331,770	1,254,201
	9,838,930	10,414,757	10,282,275	10,752,874

27. LONG TERM INSURANCE FUND

Long Term Insurance Fund balance represents the Life Fund of the subsidiary, HNB Assurance Ltd., which is carrying out life and non life insurance business. This balance represents the amounts attributable to life policy holders, included in the Group's net assets.

The valuation of the long term Insurance Fund as at 31st December 2005 was made by Mr M Poopalanathan, AIA, of M/s Acturial and Management Consultants (Pvt) Ltd. for and on behalf of HNB Assurance Ltd. The life fund stands at Rs. 300.818 Mn. as at 31st December 2005 (2004 - Rs 169.493 Mn) and in the opinion of the Actuary this amount is adequate to cover the liabilities pertaining to long term insurance business of HNB Assurance Ltd., as per the Actuary's Report dated 2nd February 2006.

28. NON LIFE INSURANCE RESERVES

Non Life Insurance Reserves represents the following which are included in the financial statements of HNB Assurance Ltd., subsidiary of the Bank, as required by the statement of recommended practice of Institute of Chartered Accountants of Sri Lanka (ICASL) and in accordance with the regulation of Insurance Industry Act No. 43 of 2000.

As at 31 December	Group			
	2005 Rs.000	2005 Rs.000	2004 Rs.000	2004 Rs.000
Unearned premium - Gross		237,059		164,792
- Reinsurance		(57,152)		(42,734)
- Net		179,907		122,058
Deferred acquisition expenses		(7,283)		(4,027)
Unexpired Risk Reserve		1,365		-
		173,989		118,031
Claims outstanding - Gross	78,061		80,128	
Claims incurred but not reported - Gross	14,970		12,452	
Claims reserve - Gross		93,031		92,580
Total		267,020		210,611

As at 31 December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
29. DEFERRED TAXATION				
Balance brought forward	350,356	387,091	352,529	389,375
Add/(Less): Charge/(Reversal)during the year	(36,600)	(36,735)	(36,212)	(36,846)
	313,756	350,356	316,317	352,529

Provision has not been made for deferred taxation on assets leased to customers as explained in the significant accounting policy 8.4.2.

30. SUBORDINATED DEBENTURES

As at 31 December	Bank		Group	
	2005 Rs.000	2004 Rs.000	2005 Rs.000	2004 Rs.000
Balance as at 1st January	4,000,000	4,000,000	5,983,450	3,983,450
Debentures issued	-	-	-	2,000,000
Debentures held by Group Companies	-	-	6,659	-
Balance as at 31st December (a)	4,000,000	4,000,000	5,976,791	5,983,450

Notes to the Financial Statements

30. SUBORDINATED DEBENTURES (Contd.)

- (a) i. Consists of twenty million unsecured, subordinated, redeemable debentures of Rs.100/- each. The six types of debentures have fixed or floating interest rate options as follows:

	<u>5 year</u>	<u>7 year</u>	<u>10 year</u>
Fixed	13.75%	14.00%	14.20%
Effective annual yield	14.22%	14.49%	14.70%
Floating	TB + 1%	TB + 1.1%	TB + 1.25%

The floating rate is based on the 6 month treasury bill rate with a cap of 17% and a floor of 12%. Based on the duration, the debentures are redeemable on September 11th, 2007 September 11th, 2009 or September 11th, 2012. These debentures are listed on the Colombo Stock Exchange.

- ii. Consists of twenty million unsecured, subordinated, redeemable debentures of Rs. 100/- each. The two types of debentures have fixed or floating interest rate options as follows:

	<u>5 Year</u>
Fixed	10.00%
Effective annual yield	10.25%
Floating	TB + 2.00%

The debentures are redeemable on July 23rd, 2008 and are listed on the Colombo Stock Exchange.

As at 31 December	2005	2004
	Rs.000	Rs.000

**31. SHARE CAPITAL - GROUP AND BANK
AUTHORISED**

1Billion ordinary shares of Rs.10/- each	10,000,000	<u>10,000,000</u>
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ISSUED AND FULLY PAID - VOTING ORDINARY SHARES**As at 1st January**

77Mn. (2004 - 55Mn.) voting ordinary shares of Rs.10/- each	770,000	550,000
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Rights issue of 2:5

22Mn. voting ordinary shares of Rs.10/- each	-	220,000
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New share issue

17,664,700 voting ordinary shares of Rs. 10/- each	176,647	-
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As at 31st December

94,664,700 (2004 - 77Mn.) voting ordinary shares of RS.10/- each	946,647	<u>770,000</u>
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ISSUED AND FULLY PAID - NON-VOTING ORDINARY SHARES**As at 1st January**

23.1Mn. (2004 - 16.5Mn.) non-voting ordinary shares of Rs.10/- each	231,000	165,000
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Rights issue of 2:5

6.6Mn. non-voting ordinary shares of Rs.10/- each	-	<u>66,000</u>
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As at 31st December

23.1Mn. non-voting ordinary shares of Rs.10/- each	231,000	<u>231,000</u>
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17,664,700 Voting shares were issued on 17 June 2005 as underlying shares for the 1,766,470 Global Depository Receipts (GDR) listed at Luxembourg Stock Exchange. This represents 15% of the issued capital of the Bank.

The Non-Voting shares rank pari passu in respect of all rights with the ordinary shares of the Bank except voting rights on resolutions passed at general meetings. If the Bank fails to pay a dividend for three consecutive years, these shares automatically convert into voting ordinary shares.

Notes to the Financial Statements

32. COMMITMENTS AND CONTINGENCIES - GROUP AND BANK

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

As at 31 December	2005 Rs.000	2004 Rs.000
a) Contingent Liabilities		
Acceptances	3,983,731	3,038,626
Documentary credits	6,306,610	6,682,773
Guarantees	14,710,250	13,845,805
Bills for collection	6,147,266	5,118,633
Interest rate Swap	1,761	24,500
	<u>31,149,618</u>	<u>28,710,337</u>
Forward Exchange Contracts	13,613,590	16,536,006
	<u>44,763,208</u>	<u>45,246,343</u>
Total Commitments and Contingencies Group and Bank	44,763,208	45,246,343

b) Irrevocable Commitments - Bank

Commitments that cannot be revoked at the discretion of the Bank without the risk of incurring significant penalty or expense amounted to Rs. 21.016 Mn. (2004 - Rs. 20.529 Mn).

c) Future commitments on operating leases - Bank

1 - 5 years	3,294	3,458
6 - 10 years	3,510	3,667
11 - 15 years	705	572
16 - 20 years	200	132
	<u>7,709</u>	<u>7,829</u>

d) Taxes amounting to Rs. 247 Mn. on Assessment Nos. VATFS/06/0312/06, VATFS/U6/0401/01, VATFS/J6/0402/02, VATFS/U6/0403/03, VATFS/U6/0404/04 & VATFS/U6/0405/05 against which the Bank has duly appealed. The Bank is of the view that these assessments will not have any material impact on the financial statements.

e) Litigation against the Bank

1. Six claims for damages made by customers in Cases Nos. 24440/MR, 9030/M, 9272/M, 1773/M, 23897/MR and 7638 in the DCs/HC (Civil) and two claims in Cases Nos. 17343/MR and 23434/MR in Court of Appeal in respect of cheques dishonoured/debits to Accounts
2. DC Case No. 5383/Land - guarantor challenging signature on a Mortgage Bond over immovable property
3. HC(Civil) Case No. 132/2001 (i) a depositor's action against Habib Bank AG Zurich Sri Lanka Branch (HBZ) challenging the Bank setting-off a customer liability with the deposit and claiming damages - the Bank substituted with acquisition of HBZ business
4. Labour Tribunal Cases Nos. 08/2674/96, 13/42/98, 03/148/99, 13/609/99, 18022, 08/2114/2002, 08/2115/2002, 08/2176/2002, 23/7957/2002, 26/02/2004, 26/122/2004, 26/06/2005, 9/11/2005, 13/42/2005, 21/Add/489/05, 21/9313/99, 42/237/2005, 3/149/2005 and LT Appeal Cases Nos. HCA/66/2004, HCA 74/2005

Based on the available information and current status of the above cases, the Bank is not in a position to quantify the financial impact if any, as at the Balance Sheet date. Further, the Bank confirms that there is no case which is not disclosed above would have a material impact on the financial position of the Bank.

Notes to the Financial Statements

33. CAPITAL COMMITMENTS

Capital expenditure approved by the Board of Directors for which provision has not been made in the accounts amount to approximately, Rs. 19.9 Mn.

As at 31st December	2005	2004
	Rs.000	Rs.000
Approved and contracted for	19,957	93,910
Approved but not contracted for	-	26,384
	<u>19,957</u>	<u>120,294</u>

34. DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK**(a) Trading transactions**

The Bank carries out transactions in the ordinary course of business on an arm's length basis with companies in which there is an interest by Directors of the Bank, the details of which, are reported below:

Name of Related Party	Name of Director (Relationship)	2005 Amount Rs.Mn.	2004 Amount Rs. Mn.	Nature of Transactions
Brown & Co. Ltd.	Mr M V Theagarajah (Chairman)	13.795	10.592	Payment for purchase of fixed assets, office equipment, repairs to assets & service agreements.
		26,250	21.000	Payment for purchase of generators and generator service agreements.
		-	9.648	Purchase of advertising material.
		-	0.156	Payment for rental of office space at No. 481, T B Jayah Mw., Colombo 10. Vacated on 01.12.04.
		0.042	0.063	Payment for lease of residential premises at Hatton. Three premises were rented in 2004. Two were vacated in June 2005.
Browns Tours Ltd.	Mr M V Theagarajah (Chairman)	-	1.960	Rent received for premises rented at No. 479, T B Jayah Mw. Premises vacated on 31.12.04.
BG Air Services (Pvt) Ltd.	Mr M V Theagarajah (Chairman)	-	1.200	Rent received for premises rented at No. 479, T B Jayah Mw. Premises vacated on 31.10.04.

Notes to the Financial Statements

34. DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK (Contd...)

Name of Related Party	Name of Director (Relationship)	2005	2004	Nature of Transactions
		Amount Rs.Mn.	Amount Rs. Mn.	
Madulsima Plantations Ltd.	Dr V P Vittachchi (Chairman) Mr D H S Jayawardena (Managing Director) Mr R K Obeyesekere (Director)	0.720	0.720	Payment for lease of holiday bungalow at Bogawantalawa.
Lanka Bell (Pvt) Ltd. (from June 2005)	Mr D H S Jayawardena (Chairman)	1.360 1.811 1.163	- - -	Payment for voice communication charges. Payment for data communication charges. Telephone charges paid.
Sri Lanka Insurance Corporation Ltd.	Mr D H S Jayawardena (Chairman) Mr R K Obeyesekere (Deputy Chairman)	49,052	50.650	Insurance premiums paid, inclusive of taxes.
Stassen Exports Ltd.	Dr V P Vittachi (Chairman) Mr D H S Jayawardena (Managing Director) Mr R K Obeyesekere (Director)	0.906	1.966	Payment for purchase of promotional material.

The details of the lending transactions with companies in which there is an interest by Directors of the Bank, are disclosed in note No. 35, "Related Party Transactions".

(b) Accommodation Granted to Directors for Credit Cards

	Limit Rs. Mn.	Outstanding as at 31.12.05 Rs. Mn.
Mr R T Wijetilleke (Chairman)	1.00	0.54 (a)
Dr V P Vittachi (Deputy Chairman)	0.50	0.02
Mr D H S Jayawardena	12.50	2.01 (b)
Mr M V Theagarajah	0.50	0.02
Mr R K Obeyesekere	0.50	0.01
Mrs P Cooray	0.50	Nil
Mr R Sivaratnam	1.24	0.07 (b)
Mr R Theagarajah	0.40	Nil

(a) Rs. 0.5 Mn clean and the balance is secured by immovable property.

(b) Rs. 0.5 Mn clean and the balance is secured by cash deposits.

(c) Facilities Granted to Directors

Name of Director	Aggregate Amount of Accommodation		Security
	Limit Rs.Mn.	Outstanding as at 31.12.05 Rs.Mn.	
Mr R T Wijetilleke	13.58	12.68	- Immovable property/cash deposits
Mr M V Theagarajah	4.60	1.66	- Cash deposits
Mr R Sivaratnam	1.50	-	- Quoted company shares/cash deposits
Mr R Theagarajah	5.00*	4.45	- Provident Fund balance

*(Original amount of loan)

Notes to the Financial Statements

35. RELATED PARTY TRANSACTIONS

The Bank carries out transactions in the ordinary course of its business on an arm's length basis with its subsidiaries, shareholders and companies in which such persons have substantial shareholdings and or significant influence by representation on the Board of Directors of such companies. The pricing applicable to such transactions is based on the assessment of risk and the pricing model of the bank and is comparable with what is applied to transactions between the bank and its unrelated customers.

These companies, names of directors, their relationship and the nature of transaction entered into are listed below:

(a) Transactions with Subsidiaries**35.a (i) Sithma Development (Pvt) Ltd.**

Sithma Development (Pvt) Ltd. is a wholly owned subsidiary of Hatton National Bank Ltd. (HNB).

Sithma Development (Pvt) Ltd. operates an overdraft facility with HNB and the outstanding balance at the end of 2005 is Rs. 565 Mn. (2004 - Rs. 618 Mn.). The Company also maintains a debenture to the value of Rs. 2 Bn. which was placed in 2004 with Sri Lanka Insurance Corporation.

The details of the overdraft facility with HNB are as follows:

Type of Facility	Rate of Interest	Limit Rs.Mn.	Outstanding as at 31/12/05 Rs.000	Security	Review
Overdraft	2% above the one year TB. To be reviewed every 6 months.	800	565,796	Registered primary floating mortgage for Rs. 1,800 Mn. over land & building at No. 479, TB Jayah Mw., Colombo 10.	October 2006

A summary of transactions with HNB and other group companies are given below.

	HNB SECURITIES Rs. 000	HNB STOCK BROKERS Rs. 000	HNB ASSURANCE Rs. 000	HNB Rs. 000
Rent income received	5,685	7,131	-	398,176
Rent income receivable	-	2,129	-	-
Rent advance received (as at 31.12.2005)	569	375	-	22,066
Refundable deposit received	3,000	3,000	-	500,000
Insurance premium paid	-	-	185	-
Interest received	52	-	-	-
Interest paid	-	-	-	54,738
Overdraft balance	-	-	-	565,796
Ground rent paid	-	-	-	3,753

35.a (ii) HNB Securities Limited

HNB Securities Ltd., is a fully owned subsidiary of Hatton National Bank Ltd.

The company maintains a current account with the bank and the balance as at December 2005 amounts to Rs. 23.2 Mn. (2004- Rs.10.10 Mn.). The Bank had invested in debentures issued by the Company to the value of Rs. 50 Mn. as at December 2004 which was redeemed in 2005 and the company paid Rs. 3.1 Mn. as interest (2004 - Rs. 6.5 Mn.) to the Bank

A summary of HNB Securities transactions with HNB and other group of companies are given below:

	SITHMA Rs. 000	HNB STOCK BROKERS Rs. 000	HNB ASSURANCE Rs. 000	HNB Rs. 000
Rent paid	5,685	-	-	-
Rent advance paid (as at 31.12.2005)	569	-	-	-
Refundable deposit paid	3,000	-	-	-
Insurance premium paid	-	-	97	-
Interest received	-	-	-	54,900
Interest paid	52	-	8,413	3,152
Overdraft balance	-	-	-	237
Current account balances	-	-	-	23,200
Re-purchase balances	-	-	101,554	600,000

Notes to the Financial Statements

35. RELATED PARTY TRANSACTIONS (Contd.)**35.a (iii) HNB Assurance Limited**

HNB Assurance Ltd., is a subsidiary of Hatton National Bank Ltd.

The Company held deposits with the Bank amounting to Rs. 43.7 Mn. (2004 - Rs. 145.4 Mn.) as at 31.12.2005. The Bank has paid Rs. 10.4 Mn. (2004 - Rs.6.5 Mn.) as interest to the Company for the deposits held by the Company.

A summary of HNB Assurance transactions with HNB and other group of companies are given below:

	SITHMA Rs. 000	HNB STOCK BROKERS Rs. 000	HNB SECURITIES Rs. 000	HNB Rs. 000
Rent paid	-	-	-	13,297
Premium received	185	326	97	14,101
Commission paid	-	-	-	30,192
Interest received	-	-	8,413	10,469
Current account balances	-	-	-	43,707
Re-purchase balances	-	-	101,554	-

35.a (iv) HNB Stockbrokers Limited

HNB Stockbrokers Limited is a wholly owned subsidiary of Hatton National Bank Ltd.

The Company held deposits with the Bank and the balance as at 31.12.2005 amounts to Rs. 78.9 Mn. (2004 - Rs 9.5Mn.)

A summary of HNB Stockbrokers transactions with HNB and other group of companies are given below:

	SITHMA Rs. 000	HNB ASSURANCE Rs. 000	HNB SECURITIES Rs. 000	HNB Rs. 000
Rent paid	7,131	-	-	-
Rent payable	2,129	-	-	-
Rent advance paid (as at 31.12.2005)	375	-	-	-
Refundable deposit paid	3,000	-	-	-
Commission paid	-	-	-	27,652
Interest paid	-	-	-	1,958
Premium paid	-	326	-	-
Current account balances	-	-	-	78,907

Mr R T Wijetilleke who is the Chairman of the Bank is also the Chairman of the above four subsidiary companies.

Mr R Theagarajah, a Director of the Bank with effect from 15 December 2004, is also a Director of the four companies mentioned above.

Mr Yeo Took Keat alternate to Mr D R Ghazalli, Director of the Bank is also a Director of HNB Assurance Ltd.

Notes to the Financial Statements

35. RELATED PARTY TRANSACTIONS (Contd.)

35(b) Transactions with other related parties

Name of Related Party	Name of Director (Relationship)	Nature of Transaction	Aggregate Amount of Accommodation			Security
			Limit (Rs.Mn.)	Outstanding as at 31.12.05 Direct Indirect (Rs.Mn.)		
Stassen Exports Ltd	Dr V P Vittachi (Chairman/Shareholder)	Overdraft	313.50	560.56	-	Cash Deposits Quoted Company Shares Inventories
		Standby Overdraft	200.00		-	
		Temp Overdraft	300.00		-	
	Mr D H S Jayawardena (Managing Director/ Shareholder)	Letters of Guarantee	50.00	-	59.92	
		Letters of Credit	2.00	-	1.07	
			<u>865.50</u>	<u>560.56</u>	<u>60.99</u>	
Stassen International Ltd	Dr V P Vittachi (Chairman)	Letter of credit	70.00	-	112.67	Cash Deposits Quoted Company Shares Inventories
		Overdraft	20.00	0.29	-	
	Mr D H S Jayawardena (Managing Director)	Letters of Guarantee	50.00	-	102.24	
			<u>140.00</u>	<u>0.29</u>	<u>214.91</u>	
Stassen Natural Food (Pvt) Ltd	Dr V P Vittachi (Chairman)	Temp. Letters of Guarantee	-	-	15.00	Quoted Company Shares
		Temp. Letters of Credit	-	-	2.64	
	Mr D H S Jayawardena (Managing Director)		-	-	17.64	
			<u>-</u>	<u>-</u>	<u>17.64</u>	
Madulsima Plantations Ltd	Dr V P Vittachi (Chairman)	Overdrafts	157.00	127.72	-	Cash Deposits Quoted Company Shares Mortgage over leasehold property.
		Letters of Guarantee	1.00	-	-	
	Mr R K Obeyesekere (Director)		<u>158.00</u>	<u>127.72</u>	<u>-</u>	
Distilleries Co. of Sri Lanka Ltd	Dr V P Vittachi (Chairman)	Letters of Credit	2.81	-	2.81	Cash Deposits
		Temp. Letters of Credit	-	-	101.25	
	Mr D H S Jayawardena (Managing Director)	Letters of Guarantee	2.87	-	2.87	
			<u>5.68</u>	<u>-</u>	<u>106.93</u>	

Notes to the Financial Statements

35. RELATED PARTY TRANSACTIONS (Contd.)

Name of Related Party	Name of Director (Relationship)	Nature of Transaction	Aggregate Amount of Accommodation			Security
			Limit (Rs.Mn.)	Outstanding as at 31.12.05 (Rs.Mn.)		
				Direct	Indirect	
Lanka Dairies (Pvt) Ltd	Dr V P Vittachi (Chairman) Mr D H S Jayawardena (Managing Director) Mr R K Obeyesekere (Director)	Overdraft	30.00	4.54	-	Quoted Company Shares
		Letters of Credit	10.00	-	-	
			40.00	4.54	-	
Lanka Milk Foods (CWE)Ltd	Dr V P Vittachi (Chairman) Mr D H S Jayawardena (Managing Director) Mr R K Obeyesekere (Director)	Letters of Credit	270.00	-	178.29	Quoted Company Shares Immovable Property (Leasehold)/Plant & Machinery
		Letters of Guarantee	14.08	-	3.61	
		Overdraft	150.00	74.17	-	
			434.08	74.17	181.90	
Milford Exports (Cey.) Ltd	Dr V P Vittachi (Chairman) Mr D H S Jayawardena (Managing Director) Mr R K Obeyesekere (Director)	Temp. Letters of Credit	-	-	0.50	Quoted Company Shares Inventories
		Overdraft	0.50	-	-	
		Letters of Guarantee	24.00	-	31.54	
			24.50	-	32.04	
Danish Dairy Products Lanka (Pvt) Ltd.	Dr. V P Vittachi (Chairman) Mr D H S Jayawardena (Managing Director) Mr R K Obeyesekere (Director)	Overdraft	10.00	0.39	-	Quoted Company Shares
			10.00	0.39	-	
Balangoda Plantations Ltd.	Dr V P Vittachi (Chairman) Mr D H S Jayawardena (Managing Director) Mr R K Obeyesekere (Director)	Letters of Guarantee	1.41	-	1.41	Immovable Property (Leasehold) Cash Deposits
		Temp. Overdraft	-	0.13	-	
		Development Loan	20.00	17.07	-	
		21.41	17.20	1.41		
Ambewela Livestock Co. Ltd	Dr. V P Vittachi (Chairman) Mr D H S Jayawardena (Managing Director) Mr. R K Obeyesekere (Director)	Overdraft	50.00	26.15	-	Quoted Company Shares
		Letters of Credit	10.00	-	2.09	
			60.00	26.15	2.09	

Notes to the Financial Statements

35. RELATED PARTY TRANSACTIONS (Contd.)

Name of Related Party	Name of Director (Relationship)	Nature of Transaction	Aggregate Amount of Accommodation			Security
			Limit (Rs.Mn.)	Outstanding as at 31.12.05 (Rs.Mn.)		
				Direct	Indirect	
Pattipola Livestock Co. Ltd	Dr. V P Vittachi (Chairman)	Overdraft	50.00	4.77	-	Quoted Company Shares
	Mr D H S Jayawardena (Managing Director)	Letters of Credit	10.00	-	1.55	
	Mr R K Obeyesekere (Director)					
			<u>60.00</u>	<u>4.77</u>	<u>1.55</u>	
Periceyl (Pvt) Ltd	Mr D H S Jayawardena (Chairman)	Temporary Overdraft	-	0.03	-	Cash Deposits
	Mr R K Obeyesekere (Director)					
			<u>-</u>	<u>0.03</u>	<u>-</u>	
Trade & Investment Lanka (Pvt) Limited	Mr D H S Jayawardena (Director)	Temp. Letters of Guarantee	-	-	5.00	Quoted Company Shares
	Mr R K Obeyesekere (Director)					
			<u>-</u>	<u>-</u>	<u>5.00</u>	
Browns Beach Hotels Ltd.	Dr V P Vittachi (Director)	Temp. Letters of Credit	-	-	1.06	Inventories
	Mr D H S Jayawardena (Director)	Temp. Overdraft Import bills	-	5.76	-	
	Mr R K Obeyesekere (Director)		-	-	0.60	
			<u>-</u>	<u>5.76</u>	<u>1.66</u>	
CBD Exports Ltd.	Dr V P Vittachi (Director)	Temp. Letters of Guarantee	-	-	10.00	Quoted Company Shares
	Mr R K Obeyesekere (Director)					
			<u>-</u>	<u>-</u>	<u>10.00</u>	
Falcon Commodities (Pvt) Ltd.	Mr D H S Jayawardena Through the shareholding of Stassen Exports Ltd. in Falcon Commodities (Pvt) Ltd. (since disposed)	Overdraft/Import Bills	Cancelled	84.85	228.36	Cash Deposits - Accommodation granted to Falcon Commodities (Pvt) Ltd. continues to be classified as non-performing. The outstanding of Rs. 326.0 Mn. as at 31.12.05 is fully covered by cash and capital provisioning of Rs. 276.0Mn. made during the previous years.
		Overdraft (Habib Bank AG Zurich Ltd.)		13.20	-	
			<u>Nil</u>	<u>98.05</u>	<u>228.36</u>	Increase in exposure is due to a facility at Habib Bank AG Zurich Ltd taken over with a full provision.
			Limit (US\$ Mn.)	Outstanding as at 31.12.05 (US\$ Mn.)		
				Direct	Indirect	
Texpro Industries Ltd.	Mr D H S Jayawardena (Chairman)	Letters of Credit	1.60	-	1.05	Immovable Property/ Machinery
		Export Loans	(1.60)	0.52	-	
		Term Loan	0.75	0.75	-	
		Term Loan	0.61	0.61	-	
		Term Loan	0.02	0.02	-	
		Term Loan	0.04	0.04	-	
		Overdraft	0.05	-	-	
			<u>3.07</u>	<u>1.94</u>	<u>1.05</u>	Cash Deposits Inventories

Notes to the Financial Statements

35. RELATED PARTY TRANSACTIONS (Contd.)

Name of Related Party	Name of Director (Relationship)	Nature of Transaction	Aggregate Amount of Accommodation			Security	
			Limit (Rs.Mn.)	Outstanding as at 31.12.05 (Rs.Mn.)			
				Direct	Indirect		
Kandalama Hotels Ltd.	(Subsidiary of Aitken Spence Hotels Ltd.)	Letter of Guarantee	0.36	-	0.36	Title to goods imported	
		Letter of Credit	16.00	-	15.55		
			<u>16.36</u>	<u>-</u>	<u>15.91</u>		
Elpitiya Plantations Ltd	(Subsidiary of Aitken Spence Plantation Management Ltd.)	Overdraft	25.00	60.83	-	Inventories Immovable Property Absolute ownership of the equipment/vehicles leased.	
		Temp. Overdraft	35.00	-	-		
		Overdraft/Commercial Paper/Money Market Loan	100.00	100.00	-		
		Standby Overdraft	(100.00)	-	-		
		Term Loan	11.48	11.48	-		
		Term Loan	11.56	11.56	-		
		Revolving Loan	0.75	0.75	-		
		Packing Credit	1.00	-	-		
		Leases	6.88	6.88	-		
				<u>191.67</u>	<u>191.50</u>		<u>-</u>
Aitken Spence Hotels Ltd.	(Subsidiary of Aitken Spence & Co. Ltd.)	Temp. Letters of Credit	-	-	0.01	Title to goods imported	
			<u>-</u>	<u>-</u>	<u>0.01</u>		
Aitken Spence Travels Ltd.	(Subsidiary of Aitken Spence & Co. Ltd.)	Foreign Drafts & Travellers Cheque Purchase	2.00	-	-	Cash Deposits	
			<u>2.00</u>	<u>-</u>	<u>-</u>		
Aitken Spence Hotel Holdings Ltd.	Mr D H S Jayawardena (Director)	Letters of Credit	140.00	-	139.52	Title to goods imported.	
			<u>140.00</u>	<u>-</u>	<u>139.52</u>		
Aitken Spence (Garments) Ltd	(Subsidiary of Aitken Spence & Co. Ltd.)	Letters of Credit	1.50	-	0.19	Immovable Property Quoted Company Shares	
		Export Loan	(1.50)	0.42	-		
		Overdrafts	0.25	0.03	-		
		Overdraft (Rs.Mn.)	(25.00)	(Rs.Mn.) 1.73	-		
		Letter of Guarantee	(Rs.Mn.) 0.01	-	(Rs. Mn.) 0.01		
			(US\$ Mn)	<u>1.75</u>	<u>0.45</u>		<u>0.19</u>
			(Rs. Mn)	<u>0.01</u>	<u>1.73</u>		<u>0.01</u>
Cowrie Investments (Pvt) Ltd	(Subsidiary of Aitken Spence Hotel Holdings Ltd.)	Term Loans	5.93	3.80	-	Immovable Property (leasehold)	
		Temp. Overdraft	1.00	1.01	-		
			(US\$ Mn)	<u>6.93</u>	<u>4.81</u>		<u>-</u>

Notes to the Financial Statements

35. RELATED PARTY TRANSACTIONS (Contd.)

Name of Related Party	Name of Director (Relationship)	Nature of Transaction	Aggregate Amount of Accommodation			Security
			Limit (US\$.Mn.)	Outstanding as at 31.12.05 Direct Indirect (US\$.Mn.)		
Ace Power Generation Horana (Pvt) Ltd	Mr D H S Jayawardena (Director)	Standby Letters of Credit	0.39	-	0.39	Immovable Property Machinery Bank Guarantee Inventories
		Term Loan	0.62	0.62	-	
		Term Loan	1.68	1.68	-	
		Overdraft	1.20	0.29	-	
		Standby Letters of Credit (Rs.Mn.)	100.00	-	(Rs.Mn.) 100.00	
		Overdraft (Rs.Mn.)	(120.00)	(Rs.Mn.) 80.19	-	
			(US\$.Mn.)	3.89	2.59	
	(Rs.Mn.)	100.00	80.19	100.00		
Ace Power Generation Matara (Pvt) Ltd	Mr D H S Jayawardena (Director)	Term Loan	0.45	0.45	-	Immovable Property (Leasehold)/Plant & Machinery Bank Guarantee
		Term Loan	1.55	1.55	-	
		Standby Letters of Credit	0.43	-	0.43	
		Overdraft	1.20	0.16	-	
		Standby Letters of Credit (Rs.Mn.)	100.00	-	(Rs.Mn.) 100.00	
		Letter of Guarantee (Rs.Mn.)	(0.08)	-	(Rs.Mn.) 0.08	
		Overdraft (Rs.Mn.)	(120.00)	(Rs.Mn.) 82.51	-	
	(US\$.Mn.)	3.63	2.16	0.43		
	(Rs.Mn.)	100.00	82.51	100.08		
Ace Power Generation Embilipitiya (Pvt) Ltd.	(Subsidiary of Aitken Spence & Co. Ltd.)	Term Loan	0.44	0.44	-	Immovable Property Machinery
		Term Loan	1.86	1.86	-	
		Overdraft	0.62	3.31	-	
		Overdraft	2.63	-	-	
		Standby Letter of Credit	0.12	-	0.12	
			(US\$.Mn.)	5.67	5.61	
Brown & Co. Ltd.	Mr M V Theagarajah (Chairman)	Letters of Credit	-	-	26.90	Immovable property Absolute ownership of the leased assets Inventories
		Import Loan	315.00	24.81	-	
		Letters of Guarantee	-	-	20.47	
		Overdraft	-	188.81	-	
		Term Loan	395.84	395.84	-	
		Term Loan	146.00	146.00	-	
		Lease	0.06	0.06	-	
		856.90	755.52	47.37		
Browns Group Industries Ltd.	Mr M V Theagarajah (Chairman)	Letters of Credit	15.00	-	27.74	Immovable Property Absolute ownership of the leased assets. Inventories Cash Margin
		Letters of Credit	10.00	-	-	
		Once off Letter of Credit	25.00	-	25.00	
		Lease	0.24	0.24	-	
		Letters of Guarantee	0.73	-	0.73	
		50.97	0.24	53.47		
I.G. Browns Rubber Industries Ltd	Mr M V Theagarajah (Chairman)	Letter of Credit	2.50	-	-	Immovable Property
		Overdraft	0.40	0.01	-	
			2.90	0.01	-	
Browns Dimo Industrial Products (Pvt) Ltd.	Mr M V Theagarajah (Chairman)	Letters of Credit	4.00	-	2.66	Cash Deposits
		Overdraft	1.00	-	-	
			5.00	-	2.66	

Notes to the Financial Statements

35. RELATED PARTY TRANSACTIONS (Contd.)

Name of Related Party	Name of Director (Relationship)	Nature of Transaction	Aggregate Amount of Accommodation			Security
			Limit (Rs.Mn.)	Outstanding as at 31.12.05 Direct Indirect		
Engineering Services Ltd.	Mr M V Theagarajah (Director)	Letters of Credit	2.00	-	-	Quoted Co. Shares Cash Margin Absolute ownership of the leased assets.
		Once off Letter of Credit	18.80	-	-	
		Import Loans	(25.80)	21.93	-	
		Overdraft	3.00	2.04	-	
		Letter of Guarantee	5.00	-	8.92	
		Letters of Guarantee	2.80	-	-	
		Lease	0.83	0.83	-	
		<u>32.43</u>	<u>24.80</u>	<u>8.92</u>		
Walker & Greig Ltd.	Mr M V Theagarajah (Chairman)	Letters of Credit	10.00	-	6.13	Inventories Absolute ownership of the leased assets.
		Overdraft	15.00	19.84	-	
		Term Loan	16.40	16.40	-	
		Lease	0.79	0.79	-	
			<u>42.19</u>	<u>37.03</u>	<u>6.13</u>	
Browns Tours Ltd.	Mr M V Theagarajah (Chairman)	Letters of Guarantee	10.00	-	9.22	Quoted Company Shares Absolute ownership of the leased assets.
		Lease	0.23	0.23	-	
			<u>10.23</u>	<u>0.23</u>	<u>9.22</u>	
Snowcem Products Lanka (Pvt) Ltd.	Mr M V Theagarajah (Chairman)	Letters of Credit	0.80	-	-	Cash Deposits Corporate Guarantee of Brown & Co. Ltd.
		Trust Receipt	(0.80)	-	-	
		Overdraft	2.50	2.31	-	
			<u>3.30</u>	<u>2.31</u>	<u>-</u>	
Ceylon Biscuits Ltd.	Mr R T Wijetilleke (Director)	Letters of Credit	50.00	Not disbursed	-	Negative pledge of stocks
		Overdraft	50.00	Not disbursed	-	
		Once off letters of Credit	184.50	-	184.50	
			<u>284.50</u>	<u>-</u>	<u>184.50</u>	
Nawaloka Hospitals Limited	Mr R T Wijetilleke (Director)	Temporary Overdraft	-	15.46	-	Clean
			<u>-</u>	<u>15.46</u>	<u>-</u>	
New Nawaloka Hospitals Limited	(Subsidiary of Nawaloka Hospitals Limited)	Loan I	124.66	124.66	-	Immovable Property Equipment Title to goods imported
		Loan II	91.66	69.99	-	
		Standby Overdraft	10.00	24.90	-	
		Letters of Credit	10.00	-	7.92	
			<u>236.32</u>	<u>219.55</u>	<u>7.92</u>	

Notes to the Financial Statements

36. MATURITY ANALYSIS - BANK

An analysis of the total assets & liabilities of the Bank as at 31st December based on the remaining period at the balance sheet date to the respective contractual maturity dates is given below.

	Upto 3 Months Rs.000	3-12 Months Rs.000	1-3 Years Rs.000	3-5 Years Rs.000	More Than 5 Years Rs.000	Total 2005 Rs.000
Interest earning assets						
Cash and short term funds	9,185,281	-	-	-	-	9,185,281
Balances with Foreign Banks which are interest bearing	9,930,384	-	-	-	-	9,930,384
Government Treasury Bills	139,340	-	-	-	-	139,340
Commercial paper	434,073	-	-	-	-	434,073
Investment securities-Bonds & Debentures	-	4,536,972	3,392,765	7,956,494	755,239	16,641,470
Bills of Exchange	1,592,548	386,611	41,164	-	6,654	2,026,977
Loans & advances	17,086,800	31,308,961	19,921,362	12,429,682	15,495,660	96,242,465
Lease rentals receivable	397,355	696,610	2,856,964	4,762,370	151,052	8,864,351
	38,765,781	36,929,154	26,212,255	25,148,546	16,408,605	143,464,341
Non interest earning assets						
Cash and short term funds	2,084,409	-	-	-	-	2,084,409
Statutory deposit with CBSL	8,565,629	-	-	-	-	8,565,629
Dealing securities	313,113	-	-	-	-	313,113
Quoted shares	617,769	-	-	-	-	617,769
Unquoted shares	25,706	-	-	-	-	25,706
Investment in Associate companies	-	-	-	-	132,326	132,326
Investment in Subsidiary companies	-	-	-	-	2,293,663	2,293,663
Property, plant & equipment	-	-	-	-	3,370,369	3,370,369
Other assets	5,145,085	-	-	-	-	5,145,085
	16,751,711	-	-	-	5,796,358	22,548,069
Total assets	55,517,492	36,929,154	26,212,255	25,148,546	22,204,963	166,012,410
Percentage - 31/12/2005	33.44	22.24	15.79	15.15	13.38	100
Percentage - 31/12/2004	40.09	11.94	20.03	15.72	12.22	100
Interest bearing liabilities						
Deposits from customers	72,380,919	27,937,007	7,324,296	4,060,444	3,056,170	114,758,836
Borrowings - Money at call	510,517	-	-	-	-	510,517
Borrowings - Refinance	2,016,632	6,258	41,839	97,961	549,120	2,711,810
Borrowings - Foreign Banks	717,784	-	-	-	-	717,784
Repo agreements	6,113,644	-	-	-	-	6,113,644
Subordinated Debentures	-	-	3,759,148	127,628	113,224	4,000,000
	81,739,496	27,943,265	11,125,283	4,286,033	3,718,514	128,812,591
Non Interest bearing liabilities						
Deposits from customers	13,524,845	-	-	-	-	13,524,845
Dividend payable	50,291	-	-	-	-	50,291
Bills payable	2,226,745	-	-	-	-	2,226,745
Current tax liability	5,992	-	-	-	-	5,992
Deferred tax liability	313,756	-	-	-	-	313,756
Other liabilities	9,838,930	-	-	-	-	9,838,930
Shareholders' funds	-	-	-	-	11,239,260	11,239,260
	25,960,559	-	-	-	11,239,260	37,199,819
Total liabilities and shareholders' funds	107,700,055	27,943,265	11,125,283	4,286,033	14,957,774	166,012,410
Percentage - 31/12/2005	64.87	16.83	6.70	2.58	9.02	100
Percentage - 31/12/2004	62.75	16.79	8.11	4.37	7.98	100

* "Up to 3 months" deposits include the Bank's Savings Deposit Base of Rs. 61.5 billion (2004 - Rs. 57.1 billion).
2004 percentages are calculated by restating comparatives in to the current format.

Notes to the Financial Statements

37. SEGMENT REPORTING

Business segments - Group

	Banking		Leasing		**Dealing		Property		Insurance		Eliminations/Unallocated		Consolidated	
	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	2005 Rs. 000	2004 Rs. 000
Revenue from external customers :														
Interest	12,907,337	10,372,081	-	-	624,931	400,219	-	238	46,106	33,358	1,162,455	773,660	14,740,829	11,579,556
Exchange/Premium	646,460	662,176	-	-	(294)	684	-	-	573,218	357,165	-	-	1,219,384	1,020,025
Lease/Brokerage	-	-	1,162,455	929,898	5,897	56,904	-	-	-	-	(1,162,455)	(929,898)	5,897	56,904
Commissions/Rent	1,633,352	1,517,378	-	-	-	-	20,378	18,886	-	-	-	-	1,653,730	1,536,264
Other	496,693	376,649	-	-	180,842	34,496	-	-	816	-	-	(100,933)	678,351	310,212
Total revenue from external customers	15,683,842	12,928,284	1,162,455	929,898	811,376	492,303	20,378	19,124	620,140	390,523	-	(257,171)	18,298,191	14,502,961
Inter-segment revenue	150,482	229,176	-	-	55,394	92,236	412,578	415,549	33,592	41,530	(761,670)	(1,121,190)	-	-
Total revenue	15,834,324	13,157,460	1,162,455	929,898	866,770	584,539	432,956	434,673	653,732	432,053	(761,670)	(1,378,361)	18,298,191	14,502,961
Segment result	1,772,032	812,712	677,193	576,001	142,756	20,269	37,250	65,510	74,422	26,880	(8,830)	(240,029)	2,694,823	1,261,343
Unallocated expenses													703,635	537,541
Profit from operations													1,991,188	723,802
Income from associates													17,162	22,969
Income tax expense													(213,813)	15,114
Minority interests													(24,116)	(6,279)
Net profit for the year													1,770,421	755,606
Segment assets	128,035,145	118,110,642	8,864,351	6,846,944	7,597,672	7,440,812	4,884,220	5,002,102	1,106,409	745,188	(2,358,209)	(1,949,750)	148,129,588	136,195,938
Investment in associates													170,592	168,588
Unallocated assets													26,686,925	25,396,120
Total Assets													174,987,105	161,760,646
Segment liabilities	121,646,075	113,353,741	8,864,351	6,846,944	6,973,851	6,940,425	3,125,967	3,193,161	734,421	433,490	(1,975,521)	(1,562,128)	139,369,144	129,205,633
Unallocated liabilities													24,262,724	23,527,130
Total liabilities													163,631,868	152,732,763
Cash flows from operating activities	460,214	819,785	7,478	650,386	38,022	(6,924)	30,075	(70,345)	127,256	74,355	770,150	(3,435,041)	1,433,195	(1,967,784)
Cash flows from investing activities	(509,930)	(1,020,804)	-	-	3,116	47,791	17,986	(158,343)	(120,901)	(60,901)	(495,323)	2,019,748	(1,105,052)	827,491
Cash flows from financing activities	1,134,527	702,141	-	-	(53,386)	(81,518)	-	500,000	(356)	-	(328,303)	1,119,464	752,482	2,240,087
Capital Expenditure	495,638	516,057	973	224	7,743	5,552	7,599	163	34,034	30	(331)	179,839	545,656	701,865
Depreciation	493,991	436,576	330	2,082	4,058	6,200	83,600	68,107	12,411	10,586	(331)	13,990	594,059	537,541
Amortisation	-	-	-	-	-	-	4,303	-	-	-	-	-	4,303	-

**Stock Broking & Securities Dealings

38. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

There are no events occurring after the Balance Sheet date, which requires adjustment to or disclosure in the financial statements.

FURTHER INFORMATION**1. RESPONSIBILITY STATEMENT**

This Information Circular has been seen and approved by the Board and the Directors, who collectively and individually, accept full responsibility for the accuracy of the information contained in this Information Circular and confirm that after making all reasonable enquiries and to the best of their knowledge and belief, there are no facts the omission of which would make any statement herein misleading.

All information relating to HNB was derived from HNB's official website, its annual report 2005 and Bloomberg. The responsibility of the Board is therefore restricted to the accurate reproduction of the relevant information on HNB as included in this Information Circular.

2. MATERIAL CONTRACTS

Save as disclosed below, there are no other material contracts (not being contracts entered into in the ordinary course of business) which have been entered into by the MAAH Group within two (2) years immediately preceding the date of this Information Circular:

- (i) MAAH and MAAIC had on 15 June 2005, accepted a placement offer from Credo Corporate Finance Ltd to subscribe for 1,766,470 GDR representing 17,664,700 HNB Shares, at a placing price of LKR550 per GDR, representing 15% of the enlarged issued and paid-up share capital of HNB, for a total cash consideration of LKR971,558,500 or RM36,986,349 equivalent. MAAH and MAAIC held 10% and 5% respectively of the enlarged issued and paid-up share capital of HNB, representing 11,776,467 HNB Shares and 5,888,233 HNB Shares.
- (ii) MAAH had on 21 February 2006, entered into a Joint Venture Agreement with Solidarity Company BSC (C) ("Solidarity") to jointly establish a new company which will be named as MAA Takaful Berhad ("MAA Takaful") and will be principally involved in the takaful business. Under the terms of the agreement, the initial capital of MAA Takaful is RM100,000,000 and MAAH is to hold 75% of the capital while Solidarity is to hold 25% of the capital. The parties agreed that MAA Takaful shall seek listing on a recognized securities exchange within 5 years from the date of commencement of business. The new company has been incorporated on 2 May 2006 and the use of the name "MAA Takaful Berhad" has been approved by Bank Negara Malaysia on 17 March 2006.
- (iii) MAAH had on 21 September 2006 entered into a Subscription Agreement with Solidarity ("Subscription Agreement") to jointly subscribe to 100,000,000 shares of RM1 each in MAA Takaful within 30 days from the date of the Subscription Agreement or such other date as the parties may mutually agree.

Subsequently on 26 October 2006, both parties mutually agreed to extend the completion date of the Subscription Agreement to thirty (30) days from the expiry of the original completion date or the date falling seven (7) days from the date of receipt of the approval from the Securities Commission on the subscription of shares by MAAH in MAA Takaful, whichever was the earlier. The extension of time had expired on 20 November 2006 and both parties have further agreed to extend the completion date to a date falling seven (7) days from the date of MAAH's receipt of the approval from the Securities Commission.

- (iv) MAAH had on 21 September 2006 entered into a Shareholders Agreement with Solidarity to regularize their relationship as shareholders of MAA Takaful and the conduct of the affairs of MAA Takaful. The Shareholders' Agreement will take effect on the date the parties subscribe for their respective shares in MAA Takaful pursuant to the Subscription Agreement.

FURTHER INFORMATION

- (v) Columbus Capital Singapore Pte Ltd (“CCS”), being a wholly owned subsidiary of MAAII, had on 22 September 2006 entered into a Subscription Agreement with Columbus Capital Pty Ltd (“CCAU”) to subscribe for up to 20.0 million Preference Shares at AUD1.00 per share for a total cash consideration of AUD20.0 million or RM57.0 million equivalent (AUD1.00 : RM2.85).
- (vi) CCS had, on 22 September 2006, entered into a Shareholder’s Deed with CCAU to regulate both parties’ rights and obligations as members of CCAU.
- (vii) MAAII had on 1 November 2006 entered into a Share Sale and Purchase Agreement (“SPA”) with Ithmaar Bank BSC to acquire 7,500,000 ordinary shares at a par value of USD1.00 each representing a 5.0% equity interest in Solidarity Company BSC (C) for a total cash consideration of USD7,500,000 or equivalent to RM27,750,000 (USD1.00 : RM3.70). The closing for the sale and purchase shall take place not later than thirty (30) days from the date of the SPA (“Original Closing”) or such other date as the parties may agree in writing. Subsequently, both parties have mutually agreed to extend the Original Closing for a further period of up to thirty (30) days from the Original Closing, that is, a date falling on or before 31 December 2006.

3. MATERIAL LITIGATION

Save as disclosed below, the MAAH Group is not engaged in any material litigation, claims or arbitration, either as plaintiff or defendant, and the Directors of MAAH do not have any knowledge of any proceedings, pending or threatened, against the MAAH Group or of any facts likely to give rise to any proceedings which MAAH may materially or adversely affect the position or business of the MAAH Group.

- (i) Malaysian Assurance Alliance Berhad (“MAAB”) had on 20 August 1999 entered a Summary Judgement against one of its borrowers (“Judgement Debtor”) in a Civil Suit No. D6-22-4029-1998 for an outstanding sum of RM7,171,399.27 (“Judgement Sum”) as at 28 February 1999 together with an interest of 18% per annum on the said sum from 1 March 1999 until date of settlement.

In default of settlement, a Bankruptcy Notice was filed against the Judgement Debtor in a Bankruptcy Suit No. D1-29-6505-2003 for a total outstanding sum of RM16,790,725.29, comprising of the Judgement Sum of RM7,171,399.27 and interest on the Judgement Sum of RM9,619,362 (from 1 March 1999 to 2 December 2003). The Court Order for service of the Bankruptcy Notice by way of substituted service has been obtained.

The Judgement Debtor has subsequently appealed to MAAB for a stay of the bankruptcy proceedings against him by making an offer to pay RM30,000.00 per month pending implementation of the restructuring scheme of the Judgement Debtor’s company. The Board of Directors of MAAB has accepted the Judgement Debtor’s appeal for stay of bankruptcy proceedings against him for a period of one (1) year or the successful implementation of the restructuring of the Judgement Debtor’s company subject to the payment of RM30,000.00 and MAAB’s receipt of eleven (11) post dated cheques of RM30,000.00 each. MAAB has received the payment of RM30,000.00 and has cleared all the post dated cheques.

On 3 October 2005, the Judgment Debtor entered into a Debt Settlement Agreement with MAAB agreeing to settle RM7,000,000.00 in ten (10) monthly installments in the form of post dated cheques. MAAB had received payment to the sum of RM1,800,000.00 from the post dated cheques.

On 5 March 2006, the Judgment Debtor proposed a new settlement scheme of RM50,000.00 per month in view of the pending completion of the sale of certain properties of the Judgment Debtor. MAAB has received two (2) monthly payments of RM50,000.00 from the Judgment Debtor respectively on 5 May 2006 and 30 June 2006.

FURTHER INFORMATION

- (ii) A civil suit was filed by Unifier Industry Sdn Bhd ("Plaintiff") against MAAB for RM3,000,000.00 on 1 December 1999 under a fire policy for damage to goods belonging to Plaintiff. The matter which was scheduled on 30 November 2005 has been adjourned to 31 May 2006 and 29 June 2006. On 29 June 2006, the hearing was adjourned to 10 July 2006 for the Court to provide an interpreter for the Plaintiff's witness. Further hearing has been fixed on 9, 20 and 21 November 2006. The solicitors are of the view that MAAB's defence is likely to succeed if evidence is available. MAAB has made appropriate provision for this claim.
- (iii) MAAB has issued letters of demand to one of its borrowers ("Borrower 1") for failing to service its term loan of RM3,500,000.00. The loan is secured by way of a legal charge and a personal guarantee. A civil suit has been initiated via Suit No. S6-22-156-05 in the High Court of Kuala Lumpur. The Borrower 1 had filed in the Statement of Defence and mention has been set on 21 July 2006 for MAAB to file its reply to the Statement of Defence. On 23 February 2006, MAAB filed an application for Summary Judgment. On 16 October 2006, the Court granted the Order for the Summary Judgment in favour of MAAB. The Order has been filed into the Court and is now pending the seal extraction from the Court.

The Defendant had filed a Notice of Appeal to the Judge in Chambers on 27 October 2006 against the Judgment Order obtained on 16 October 2006 and had served an unseal copy of the Notice of Appeal to MAAB.

MAAB has also initiated foreclosure proceedings against the property charged via Suit No. 24(HT) 364-06 in Muar High Court. The Affidavit in support of the Originating Summons and the Notice of Appointment have been filed in the Court. The Notice of Appointment has been extracted and the Order for Sale is fixed for hearing on 30 April 2007.

- (iv) MAAB has issued a notice of demand against one of its borrowers ("Borrower 2") on 1 April 1999 upon the Borrower 2's default in servicing the loan of RM20,000,000.00 ("Loan"). The Loan was secured against property, a corporate guarantee and a personal guarantee. By an Originating Summons No. S24-3441-2002 ("OS") dated 4 December 2002, MAAB has commenced a foreclosure proceeding against the Borrower 2 to foreclose the charged property. MAAB subsequently withdrew the OS with liberty to file afresh when Borrower 2 deposited ten (10) post dated cheques for the sum of RM1,000,000.00 each and agreed to execute a Debt Acknowledgement Agreement with MAAB. As of to-date, all the post dated cheques have been cleared but the Debt Acknowledgement Agreement has not been returned to MAAB. MAAB has since recommenced foreclosure proceedings against the Borrower 2. The foreclosure proceeding has been withdrawn on the anticipation that the matter will be settled amicably.

At the same time, a civil action was initiated against the guarantors on 21 March 2002 vide Civil Suit No. D8-22-430-2003. The solicitors are of the view that there is a good case for recovery. A Pre-Trial Case Management has been fixed on 20 January 2006 and 19 May 2006. The Pre-Trial Case Management was adjourned to 19 July 2006. The matter is fixed for trial on 11 and 12 June 2007.

- (v) A civil suit was brought by New Regional Technologies Sdn Bhd ("Claimant") on 9 January 2003 against one of the agents of MAAB ("Agent") and MAAB for loss and damages suffered to certain machineries due to flood and lightning. The Claimant claimed for special damages amounting to RM7,901,502.80, general damages, interest and cost. MAAB has rejected the claim on the ground, inter alia, that the Agent had exceeded his authority in issuing the cover notes to the Claimant and that the loss and damage were not within the scope of the insurance. The total sum insured for the cover notes issued is RM2,109,432.80.

FURTHER INFORMATION

The solicitors are of the opinion that it may be difficult to argue that the cover notes issued by the Agent are invalid but MAAB may have a chance of rejecting the claim on the ground that the insurance cover, if any, would only cover losses and damages caused by, amongst others, lightning and fire and not losses or damages caused by, among others storm, tempest or flood. MAAB has on 23 December 2004 filed an application to strike out the Claimant's claim on the ground that the Claimant's action is scandalous, frivolous or vexatious and/or an abuse of process of Court because the Claimant has on 18 May 2004 entered a final judgement against the Agent. The application to strike out the Claimant's claim was fixed for hearing on 18 February 2005. MAAB's application to strike out the Claimant's claim was allowed with cost on 26 May 2005. The Claimant has since filed a Notice of Appeal to the Judge in Chambers against the decision. The matter, which was fixed for hearing on 3 January 2006, has been adjourned to 6 June 2006. The hearing was further adjourned by the Court to 27 March 2007.

- (vi) An injunction was granted to five (5) claimants ("Plaintiffs") against MAAB and others ("Other Defendants") on 3 June 2004 from disposing, selling or dealing with the 14,300,000 shares in Ladang Perbadanan Firma Bhd ("Shares") which were pledged to MAAB as security for a loan. In the Plaintiffs' Statement of Claim dated 27 July 2004, the Plaintiffs claimed that the Shares, which were being maintained by one of the Other Defendants in a Central Depository Account, have been transferred without the authority and instruction from the Plaintiffs. The solicitors are of the view that the security documents, namely the Loan Agreement and the pledge of shares have been properly executed and the security is in tact. The matter is now fixed for Pre-Trial Case Management on 19 June 2006. The Pre Trial Case Management was adjourned to 24 July 2006. A direction was given to the solicitors to file bundle of documents and the next Pre Trial Case Management has been fixed on 5 October 2006. The matter has been further adjourned to 8 November 2006. On the 8 November 2006, the Judge indicated that there may be issue of biasness as he is acquainted to one of the witnesses. The Judge shall write to the Chief Justice to have the case transferred and at the moment no further dates for hearing has been given to the parties.
- (vii) A civil suit was brought by MAAB against Am Trustee Berhad ("Defendant") via Civil Suit No. 22-102-2006 for negligence as custodian of MAAB's fund managed by a fund manager. The Defendant had negligently permitted the transfer of funds to an unauthorised account and wrongly recorded the transaction amounting to RM19,640,178.83. The Writ of Summons and Statement of Claim has been served on the Defendant on 24 March 2006 and the Defendant has on 5 May 2006 served its Defence to MAAB. MAAB has since filed the Reply to the Statement of Defence on 6 June 2006.

Meanwhile the Defendant had filed an application under Order 16 of the Rules of High Court 1980 to issue a Third Party Notice on Meridian Asset Management Sdn Bhd ("MAM"). Our Solicitors have informed that the leave to issue the Third Party Notice has been granted by the Court.

The Pre-Trial Case Management which was fixed for hearing on the 11 August 2006 was adjourned to 22 November 2006 and later to 3 January 2006 for the third party to file its papers accordingly.

- (viii) MAAB initiated a civil action against one of its borrowers ("Borrower 3") and its guarantor due to the Borrower 3's failure to service the term loan of RM16,500,000.00 ("Loan") via Civil Suit No. S1-22-1519-2005. The Loan is secured by way of a legal charge over properties, three personal guarantees ("Guarantors") and a debenture over assets. The value of security amounted to RM27,000,000.00. A Judgment In Default was entered against the Borrower 3 on 17 March 2006 and the Judgment was served on the Borrower 3 on 5 April 2006. A Section 218 Notice has been served on the Borrower 3 on 23 June 2006. A winding up petition has been filed against and served on the Borrower 3. The winding up petition has been fixed for hearing on 11 January 2007.

FURTHER INFORMATION

An application was also made on 9 May 2006 to extend the validity of the Writ Summons and to serve the Writ Summons on the Guarantors by way of substituted service ("Application"). The Application was allowed by the Court on 14 June 2006. MAAB obtained a Judgment In Default against the Guarantor on 5 October 2006. The Judgment was extracted and pending serving the Judgment on the Guarantor.

- (ix) MAAB instituted a civil suit against one of its borrowers ("Borrower 4") and the Guarantor for failing to service the term loan of RM50,000,000.00 ("Loan") via Civil Suit No. S2-22-1520-2005. The Loan is secured against 30,027,930 shares of Fountain View Development Bhd ("FVD") and properties worth RM50,000,000.00. Based on closing share price of FVD of RM0.295 per share on 30 December 2005, there was a margin shortfall of RM7,550,000.00 in security. The Writ Summons and Statement of Claim have been served on the Borrower 4 and the Guarantor on 22 June 2006. The Borrower 4 and the Guarantor have filed their Statement of Defence and the matter is now pending MAAB's filing of the Reply to the Defence and case management. The matter has now been kept on hold in order for the Borrower 4 to undertake the necessary action to enhance MAA's securities position.

On 10 October 2006, MAAB had a meeting with Borrower 4, to discuss a possible settlement with the options to dispose of all charged shares in stages starting on November till December 2006 or to dispose of all property charged to MAAB to settle the outstanding amount owing to MAAB by the Borrower 4 and two others. The Borrower 4 reverted to MAAB via a letter dated 31 October 2006 that he agreed to dispose of the shares and to find buyers for the properties charged to MAAB. If he does neither, he will pay RM50,000.00 each month until settlement of the principal sum.

- (x) A civil suit was brought by Triscenic Sdn Bhd ("Plaintiff") against a borrower of MAAB ("Borrower 5") as the fifth Defendant and MAAB as the sixth Defendant together with 4 others via Civil Suit No. S6-21-69-2006. The Plaintiff is seeking a declaration that it is the rightful owner of a certain property which has been charged by the Borrower 5 to MAAB as security for a loan granted by MAAB to the Borrower 5. The Plaintiff claimed that the transfer and the charge are null and void. The solicitors for MAAB are of the opinion that MAAB has a good defence to the case and a Statement of Defence has been filed on 30 May 2006. The Plaintiff further filed an application to amend their Writ of Summons on 16 August 2006 and has served the amended Writ on MAAB to change the name of the First Defendant. The matter is now pending a date from Court for Pre Trial Case Management.

- (xi) A civil suit was brought by Meridian Assets Management Sdn Bhd ("MAM") against Am Trustee Berhad ("Defendant") on 12 December 2005 via Civil Suit No. D-22-1797-2005 for negligence as custodian for the funds managed by MAM. MAM in its suit had alleged that the Defendant had negligently transferred funds belonging to MAM's clients for an amount of RM27,606,169.65 to an unauthorised account and the Defendant had failed to provide true and accurate fund flow reports of the transferred funds. The Defendant served its defence on MAM on 26 January 2006. MAM served a Reply to the defence on the Defendant on 17 March 2006. The Pre Trial Case Management which was fixed for hearing on 27 July 2006 was adjourned to 8 August 2006 and later to 20 November 2006. On 20 November 2006, the hearing of the Pre Trial Case Management was further adjourned to 3 January 2006 for mention.

On 18 April 2006, the Defendant further filed a Summons in Chambers ("SIC") under Order 14A of the Rules of High Court 1980. MAM has on 2 May 2006 filed a Reply to the Summons in Chambers ("MAM's Reply"). On 16 May 2006, the Defendant filed a Reply to MAM's Reply to the Summons in Chambers (Defendant's Reply). A further Reply to the Defendant's Reply has been filed in Court on 5 June 2006. The hearing for the SIC was fixed for hearing on 8 August 2006. On 8 August 2006, Defendant has requested for written submissions and the hearing was adjourned to 20 November 2006. On 20 November 2006, the solicitors for MAM and the solicitors for the Defendant agreed to a stay of all pending applications relating to the case to enable MAM's solicitors to obtain instruction from MAM. The matter has been fixed for mention on 3 January 2006.

FURTHER INFORMATION

The solicitors for MAM had further advised MAM to amend the Writ of Summons and Statement of Claim to include AmMerchant Bank Berhad as a second defendant. An Application to amend the Writ of Summons has been filed on 5 October 2006 and the application has been fixed for hearing on 24 November 2006. The hearing of the application to amend the Writ Summons and Statement of Claim has been stayed on 20 November 2006 for further mention on 3 January 2006.

MAM had also filed a SIC on 24 April 2006 for better and further particulars to assist in MAM's trial proper and a copy of the SIC has been served on Defendant's solicitors on 21 April 2006. The SIC which was fixed for hearing on 14 August 2006 was adjourned to 27 September 2006 and later to 24 November 2006. The hearing of the SIC has been stayed on 20 November 2006 for further mention on 3 January 2006.

In September 2006, the Defendant filed a SIC for stay of proceedings for MAM's application on further and better particulars and the interrogatories proceedings. The hearing for the stay of proceedings which was fixed for hearing on 24 November 2006 was stayed on 20 November 2006 for further mention on 3 January 2006.

- (xii) A civil suit was brought by MAM against Ong Kheng Hoe ("First Defendant") and 3 others ("Other Defendants") for loss and damage amounting to approximately RM27,606,169.65 via Suit No.D6-22-1394-2005 on 26 September 2005 for breach of good faith and fidelity of the employment of the First Defendant with MAM. The matter which has been fixed for a Pre-Trial Case Management on 18 September 2006 has been adjourned to 18 October 2006 and later to 17 January 2007.

On 26 September 2005 MAM further filed in a Ex-parte Summons in Chambers for an injunction to restrain the First Defendant and Other Defendants from transferring and disposing off their assets up to the value of RM27,606,169.65. The hearing for the Summons in Chambers was fixed on 28 September 2005. On the said hearing date, MAM obtained an Order ("the Order") for the injunction against the Defendants. The Deputy Registrar further fixed for an Inter-parte hearing for the injunction on 17 October 2005. The inter-parte hearing fixed on 17 October 2005 was adjourned to 30 May 2006 and subsequently to 3 July 2006 due to an error made in the Defendant's Affidavit.

MAM filed an application for committal proceedings against the Defendants for non-compliance of the Order. The Defendants had subsequently filed in Affidavits (Assets Declaration) in compliance to the order. The committal proceeding which was fixed for hearing on 18 September 2006 was adjourned to 18 October 2006 and later to 14 November 2006. On 14 November 2006, the committal proceedings was withdrawn by MAM's solicitors as the Defendants have subsequently complied with the Order.

The Defendant also filed a Summons in Chambers ("SIC") for the stay of execution of the Order. The hearing for the SIC has been fixed on 8 August 2006. On 8 August 2006, during the hearing of the Defendants' SIC for stay of execution of the Order, direction was given to both MAM and the Defendants to file written submission and decision has been fixed for hearing on the 18 October 2006.

On 18 October 2006, the Court has allowed the Defendants' application for the stay of execution in respect of paragraph (F) of the Order. MAM through its solicitors has filed a notice of appeal on 16 November 2006.

FURTHER INFORMATION

4. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents are available for inspection during normal office hours at the Registered Office of the Company at Suite 20.03, 20th Floor, Menara MAA, No. 12, Jalan Dewan Bahasa, 50460 Kuala Lumpur, up to a period of fourteen (14) days from the date of this Information Circular:

- (i) the Memorandum and Articles of Association of MAAH;
- (ii) the audited financial statements of MAAH for the past two (2) financial years ended 31 January 2004 to 2005;
- (iii) the audited financial statements of HNB for the past two (2) financial years ended 31 December 2004 to 2005;
- (iv) the unaudited financial statements of HNB for the past six (6) months financial period ended 30 June 2006;
- (v) the material contracts referred to in Section 2 above;
- (vi) the writs of summons and cause papers in respect of the material litigation referred to in Section 4 above.

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