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REGISTERED NAME

Lankaputhra Development Bank Limited

LEGAL STATUS

A Licensed Specialized Bank established under the Banking Act No. 30 of 1988. A Public Limited Liability Company incorporated in Sri Lanka under the provisions of the Companies Act No.17 of 1982

DATE OF INCORPORATION

24th February 2006

BOARD OF DIRECTORS

A. de Vass Gunawardena

B.A.(Ceylon)

Chairman

P. Amarasinghe

B.A.(Hons),M.A.(Econ),Mc. Master Canada, FIB(Sri Lanka),FCDAS (Mc.Gill Canada)

Director

M.P.T. Cooray

B.A.(Hons), B.Phil. (International Economics.)

Director

S.S.C. De Silva

A.C.C.A.

Director

Ms. M. Ganagatharan

B.A.(Jaffna), P.G.Dip.(Moratuwa & IDEAS-Japan),M.A.(Leeds-UK)

Director

H.M. Gunasekara

B.A.(Hons), P.G.Dip.(Population Studies - Colombo), M.Sc.(University of Hague-Netherlands)

Director

COMPANY SECRETARY

Mrs. Karnika Jayatilake

B.A. (Col), LL.M (UK), Attorney-at-Law

REGISTERED OFFICE

No. 34, Maitland Crescent, Colombo-07.

Telephone : 011-2675891-5

Facsimile : 011-2675890

E-mail : info@lankaputhra.lk

AUDITORS

Messrs Ernst & Young

Chartered Accountants

No. 201, De Saram Place

Colombo-10.

BANKERS

Bank of Ceylon

**MANAGEMENT STAFF**

1. M.P.T. Cooray
B.A.(Hons), B.Phil. (Int. Economics.) - General Manager/
Chief Executive Officer (Up to 31.03.2007)
2. Mrs. Siromi Wickramasinghe
FCMI, Attorney-at-Law - General Manager/
Chief Executive Officer (Since 16.04.2007)
3. Ranjith Dissanayake
B.Com., AIB - Asst. General Manager - Investments
4. Mrs. Karnika Jayatilake
B.A.(Col), LLM (UK), Attorney-at-Law - Asst. General Manager - Legal
5. Lionel Silva
B.Sc., M.Sc. (Computer Science), MCS(SL) - Asst. General Manager - Information Technology
6. Rohantha Seneviratne
*B.Sc(Monash University - Australia)
MBA(Colombo)* - Asst. General Manager - Projects
7. Maxwell Jansz
B.A.(Hons), MABE, MIM - Senior Manager - Human Resources & Administration
8. Kennedy J. Michael
Dip M, MCIM, MSLIM, MIM, AMITAD - Senior Manager - Business Development
9. W.K.B.O.R. Fernando - Senior Manager - Branch Operations
10. Mewan Dissanayake
*A.C.A., B.B.A.(Hons)Specialized in
Financial Mgt.* - Senior Manager - Finance
11. Ranil Satharasinghe
*B.B.Mgt.(Hons)Specialized in Accountancy,
A.C.A.* - Internal Auditor / Compliance Officer



NOTICE OF
Meeting

NOTICE IS HEREBY GIVEN THAT THE FIRST ANNUAL GENERAL MEETING OF THE LANKAPUTHRA DEVELOPMENT BANK LIMITED WILL BE HELD ON 30TH MAY 2007 AT 4.00 P.M. NO. 34, MAITLAND CRESCENT, COLOMBO 7.

Agenda

1. To receive and to consider the Report of the Directors and Audited Financial Statements for the year ended 31st December 2006 and the Report of Auditors.
2. To re-appoint Auditors Messrs Ernst & Young, Chartered Accountants for the year 2007 and to authorize the Board of Directors to determine their remuneration.

BY ORDER OF THE BOARD

(Sgd)
Mrs. Karnika Jayatilake
Company Secretary

Colombo
09th May 2007

Note:

- a) A Shareholder is entitled to appoint a Proxy to attend and vote instead of him/her. A Proxy need not be a member of the Bank. A form of Proxy is enclosed for this purpose.
- b) The instrument appointing a Proxy and the Power of Attorney (if any), under which it is signed or a notarially certified copy thereof should be lodged with the Bank at No. 34, Maitland Crescent, Colombo 7 not later than 48 hours before the time fixed for the Annual General Meeting.

Introduction of the free market policies in the economy was heralded as a precursor of economic prosperity in Sri Lanka as early as the late 70's. However, in spite of this the commanding heights of the economy yet continues to be largely state driven. The development process hitherto has had only a marginal impact on the rural poor and they appear to have been left behind, creating a vast disparity between the urban wealthy and rural poor.

The much hyped about "trickle down effect" has not happened and infact, the gulf has widened making the poorer sections of the country's population worse off. This discrepancy and the continued neglect of this sector can have dire results and is unsustainable in a healthy democratic system. Thus Leon Trotsky in his book "Revolution Betrayed" referring to the down trodden and those economically dispossessed says, "their strength lies not in their capacity to kill but in their great readiness to die".

Mahinda Chinthanaya under the heading "A flourishing society - sustainable development" says "A National Economic Policy will be formulated by integrating the positive attributes of free market economy with domestic aspirations, in order to ensure a modern and balanced approach, where domestic enterprises can be supported, while encouraging foreign investments."

"A programme will be launched to provide capital, technology and knowledge required by the local entrepreneurs to penetrate into International market."

How is this going to be achieved? Mahinda Chinthanaya says "A new banking scheme named "Lankaputhra" will be introduced. Financing facilities will be made available to local small & medium entrepreneurs to become internationally competitive through this new window of finance."

Thus the recognition of the inadequate development banking facilities for many sectors and also this factor as having constrained the development of the rural economy in Sri Lanka. It is in this context the unwise decision of privatizing the two Development Banks which has left a large vacuum in the achievement of national development priorities has to be viewed. For it is only a DFI of necessity that cannot forget the basic tasks of poverty alleviation, income distribution, take up long gestation high risk projects etc. which form part of the developmental tasks.

It is in this background and in order to facilitate the provision of financial support to the hitherto neglected sectors of the rural economy and to bring them into the mainstream of the development process that the fully Government owned Lankaputhra Development Bank was established. In order to achieve these objectives Lanakputhra Development Bank adopts a strategy of channeling development finance to the small and rural sector direct rather than being a refinancier. In order to accelerate the process of credit delivery to the priority target areas, where it is most needed direct participation would be the strategy of the Bank. In addition, the Bank would also play a necessary catalyst role in generating economic activity in the hitherto undeveloped regions and achieving regional development.

However for an effective involvement in this sector presence of the Bank at the grass root level is a vital necessity. Through this presence in the regions the Bank will be able to seek, promote and assist the utilization of local resources, promote exportable surpluses, promote employment and be instrumental in income re-distribution in the regions. In this endeavour, the Bank would harness one of the main strategies of the rural poor, their solidarity, the ability and readiness to place the good of the group beyond self-interest.

We were able to perform the responsibilities of the Bank within the nine months of the Banks operations efficiently and at a profit. As we enter 2007 we will continue to extend our services in the regions through a broadening branch network and reaching hitherto untapped areas.



CHAIRMAN'S
Message (Contd.)

The success of any organization is dependent on its people and I must record my appreciation of the contribution made by Mr. M.P.T. Cooray the first, Chief Executive Officer of the Bank, who has hitherto resigned, in establishing the Lankaputhra Development Bank and bringing it to its present status and also the management team and the staff whose dedication and hard work continues to be a main source of strength to the Bank. I must also record with a deep sense of gratitude, my appreciation of the active role played by my colleagues on the Board in guiding the Bank to success.

(Sgd.)

A. de Vass Gunawardena
Chairman

09th May 2007



"Mahinda Chinthana" - Towards a new Sri Lanka - Formulates a new National Economic Policy by integrating the positive attributes of free market economy with domestic aspirations in order to ensure a modern and balanced approach where domestic enterprises can be supported while encouraging foreign investments.

With a target to achieve a GDP growth of 8% per annum over the next 6 year period measures will be adopted to filter the benefits of such economic development to the general public of the country and particularly to the lower income groups which is almost 50% of our population.

With that in mind, His Excellency the President as the Minister of Finance and Planning obtained Cabinet approval on 04th January 2006 and established Lankaputhra Development Bank to promote local Construction, Agriculture and Industrial activities.

This is the first annual report of the Lankaputhra Development Bank, a licensed specialised bank incorporated as a public limited liability company on 24th February 2006 under the Companies Act No 17 of 1982.

We have today contributed to the National Economy by reaching out to the masses in the four corners of the Country by granting loans at concessionary interest rates that keep village based livelihoods growing and creating job opportunities which no doubt brings in a ray of sunshine to the lives of thousands of "poor" people who hitherto did not have a glimmer of hope.

Our bank has, by the end of December 2006, granted loans amounting to Rs 433 million and created employment opportunities to over 3865 people. We are also striving to create the habit of savings amongst the people and are in the process of opening Savings and Fixed Deposits accounts, whilst competing with the rest of the banking industry who have an edge with their "reach". We have as at today a deposit base of Rs 259 million.

Our staff consists of graduates and well trained personnel in commercial and development banking. We also have recruited unemployed youth with three passes in GCE Advanced Level, to work as Development Assistants. They have all undergone extensive training in identification, analyzing and implementation of projects conducted by the Industrial Development Board of Sri Lanka, National Aquatic Resource Research and Development Agency and at the Post Harvest Technology Institute.

We have also trained 06 "Tharuna Aruna" graduates with the intention of absorbing them to the main stream in keeping with Government policy. Our bank can boast of two branches in Hambantota and Polonnaruwa in addition to the Colombo branch, in keeping with a target set at the commencement.

As the only Development Bank owned by the Government our bank will bear greater responsibility in implementing development projects of the Government. The Honorable Minister of Finance and Planning pledged by a budget proposal in 2006 that the Lankaputhra Development Bank will be instrumental in carrying out all Government development projects. Accordingly, our bank has taken over the task of implementing the following projects.



1. Krushi Navodaya
2. Re – Structuring of closed down garment factories.
3. Dahas Diriya
4. Kapruka Investment Scheme.
5. Perennial crops cultivation project

In addition to common banking activities, plans are underway to start a number of special schemes in the year 2007.

- ◆ The bank in coordination with the University of Ruhuna, Chamber of Commerce in Matara District, Institute of Post Harvest Technology, Southern Development Authority will invest Rs 100 Million to establish an Agricultural Development Resources Centre in the premises of University of Ruhuna. All necessary discussions have been held to start 3 projects to engage 1500 families in Matara, Kamburupitiya and Suriyawewa areas in agriculture.
- ◆ Discussions are also taking place to provide necessary facilities to benefit those engage in the footwear industry and a loan project will be implemented to facilitate 1000 small scale self employed businessmen selected by the Footwear Manufacturers Association.
- ◆ The bank started providing micro finance facilities as a policy recently. Under this project an amount less than one million rupees will be available to successful businessmen to develop their business and reach a satisfactory level. This project would in fact support and upgrade the status of Samurdhi recipients.

The Government by a budget proposal has pledged to merge the Small and Medium scale Enterprise Bank (SME Bank) , National Development Trust Fund (NDTF) and the Private Sector Infrastructure Development Company Ltd (PSIDC) with the Lankaputhra Development Bank to establish a single institutionally strong Government owned development bank.

During the current period due to careful management policies, our bank has recorded a marginal profit. However with the expansion of banking activities, lending at very low rates and slow deposit mobilization a drop in income is envisaged. With the emphasis by the Government institutions to maximize higher returns for their savings, our bank will be hampered in harnessing large deposits from the market.

However, with the envisaged merger of the SME Bank, NDTF and the PSIDC there is hope to increase our capital base and serve the country in a positive and progressive manner.

“Peace” being the foremost in everyone’s mind we are looking towards a lasting solution to take forward the development activities earmarked by our bank towards a better “ Sri Lanka”. Whilst we stand to support the development activities enumerated in the Mahinda Chinthana by His Excellency the President Mahinda Rajapaksa, we are confident that the principle activities of the bank will be carried out professionally with our staff whose dedication towards servicing the country has been a source of strength.



We are also thankful to the Secretary to the Treasury and his team including Dr. Damitha de Zoysa, Director General Department of Development Finance for the continuous encouragement and guidance. Our Sincere gratitude to our Chairman Mr. A de Vass Gunawardena for his constant presence and drive for steering the bank from the inception and sharing his wealth of experience with us. A special thank you to Mr M.P.T.Cooray former General Manager / Chief Executive Officer who has retired from the bank 's services for his untiring efforts in formulating policy and special commitment for the smooth formation of the bank and its branches. We also thank our Board of Directors who have taken a proactive role and for their constant inputs to the progress of the Bank.

(Sgd.)

Mrs. Siromi Wickramasinghe
General Manager/Chief Executive Officer

09th May 2007



A. de Vass Gunawardena

B.A.(Ceylon)

Chairman

Appointed as Chairman, Lankaputhra Development Bank Limited in February 2006.

Mr. Gunawardena has served as Chairman of several key public sector institutions including Sri Lanka Ports Authority, Board of Investment of Sri Lanka, National Development Bank and State Pharmaceuticals Corporation.

P. Amarasinghe

B.A.(Hons), M.A.(Econ), Mc. Master Canada, FIB(Sri Lanka),FCDAS (Mc.Gill Canada)

Director

Appointed as a Director, Lankaputhra Development Bank Limited in February 2006.

Mr.Amarasinghe was also a former Deputy Governor of Central Bank of Sri Lanka and presently serves as a Board member of several private and public Sector Institutions.

M.P.T. Cooray

B.A.(Hons), B.Phil.(International Economics.)

Director

Appointed as a Director, Lankaputhra Development Bank Limited in February 2006.

Mr. Cooray has served as Director General in Department of Budget Implementation of the Ministry of Finance & Planning and Deputy Director General of Board of Investments of Sri Lanka.

S.S.C. De Silva

A.C.C.A.

Director

Appointed as a Director, Lankaputhra Development Bank Limited in February 2006.

Mr. Silva is the Chairman of International Foodstuff Co. (Pvt) Limited, and the incumbent President of Sri Lanka Fruit and Vegetable Producers, Processors & Exporters Association.

Ms. M. Ganagatharan

B.A.(Jaffna), P.G.Dip.(Moratuwa & IDEAS-Japan),M.A.(Leeds-UK)

Director

Appointed as a Director, Lankaputhra Development Bank Limited in February 2006.

Ms. Gangatharan is the Deputy Director – Department of National Budget of the Ministry of Finance & Planning and also serves as a board member of the Road Development Authority.

H.M. Gunasekara

B.A.(Hons), P.G.Dip.(Population Studies - Colombo), M.Sc.(University of Hague-Netherlands)

Director

Appointed as a Director, Lankaputhra Development Bank Limited in February 2006.

Mr. Gunasekara is the Additional Director General – Department of Development Finance of the Ministry of Finance & Planning. He also serves as a board member of Sri Lanka Rupavahini Corporation, National Development Trust Fund and Maturata Plantations Limited.

COMPANY SECRETARY

Mrs. Karnika Jayatilake

B.A. (Col), LL.M (UK), Attorney-at-Law

The Directors of the Lankaputhra Development Bank have pleasure in submitting their Report and the Audited Financial Statements for the year ended 31st December 2006.

REVIEW OF THE YEAR

The Chairman's Message together with the Chief Executive Officer's Message on pages 5 to 9 respectively, deals with the overall activities of the Bank during the period under review. These reports form an integral part of the Directors Report.

PRINCIPAL ACTIVITIES

The principal activities of the Bank continues to be banking related activities. The Bank's core activity is development lending. The Bank provides finance by way of project loans and working capital loans for projects that generate additional employment opportunities and facilitates economic activities more particularly in the less developed areas of the country. The Bank is also engaged in mobilization of savings and term deposits.

PROFITS AND APPROPRIATIONS

	2006
	LKR
Profit for the year ended 31st December before taxation after charging	
All expenses including depreciation etc.	51,685,858
Provision for Taxation	28,370,797
Profit for the year ended 31st December after taxation, after charging	
All expenses including depreciation etc.	23,315,061
Transferred to Reserve Fund	(1,165,753)
Retained profit at the beginning of the year	-
Retained profit to be carried forward	22,149,308

CAPITAL EXPENDITURE

The details of Property, Plant & Equipment are given in note 11 to the Financial Statements.

SHARE CAPITAL

The issued and paid up Share Capital of the Company were LKR 1,500,000,000/= consisting of 15,000,000 ordinary shares of LKR 100/= each as at 31st December 2006. There were seven shareholders holding ordinary voting shares.

HUMAN RESOURCES

The Bank implements appropriate human resource management policies and practices to enhance employee's skills and performance and to ensure optimum contribution to achieve the Bank's goals and objectives.



There were 62 employees serving the Bank as at 31st December 2006.

Grade	No. of Staff
General Manager	1
Asst. General Manager	3
Senior Manager	2
Manager	6
Assistant Manager	7
Executive Staff	16
Non-Executive Staff	9
Secretaries and other support staff	18

DIRECTORATE

The Board of Directors of Lankaputhra Development Bank Limited comprises of six directors, including two members representing the Ministry of Finance. The entire Board of Directors were appointed by the Secretary to the Treasury on behalf of the Government of Sri Lanka.

DIRECTORS INTEREST IN SHARES AS AT 31ST DECEMBER 2006

Name of the Director		No. of Ordinary Shares
Mr. A de Vass Gunawardena	Chairman	1
Mr. M P T Cooray	Director	1

Directors shareholdings have not changed subsequent to the date of the Balance Sheet up to Report date.

DIRECTORS' INTEREST IN CONTRACTS

Directors' interest in contracts or proposed contracts with the Bank both direct and indirect are disclosed in note 20 to the financial statements. These interests have been declared at the Directors' meetings and Directors have refrained from voting on matters which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

POST BALANCE SHEET EVENTS

The post balance sheet events are disclosed under note 22 to the financial statements. No events have been taken place which requires any adjustments or disclosures other than the above.

RE-APPOINTMENT OF AUDITORS

The financial statements for the year ended 31st December 2006 have been audited by Messrs Ernst & Young, Chartered Accountants who offer themselves for re-appointment. The Audit Committee and Directors of the Bank recommended their re-appointment. In Accordance with the Companies Act No. 17 of 1982, a resolution will be proposed at the forthcoming Annual General Meeting.

BY ORDER OF THE BOARD

(Sgd)

Mrs. Karnika Jayatilake
Company Secretary

Colombo
09th May 2007

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

Board of Directors

The Board comprises of 6 Directors including the Chairman. Directors are appointed by the Secretary to the Treasury. The Board of Directors is responsible for directing and controlling the activities of the Bank, which bring value to its shareholder, i.e. the Government.

The Board is responsible for securing good corporate governance and is fully alert to the obligations towards the shareholder and the stakeholders. The Board is committed to ensuring that all the activities of the Bank are carried out in a manner which is transparent being mindful that the Board is acting as trustees for the Government and therefore is accountable to the manner in which public funds are being utilized.

The Board has delegated its authority for day to day management of the Bank to the General Manager/CEO and the performance of the Bank is reviewed by the Board periodically.

Board Meetings

As a practice the Board meets up monthly to discuss Bank matters. In addition, special meetings are also held as and when required. During the year under review, the Board met nine times and the Directors average attendance at Board Meetings was in the region of 85%. Directors are furnished with monthly reports on the performance of the Bank and necessary documents are generally made available for each meeting. Directors also have access to members of the corporate management and services of the Secretary to the Board to facilitate them to discharge their duties.

Corporate Management

The corporate management is headed by the General Manager/CEO, who is accountable to the Board for achieving the corporate objectives of the Bank.

General Manager/Chief Executive Officer

The General Manager/Chief Executive Officer is directly responsible to the Board of Directors and his/her functions and responsibilities include the following;

1. Overall management and operations of the Bank.
2. Liaison with regulatory authorities of the Bank.
3. Ensuring growth of the Bank.
4. Structuring and restructuring of reporting lines and authority levels and their continuous review to make productivity of employees through continuous training and strengthening the responsibility points.
5. Monitoring the treasury functions and assets and liability management operations.
6. Determining the adequacy and effectiveness of the Bank's internal control system and continuously evaluating the operation thereof.

The Board Supervisory Audit Committee

The Board Supervisory Audit Committee consists of 3 Directors. The objectives of this committee are to independently review and evaluate activities of the Bank and to report to the Board of Directors on the Bank's adequacy of internal controls and management of risk.



The role of the committee is,

1. Provide periodic reports to the Board of Directors highlighting the level of business risk and adequacy of internal control systems.
2. To ensure proper processes are maintained to provide timely and accurate financial and related information.
3. Regular evaluation of the achievement of the bank's strategies and corporate objectives.
4. Ensuring adherence to regulatory norms and guidelines.

Meetings are held periodically and attended by the 3 Directors. The General Manager/CEO other Managers, Internal Auditor/Compliance Officer & External Auditors attend by invitation.

The report of the Audit Committee is set out on page 17 of the Annual Report.

Procurement Committee

The Procurement Committee, which is a sub-committee of the Board comprised of 3 directors, had met eight times during the financial year under review.

Members of the Corporate Management and other officers were invited to meetings as and when required. The responsibilities of the committee among others include reviewing matters pertaining to all procurement requirements of the Bank.

Financial Reporting

The financial statements for the year 2006 are prepared and presented by the Board of Directors and are in conformity with the requirements of Sri Lanka Accounting Standards, Companies Act No.17 of 1982, Banking Act No.30 of 1988, Banking Amendment Act No.33 of 1995 and guidelines issued by the Central Bank of Sri Lanka. The bank maintains an effective and comprehensive system of internal control. This includes internal checks and the whole system of financial and other controls required to carry on banking activities in an orderly manner, to safeguard its assets and secure as far as practicable the accuracy and reliability of the records.

Internal Control

The Board is responsible for the operation of an adequate system of internal controls. The Audit Committee oversee the review and assessment of internal controls.

Statutory Payments

The Board is confident that all statutory payments payable by the Bank at the Balance Sheet date have been paid or are provided for.



The responsibilities of the Directors in relation to the financial statements of the Bank differ from the responsibilities of that of external auditors which have been clarified by the external auditors in their report given in page 18 of this document.

The Companies Act No. 17 of 1982 requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year. In preparing the financial statements, appropriate accounting policies have been selected and applied consistently, reasonable and prudent judgments and estimates have been made and applicable accounting standards have been followed.

The Directors are satisfied that proper accounting records have been maintained and reasonable steps have been taken to safeguard assets of the Bank. The Directors are satisfied with the policies and procedures, which have been set up to avoid and detect fraud and errors in the Bank. The Directors continue to adopt the going concern basis in preparing accounts. Review of the existing financial status of the Bank, an in-depth position analysis and a thorough review of the strategic variables and financial and operational budgets indicates that the Bank has adequate resources to continue in business.

BY ORDER OF THE BAORD

(Sgd)
Mrs. Karnika Jayatilake
Company Secretary

Colombo
09th May 2007



We hereby confirm the Compliance of the following by the bank during the period under consideration.

1. All documentary requirements imposed by the companies Act No.17 of 1982 with regard to filing of various returns and documents with Registrar of Companies have been duly completed and compliance has been made with all other legal requirements in connection with the said Companies Act.
2. The Bank has submitted all reports required and requested by Central Bank of Sri Lanka.
3. The Directors to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to the employees have been paid.
4. Complying with the capital measurement and standard of Banking Regulations and supervisory practices committee. (BASEL Committee) the Central Bank of Sri Lanka has made it mandatory for all licensed specialized banks to maintain an amount of minimum capital that could be invested by the shareholders of the Bank. In keeping with current international practices, and the requirements as per the Central Bank of Sri Lanka, the minimum capital adequacy standard to be achieved is a risk weighted asset ratio of 10% with core capital constituting not less than 5%.

Bank's Capital Adequacy ratio is 229% for Tier 1 and Tier 2. This is above the minimum requirements of Central Bank of Sri Lanka.

(Sgd)
Ranil Satharasinghe
Compliance Officer

Colombo
09th May 2007



The Audit Committee comprises 3 Directors. The General Manager/CEO, Internal Auditor, other Managers and external Auditors attend by invitation.

The Audit Committee is empowered to examine the adequacy and effectiveness of Internal Control Systems, assess compliance with regulatory requirements, review the statutory accounts and published financial statements, and consider contents of Internal Audit Report.

The Audit Committee reviews Internal Audit Reports and consider of findings, recommendations and corrective action taken by Management to overcome the noted deficiencies, with a view to managing significant business risks and improving controls. The Committee also advises all levels of management and the Board of Directors on the Bank's system of internal controls and the management risk.

Audit Committee also liase with External Auditors and follows up on External Auditors' Management Letters.

The Committee is of the view that adequate controls and procedures are in place and improvements are being persued to provide reasonable assurance to the Directors that the Bank's assets are safeguarded and the results disclosed in the Accounts are free from material misstatements.

The Audit Committee has recommended to the Board that, Messrs Ernst & Young be re-appointed as Auditors for the year ending 31st December 2007 subject to the approval of shareholders at the Annual General Meeting.

(Sgd.)
S.S.C. de Silva
Chairman - Audit Committee

Colombo
09th May 2007



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

■ Telephone : (0) 11 2463500
Fax Gen : (0) 11 2697369
Tax : (0) 11 5578180
E-Mail : eysl@lk.ey.com

GSM/DKD/JJ

AUDITORS' REPORT TO THE MEMBERS OF LANKAPUTHRA DEVELOPMENT BANK LIMITED

We have audited the Balance Sheet of Lankaputhra Development Bank Limited as at 31 December 2006 and the related Statements of Income, Cash Flows and Changes in Equity for the period from 13 March 2006 to 31 December 2006 then ended, together with the Accounting Policies and Notes as set out on pages 19 to 34

Respective Responsibilities of Directors and Auditors

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

Basis of Opinion

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

Opinion

In our opinion, so far as appears from our examination, the Bank has maintained proper books of account for the period ended 31 December 2006, and to the best of our information and according to the explanations given to us, the said Balance Sheet and related Statements of Income, Cash Flows and Changes in Equity 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 amendments thereto, and give a true and fair view of the Bank's state of affairs as at 31 December 2006 and of its profit and cash flows for the period then ended.

Directors' Interests in Contracts with the Bank

According to the information made available to us, the Directors of the Bank were not directly or indirectly interested in contracts with the Bank during the period ended 31 December 2006 except as stated in Note 20 to these financial statements.

Colombo,
16 March, 2007

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



		From 13 March 2006 to 31 December 2006 Rs.
GROSS INCOME	1	<u>158,317,503</u>
Interest Income	2	156,240,041
Interest Expense	3	<u>(14,088,931)</u>
NET INTEREST INCOME		142,151,110
Fees and Commission Income		2,077,462
Other Operating Income		<u>133,945</u>
NET INCOME		<u>144,362,517</u>
Less: Operating Expenses		
Personnel Costs		18,680,563
Premises, Equipment and Establishment Expenses		26,782,527
Other Operating Expenses		34,704,669
General Provision for Loan Losses		427,108
		<u>80,594,867</u>
Profit from Operating Activities	4	63,767,650
Less: Value Added Tax		12,081,792
Profit before Taxation		<u>51,685,858</u>
Less: Taxation	5	<u>28,370,797</u>
PROFIT FOR THE PERIOD ATTRIBUTABLE TO ORDINARY SHARE HOLDERS		<u>23,315,061</u>
Earnings per Share - Basic	6	<u>1.55</u>

The Notes to the Financial Statements from pages 23 to 34 form an integral part of these Financial Statements.

Colombo
16 March, 2007



	Note	As at 31 December 2006 Rs.
ASSETS		
Cash and Short Term Funds	7	273,704,935
Government Treasury Bills	8	1,358,596,662
Loans and Advances	9	427,359,170
Other Assets	10	24,378,620
Property, Plant & Equipment	11	48,398,886
Total Assets		2,132,438,273
LIABILITIES		
Deposits	12	259,356,276
Due to Banks		3,551,555
Other Liabilities	13	344,916,461
Deferred Liabilities	14	1,298,919
Total Liabilities		609,123,212
SHAREHOLDERS' FUNDS		
Share Capital	15	1,500,000,000
Reserve Fund	16	1,165,753
Reserves	17	22,149,308
Total Shareholders' Funds		1,523,315,061
Total Liabilities and Shareholders' Funds		2,132,438,273
Commitments and Contingencies	18	150,695,706

The Board of Directors is responsible for the preparation and presentation of these Financial Statements.

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

(Sgd)
A. de Vass Gunawardena
Chairman

(Sgd)
M. P. T. Cooray
Director

The Notes to the Financial Statements from pages 23 to 34 form an integral part of these Financial Statements.

Colombo
16 March, 2007

STATEMENT OF CHANGES IN
Equity
 Period ended 31 December 2006



	Note	Share Capital Rs.	Reserve Fund Rs.	Reserves Rs.	Total Rs.
Balance as at the beginning of the Period		-	-	-	-
Issue of Share capital	15	1,500,000,000	-	-	1,500,000,000
Net Profit for the period		-	-	23,315,061	23,315,061
Transfers during the period	17	-	1,165,753	(1,165,753)	-
Balance as at 31 December 2006		<u>1,500,000,000</u>	<u>1,165,753</u>	<u>22,149,308</u>	<u>1,523,315,061</u>

The Notes to the Financial Statements from pages 23 to 34 form an integral part of these financial Statements.

Colombo
 16 March, 2007



CASH FLOW
Statement

Period ended 31 December 2006

	From 13 March 2006 to 31 December 2006 Rs.
Cash Flow from Operating Activities	
Interest Received	93,303,497
Fees and Commission Received	2,077,462
Exchange Gain	133,945
Interest Paid	(1,762,810)
Payments to Employees and Suppliers	(69,707,254)
Net Cash flow from Operating Activities before Income Tax (A)	<u>24,044,840</u>
Income Tax paid	(14,159,396)
Operating Profit before Changes in Operating Assets and Liabilities	<u>9,885,444</u>
(Increase)/Decrease in Operating Assets	
Treasury Bill Investments	(1,304,000,522)
Loans & Advances	(425,360,081)
Other Assets	(18,464,412)
	<u>(1,747,825,015)</u>
Increase/(Decrease) in Operating Liabilities	
Customer Deposits	259,356,276
Other Liabilities	299,759,727
	<u>559,116,003</u>
Net Cash Flow from Operating Activities	<u>(1,178,823,568)</u>
Cash Flows from Investing Activities	
Purchase of Property, Plant & Equipment	(51,023,052)
	<u>(51,023,052)</u>
Cash Flows from Financing Activities	
Issue of Ordinary Shares	1,500,000,000
	<u>1,500,000,000</u>
Net Increase in Cash & Cash Equivalents	<u>270,153,380</u>
Cash and Cash Equivalents at the end of the period	<u>270,153,380</u>
Reconciliation of Cash & Cash Equivalents	
Cash in Hand	497,035
Balances with Banks	1,461,560
Money at Short Notice	268,194,785
	<u>270,153,380</u>
A. Reconciliation of Profit before Taxation	
Profit before taxation	51,685,858
Depreciation	2,624,166
Provision for Doubtful Debts	427,108
(Increase) /decrease in Interest Receivable	(62,936,544)
Increase / (Decrease) in Interest Payables	12,326,120
Increase / (Decrease) Other Creditors	19,918,132
	<u>24,044,840</u>

The Notes to the Financial Statements from pages 23 to 34 form an integral part of these Financial Statements.



1. CORPORATE INFORMATION

1.1. General

Lankaputhra Development Bank Limited (the 'Bank') is a licensed specialized bank established under the Banking Act No. 30 of 1988. It is a public limited liability company, incorporated and domiciled in Sri Lanka. The registered office of the Bank is located at No. 34, Maitland Crescent, Colombo 07.

The Financial Statements of Lankaputhra Development Bank Ltd., for the period from 13 March to 31 December 2006 were authorised for issue in accordance with the resolution of the Board of Directors on 16 March, 2007.

1.2. Principal Activities

The Bank provides a range of financial services including the acceptance of savings and term deposits, financing project loans and short term working capital requirements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of Preparation

The Financial Statements of the Bank have been prepared on a historical cost basis. No adjustments have been made for inflationary factors affecting these Financial Statements. These Financial Statements are prepared and presented in Sri Lankan Rupees.

2.1.1 Statement of Compliance

The Financial Statements of the Bank have been prepared in accordance with the Sri Lanka Accounting Standards (SLAS).

2.1.2 Format of Financial Statements

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

2.2 Foreign Currency Translation

The financial statements are presented in Sri Lankan Rupees, which is the Bank's functional and presentation currency. All foreign exchange transactions are converted to Sri Lankan Rupees, at the spot rate prevailing on the date the transactions were effected. Monetary assets and liabilities denominated in foreign currencies are translated to Sri Lankan Rupee equivalents using year-end foreign exchange rates. The resulting gains and losses are accounted for in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated to Sri Lankan Rupees using the exchange rates as at the dates of the initial transactions.

2.3 Going Concern

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

2.4 Taxation

(a) Income Tax

The provision for income tax is based on the elements of the income and expenditure as reported in the financial statements and computed in accordance with the provisions of the Inland Revenue Act.



Income tax liabilities for the current period are measured at the amount expected to be paid to the taxation authority in accordance with the provisions of the Inland Revenue Act No. 10 of 2006.

Income tax on profit from the operations is calculated at the rate of 35%.

(b) Deferred Income Tax

Deferred income tax is provided using the liability method on temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- Where the deferred income tax liability arises from initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- where the deferred income tax asset relating to the deductible temporary difference arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on the tax rates and tax laws that have been enacted or subsequently enacted as at the balance sheet date.

Deferred income tax relating to items recognised directly in equity is recognised in the equity statement and not in the income statement.



Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relates to the same taxable entity and the same taxation authority.

(c) Value Added Tax

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

(d) Social Responsibility Levy

As per the provisions of the Finance Act, No. 5 of 2005, as amended by the Finance Act No 11 of 2006, Social Responsibility Levy (SRL) was introduced with effect from 01 January 2005. SRL is payable at the rate of 1% on all taxes and levies chargeable as specified in the First Schedule of the Act.

2.5 Events after the Balance Sheet Date

All material events occurring after the balance sheet date are considered and appropriate adjustments and /or disclosures have been made in the financial statements, where necessary.

2.6 Valuation of Assets and their Measurement Bases

2.6.1 Investments

a) Investments in Treasury Bills held to Maturity

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

b) Securities purchased under Re-sale Agreements (Reverse Repurchase Agreements)

These are advances collateralized by purchase of treasury bills and treasury bonds subject to a commitment to re-sale them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid and interest accrued thereon.

2.6.2 Loans and Advances to Customers

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

(b) Specific provisions for possible loan losses are made on the basis of a continuous review of all advances to customers in accordance with SLAS-23 on Revenue Recognition & Disclosures in the Financial Statements of Banks and the guidelines issued by the Central Bank of Sri Lanka as follows;

Period Outstanding	Classification	Provision made net of realizable value of securities
6 to 12 Months	Substandard	20%
12 to 18 Months	Doubtful	50%
Over 18 Months	Loss	100%



- (c) A 0.1% general provision is maintained on the performing loans and advances, in addition to the specific provision, as required by the Central Bank of Sri Lanka in their direction dated 21, November 2006.

2.6.3. Property, Plant & Equipment

(a) Freehold Assets

Property, Plant and Equipment is stated at cost, excluding the costs of day to day servicing, less accumulated depreciation. Such cost includes the cost of replacing part of the plant and equipment when that cost is incurred, if the recognition criteria are met.

(b) Depreciation

Depreciation is calculated on all assets on a straight line basis over the useful life of the assets as given below.

Lease hold Improvements	15 years
Motor vehicles	05 years
Office & Electrical Equipment	10 years
Computer Software & Equipment	05 years
Furniture & Fittings	10 years

(c) Derecognition

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the income statement in the year the asset is derecognised.

- (d) The assets residential values, useful lives and method of depreciation are reviewed, and adjusted if appropriate, at each financial period end.

2.7 Provisions & Liabilities

2.7.1 Provisions

Provisions are recognised when the Bank has a present obligation (legal or constructive) as a result of past event, its probable that an out flow of resources embodying economic benefit will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

2.7.2 Commitments and Contingencies

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

2.7.3 Retirement Benefit Obligations

(a) Defined Benefit Plan - Gratuity

Gratuity is a Defined Benefit Plan. The Bank is liable to pay gratuity in terms of the relevant statute. In order to meet this liability a provision is carried forward in the Balance Sheet, equivalent to an amount calculated based on a half month's salary as of the last month of the financial year of all employees for each completed year of service, commencing from the first year of service. The gratuity liability is not externally funded or actuarially valued. However no liability has recorded in the balance sheet as no employee has completed one year of service.



(b) Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund and Employees' Trust Fund contributions in line with respective statutes and regulations. The Bank contributes to the Employees' Provident Fund and the Employees' Trust Fund 15% and 3% respectively.

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

2.8 Revenue Recognition

(a) Interest Income from customer advances

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks and the guidelines issued by the Central Bank of Sri Lanka, interest receivable is recognised on an accrual basis. Interest ceases to be taken into revenue when the recovery of interest or principal is in arrears for over three (3) months and interest accrued until such advances being classified as non-performing are also eliminated from interest income and transferred to interest in suspense. The interest income on non-performing advances is recognised on a cash basis.

(b) Fees and Commission Income

Fees and commission income comprise mainly of fees receivable from customers for guarantees and letter of credit facilities provided by the Bank. Such income is recognized as revenue as the services are provided.

(c) Other Income

Other income is recognized on an accrual basis.

2.9 Expenses

Interest Expenses and Other Expenses

Interest payable is recognized on an accrual basis. Other expenses are recognized in the financial statements, in the period to which they relate.

2.10 Cash Flow Statement

The Cash Flow Statement has been prepared by using the "Direct Method" whereby gross cash receipts and gross cash payments of operating activities, finance activities and investing activities have been recognized. Cash and cash equivalents comprise mainly of cash balances, net of bank overdrafts for the purpose of cash flow.

2.11 Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these financial statements.



	From 13 March 2006 to 31 December 2006 Rs.
1. GROSS INCOME	
Interest Income	156,240,041
Fees and Commission Income	2,077,462
	<u>158,317,503</u>
2. INTEREST INCOME	
Customer Advances	9,397,853
GOSL Treasury Bills	141,138,608
Other Interest Income	5,703,580
	<u>156,240,041</u>
3. INTEREST EXPENSE	
Customer Deposits	14,088,931
	<u>14,088,931</u>
4. PROFIT BEFORE TAXATION	
Is stated after charging the following among others;	
Directors' Emoluments	1,405,000
Audit Fees	90,000
<i>Staff Cost Includes</i>	
Defined Contribution Plan Cost - EPF & ETF	2,229,208
Depreciation	2,624,166
Legal Expenses	180,750
Provision for Bad & Doubtful Debts	427,108
Donations	56,598
Business Promotion & Advertising	33,751,382
	<u>33,751,382</u>
5. TAXATION	
Income Tax on Profit for the period (5.1)	27,071,878
Charge/(Reversal) of Deferred Tax (Refer Note 14.1)	1,298,919
	<u>28,370,797</u>
5.1 Reconciliation of Accounting Profit and Taxable Income	
Accounting Profit before Taxation	63,767,650
Disallowable Expenses	19,410,113
	<u>83,177,763</u>
Less: Allowable Expenses	(6,595,365)
Taxable Income / (Loss)	<u>76,582,398</u>
Income Tax Expense	26,803,839
Social Responsibility Levy (SRL) @ 1%	268,038
	<u>27,071,878</u>
Effective Income Tax Rate	<u>42.45%</u>



6. EARNINGS PER SHARE

Basic Earnings Per Share is calculated by dividing the net profit for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

	From 13 March 2006 to 31 December 2006 Rs.
Amount Used as the Numerator:	
Net Profit Attributable to Ordinary Shareholders	23,315,061
Number of Ordinary Shares Used as the Denominator:	
Weighted Average Number of Ordinary Shares in issue	15,000,000
Earnings per Ordinary Share	1.55
	As at
	31.12.2006
	Rs.
7. CASH AND SHORT TERM FUNDS	
Cash in Hand	497,035
Balances with Banks	5,013,115
Money at Short Notice	268,194,785
	<u>273,704,935</u>
8. GOVERNMENT TREASURY BILLS	
Govt. Treasury Bills held to Maturity	1,254,181,153
Treasury Bills under Reverse Repo's	104,415,509
	<u>1,358,596,662</u>
9. LOANS AND ADVANCES	
Working Capital Loans	187,035,549
Term Loans	216,608,969
Short Term Loans	24,141,760
	<u>427,786,278</u>
Less:	
Loan Loss Provision	427,108
	<u>427,359,170</u>

9.1 Movement in the Provision for Bad & Doubtful Debts & Suspended Interest

	Provision Against Loans and Advances			Suspended Interest
	Specific	General	Total	
	Rs.	Rs.	Rs.	Rs.
As at the beginning of the period	-	-	-	-
Provision made during the period	-	427,108	427,108	-
As at the end of the period	<u>-</u>	<u>427,108</u>	<u>427,108</u>	<u>-</u>



9.2 Concentration of Credit Risk

Analysis of the Bank's Advances portfolio reflecting the exposure to credit risk in various sectors of the economy is detailed below.

Bank Sector	2006	
	Rs.	%
Agriculture and Fishing	42,945,308	10
Manufacturing	226,580,267	53
Tourism	5,028,519	1
Transport	2,972,106	1
Traders	2,430,450	1
Financial and Business services	92,398,942	22
Other Services	55,430,685	13
	<u>427,786,278</u>	<u>100</u>

10. OTHER ASSETS

As at
 31.12.2006
 Rs.

Interest Receivable	5,914,208
Deposits and Prepayments	18,464,412
	<u>24,378,620</u>

11. PROPERTY, PLANT & EQUIPMENT

11.1 Gross Carrying Amounts	Balance	Additions	Disposals	Balance
	as at the			during the
At Cost	beginning of	period	period	of the period
	the period			
	Rs.	Rs.	Rs.	Rs.
Lease Hold Improvements	-	12,262,928	-	12,262,928
Motor Vehicles	-	11,858,650	-	11,858,650
Office & Electrical Equipment	-	6,961,633	-	6,961,633
Computer Software & Equipment	-	17,558,678	-	17,558,678
Furniture & Fittings	-	2,381,163	-	2,381,163
Total Value of Depreciable Assets	<u>-</u>	<u>51,023,052</u>	<u>-</u>	<u>51,023,052</u>
11.2 Depreciation	Balance	Charge	Disposals	Balance
At Cost	as at the			for the
	beginning of	period	period	of the period
	the period			
	Rs.	Rs.	Rs.	Rs.
Lease Hold Improvements	-	372,508	-	372,508
Motor Vehicles	-	814,569	-	814,569
Office & Electrical Equipment	-	259,088	-	259,088
Computer Software & Equipment	-	1,091,997	-	1,091,997
Furniture & Fittings	-	86,004	-	86,004
Total Depreciation	<u>-</u>	<u>2,624,166</u>	<u>-</u>	<u>2,624,166</u>
11.3 Net Book Value				
At Cost	<u>-</u>			<u>48,398,886</u>



12. DEPOSITS	As at 31.12.2006
12.1 Analysis of Deposits	Rs.
Savings Deposits	15,857,276
Time Deposits	243,499,000
	259,356,276
	259,356,276
12.2 Sources of Deposits	
Deposits from Non Banking Customers	159,356,276
Deposits from Other Banks	100,000,000
	259,356,276
	259,356,276
13. OTHER LIABILITIES	
Accrued Expenditure	7,836,339
Interest Payable	12,326,120
Amounts due to Related Parties	299,759,727
Tax Payable	24,994,275
	344,916,461
	344,916,461
14. DEFERRED LIABILITIES	
Deferred Taxation (14.1)	1,298,919
	1,298,919
	1,298,919
14.1 Deferred Taxation	
Balance as at the beginning of the period	–
Charge/(Reversal) made during the period	1,298,919
	1,298,919
	1,298,919
14.2 Deferred Tax Liability	
Accelerated depreciation allowances for tax purposes (Property, Plant & Equipment)	1,298,919
	1,298,919
	1,298,919



	As at 31.12.2006 Rs.
15. SHARE CAPITAL	
15.1 Authorised	
30,000,000 Ordinary Shares of Rs. 100/- each	<u>3,000,000,000</u>
Issued and Fully Paid	
Issue of 15,000,000 Shares at Rs 100/= each for Cash Consideration	1,500,000,000
As at the end of the period	<u>1,500,000,000</u>
15,000,000 Ordinary Shares of Rs. 100/- each	<u>1,500,000,000</u>
16. RESERVE FUND	
As at the beginning of the period	-
Transferred during the period	<u>1,165,753</u>
As at the end of the period	<u>1,165,753</u>

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

17. RESERVES

17.1 Revenue Reserves

As at the beginning of the period	-
Profit for the period	23,315,061
Transfers to Reserve Fund during the period	<u>(1,165,753)</u>
As at the end of the period	<u>22,149,308</u>

18. COMMITMENTS AND CONTINGENCIES

18.1 Contingencies

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

	Rs.
Documentary Letters of Credits	- 127,634,786
Guarantees	- <u>23,060,920</u>
	- <u>150,695,706</u>

18.2 Capital Commitments

The Company has a purchase commitment for acquisition of Property incidental to the ordinary course of business as at 31 December 2006, as follows.

Contracted but not Provided for	<u>5,000,000</u>
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18.3 Litigation against the Bank

Lankaputhra Rubber Industries (Pvt) Limited have filed an action against the Bank for alleged infringement of the provisions of the Intellectual Property Act No. 36 of 2003 relating to the use of trademark/trade name "Lankaputhra" and has claimed damages of Rs. 100 Mn. No provision has been made in the Financial Statements in this regard since the Bank's Management is confident that the court decision will be in favour of the Bank.



19. ASSETS PLEDGED

The following assets have been pledged as security for liabilities.

Nature of assets	Nature of Liability	Carrying Amount Pledged As At 31 December 2006 Rs.	Included under
Investments in Treasury Bills	Mortgage for the Letter of Credit and Guarantee Facilities	188,369,632	Government Treasury Bills

20. DIRECTORS' INTEREST IN CONTRACTS WITH THE BANK

Mr. A de Vass Gunawardena (Chairman), Mr. M.P.T. Cooray, Mr. H.M. Gunasekara, Mr. P. Amarasinghe, Mr. S.S.C. De Silva and Ms. M. Gangatharan were appointed to the Board of Directors with effect from 28 February, 2006.

The Bank carried out following transactions with the following director related entities;

Name of Related Party	Name of Director	Relationship	Nature of Transaction	Balance outstanding As At 31.12.2006 (Rs)
Private Sector Infrastructure Development Company Limited (PSIDC)	Mr. A de Vass Gunawardena	Chairman	Loan obtained	258,450,000
	Mr. M.P.T. Cooray	Director	Refurbishment Expenditure	
	Mr. H.M. Gunasekara	Director	Incurred on behalf of the Bank	11,977,018
	Mr. P. Amarasinghe	Director		
	Mr. S.S.C. De Silva	Director	Amounts collected on behalf of PSIDC	19,042,625
	Ms. M. Gangatharan	Director		

21. RELATED PARTY TRANSACTIONS

21.1 Compensation to Key Management Personnel (*)

	Amount during the period (Rs.)
Emoluments / Fees	2,605,000
Total compensation paid to key management personnel	2,605,000

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

21.2 The Bank had the under mentioned financial dealings during the period in the ordinary course of business on commercial terms and conditions with the following related parties.

Name of Related Party	Nature of Transaction	Balance outstanding 31.12.2006 (Rs.)
Ceylon Electricity Board / National Water Supply & Drainage Board	Utility payments of Rs. 427,609/- Placing of Refundable Deposits of Rs. 140,000	167,158 140,000
Bank of Ceylon	Net Investments	105,877,069
Other State Institutions	Off Balance Sheet Accommodations Term Deposits	150,695,706 126,800,000

22. POST BALANCE SHEET EVENTS

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



23. MATURITY ANALYSIS

Assets	upto 3 Months Rs.'000	3 to 12 Months Rs.'000	1 - 3 Years Rs.'000	3 - 5 Years Rs.'000	Over 5 Years Rs.'000	Total Rs.'000
Interest Bearing Assets						
Treasury Bills & Treasury Bills under						
Reverse Repo's	1,358,597	-	-	-	-	1,358,597
Due from Banks	273,208	-	-	-	-	273,208
Loans & Advances	14,242	14,263	4,708	204,930	189,216	427,359
	<u>1,646,046</u>	<u>14,263</u>	<u>4,708</u>	<u>204,930</u>	<u>189,216</u>	<u>2,059,164</u>
Non-Interest bearing Assets						
Cash & Short Term Funds	497	-	-	-	-	497
Other Assets	16,549	2,988	27	1,163	3,651	24,378
Property, Plant & Equipment	-	-	-	-	48,399	48,399
	<u>17,046</u>	<u>2,988</u>	<u>27</u>	<u>1,163</u>	<u>52,050</u>	<u>73,274</u>
Total Assets	<u>1,663,093</u>	<u>17,251</u>	<u>4,735</u>	<u>206,093</u>	<u>241,266</u>	<u>2,132,438</u>
Liabilities						
Interest Bearing Liabilities						
Deposits	43,752	204,854	10,750	-	-	259,356
	<u>43,752</u>	<u>204,854</u>	<u>10,750</u>	<u>-</u>	<u>-</u>	<u>259,356</u>
Non-Interest bearing liabilities						
Due to Banks	3,551	-	-	-	-	3,551
Other Liabilities	35,881	10,064	511	-	299,760	346,216
Share Capital	-	-	-	-	1,500,000	1,500,000
Reserves	-	-	-	-	23,315	23,315
	<u>39,432</u>	<u>10,064</u>	<u>511</u>	<u>-</u>	<u>1,823,075</u>	<u>1,873,082</u>
Total Liabilities	<u>83,184</u>	<u>214,918</u>	<u>11,261</u>	<u>-</u>	<u>1,823,075</u>	<u>2,132,438</u>

Year Ended 31st December

2006

Profit Performance

Income	158,317,503
Interest Income	156,240,041
Interest Expenses	(14,088,931)
Net Interest Income	142,151,110
Other Income	2,211,407
Operating Expenses	80,594,867
Profit from Operating Activities	63,767,650
Financial Services Value Added Tax	12,081,792
Net Profit before tax	51,685,858
Income tax on Profit	28,370,797
Net Profit after tax	23,315,061

Assets

Cash in hand/Short Term Funds	273,704,935
Government Treasury Bills	1,358,596,662
Loans & Advances	427,359,170
Other Assets	24,378,620
Property Plant and Equipment	48,398,886
Total Assets	2,132,438,273

Liabilities

Deposits	259,356,276
Due to Banks	3,551,556
Other Liabilities	344,916,461
Deferred Liabilities	1,298,919
Total Liabilities	609,123,212

Shareholders' Funds

Share Capital	1,500,000,000
Reserve Fund	1,165,753
Revenue Reserves	22,149,308
Total Shareholders' Funds	1,523,315,061

Total liabilities and total Shareholders' Funds

2,132,438,273

Ratios (%)

Growth of Income	100%
Growth of Deposits	100%
Growth of Advances	100%
Liquid Assets Ratio	671%
Capital Adequacy Ratio - (Tier 1/ Tier 2)	229%



SIGNIFICANT RISKS ASSOCIATED WITH THE *Bank Operations*

Overview

Awareness, evaluation and efficient management of risks can be described as one of the highest priorities of a successful bank. Accordingly they constitute the central philosophy of the Board of Directors and the corporate management of the Lankaputhra Development bank in the conduct of risk related operations.

The socio political changes which have taken place over the past several years have significantly influenced the behavior of the country's economy which in turn has affected the operations of banking sector. It is in this context that we view the task of successful risk management as minimization of losses arising from risk related transactions both direct and indirect.

Many of the risks inherent in development banking are universal in nature. They are,

Interest Rate Risk

Interest rate risk is caused by adverse movement in the general interest rate levels. This risk is continuously monitored by the Lankaputhra Development Bank controlling the gap between rate sensitive assets and liabilities. The bank's exposure to interest rate risk is limited as a substantial portion of its assets and liabilities reprised regularly. Management formulates policies and procedures to minimize the adverse impact on the bank's earnings due to interest rate movements.

Liquidity Risk

Liquidity risk management aims to ensure the availability of sufficient cash flows to meet all financial commitments of the bank while capitalizing on opportunities for expansion and profit. Lankaputhra Development Bank has invested in GOSL securities such as treasury bills, repurchase agreements which can be readily converted to cash if and when necessity arises. Lankaputhra Development Bank maintains the liquidity standards required by the Central Bank of Sri Lanka.

Credit Risk

Credit Risk management is one of the key aspects of the bank's overall risk management strategy. The risk of a borrower not making timely payments of principal or interest is inherent to any lending transaction and the bank is well geared to project, measure and mitigate any loss that could arise due to default.

Fundamentals to the credit risk management process are the bank's credit policies laid down by the Board of Directors which are based on good development lending and strategies for credit growth. These policies define risk parameters and are periodically reviewed taking into account the changing operating environment and industry concerns.

The comprehensive and efficient credit evaluation mechanism which is in place can be described as the foundation of our credit risk management process. Detailed risk analysis as well as assessment of future repayment capacity is done on credit client requirements to enable the bank to minimize credit risks whilst offering total banking solutions. Monitoring of credit portfolio in terms of geographical region, industry sector and single client and group exposure levels are carried out continuously in order to minimize concentrations.



Legal Risk

Legal risk arise from uncertainties on the legal enforceability of the obligations of customers and counter parties to the bank as well as possibility of legal and regulatory changes that may affect the bank's position. We seek to minimize legal risks through our internal and external legal counsels and the use of industry standard agreements for financial products where applicable. In order to ensure that Lankaputhra Development Bank not only as a bank but also as an employer and public company and a tax payer complies with necessary legal requirements, monitoring is done at the highest level.

Operational Risk

Operational risk is attributed to unexpected losses due to human error, nature and other disasters, technological failures and changes in external environment. This risk is inherent to all business activities and the management of these risks is important to achieve organizational goals.

Currently operational risks are managed through internal procedures and monitoring mechanisms include data security measures, access authorization systems, the dual signatory principle and staff training programs designed to improve process discipline.



LANKAPUTHRA DEVELOPMENT BANK LIMITED I/We
of.....
..... being
a member/members of the above named Bank hereby appoint
offailing
himof.....
..... as my/our proxy to represent me/us and vote for me/us on
my/our behalf at the Annual General Meeting of the Bank to be held on the 2007 and at any adjournment
thereof.

Signed this day of 2007

Our Vision

To be the vibrant facilitator of economic and social development in Sri Lanka.

Our Mission

- *To be the core Development Bank in Sri Lanka, significantly strengthening entrepreneurship at regional, national and international levels.*
- *To add value to our employees by creating a positive working environment supporting professionalism thereby developing our people to be the best they can be.*
- *To aid in the development of the rural economy of Sri Lanka thereby reducing disparity and helping to uplift the lives of the less fortunate.*
- *Caring for our customers consistently by benchmarking excellent customer service standards to be the best in the industry.*

