BANK OF CEYLON (UK) LIMITED

ANNUAL REPORT 2023

COMPANY REGISTRATION NO. 06736473

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COMPANY INFORMATION

As at 22nd April 2024

Mr. W.D.R Swanney	Interim Chairman and Independent Non-Executive Director
Mr. Aruna Kumara	Executive Director and Chief Executive Officer
Mr. R. England	Independent Non-Executive Director
Mr Sanjeewa Samarakoon *Appointed on 23rd October 2023*	Executive Director
Mr. W. P. Russel Fonseka *Appointed on 31sh January 2023*	Non-Executive Director and General Manager, BOC
Mr. Mark Bon	Company Secretary
Registered office	1 Devonshire Square, London, EC2M 4WD
Solicitor	Field Fisher Riverbank House, 2 Swan Lane, London EC4R 3TT
Independent Auditor	MHA 2 London Wall Place, Barbican, London EC2Y 5AU ·

STRATEGIC REPORT

CHAIRMAN'S REPORT

Throughout 2023, the business landscape in both the UK and Sri Lanka presented ongoing challenges. However, through strategic initiatives implemented by management in late 2022, we successfully sought out new opportunities and prioritized the growth of our UK loan portfolio. These efforts bolstered our balance sheet, positioning us for resilience in a dynamic market environment.

The financial results for 2023 were particularly encouraging, driven in part by successive increases in the Bank of England base rate. I am pleased to report that our trading-level profit rose to £777,457, a remarkable threefold increase over the previous year. Lower ECL provision requirement has led to the Bank reporting a notable pre-tax profit of £1,067,940 for 2023, a significant turnaround from the £146,619 loss reported for 2022.

Despite the prevailing economic headwinds, we demonstrated our ability to foster a sustainable business presence in the UK while providing vital support to the Bank of Ceylon Group. Throughout the year, we maintained our commitment to customer-centric services, ensuring the continuity of both online and in-person banking operations.

Looking ahead, we anticipate continued profitability driven by the expansion of our lending portfolio. However, the full-year impact of the Bank of England rate increases on our liabilities, coupled with fluctuations in money market funds placed by Sri Lankan banks, may pose challenges in 2024.

Maintaining robust credit quality standards across our loan portfolio remained a top priority, underpinned by disciplined underwriting practices and risk management. Despite challenges, we extended support to new and emerging businesses in the SME sector, albeit amidst adversity. Although trade finance activities were impacted by Sri Lanka's unresolved foreign reserves issue, proactive exploration of new markets helped mitigate some of these challenges. Additionally, our tailored residential Buy-to-Let mortgage solutions continued to attract new customers, contributing to the doubling of net loans to customers from 2022 levels.

As we navigate the evolving external landscape and shifting customer expectations, we remain equipped with a clear business strategy, the backing of our parent bank, and a motivated team poised to address the uncertainties that lie ahead.

I extend my sincere appreciation to my fellow board members, our dedicated staff, and our parent bank for their invaluable contributions to our collective achievements in what has been an exceptional year. Special gratitude is extended to our retiring chairman, Ronald Perera, whose wisdom and leadership have been instrumental in our success. I would like to take the opportunity to welcome Mr. Kavan Ratnayake as the incoming chairman.

Mr W.D.R Swanney
Chairman
22nd April 2024

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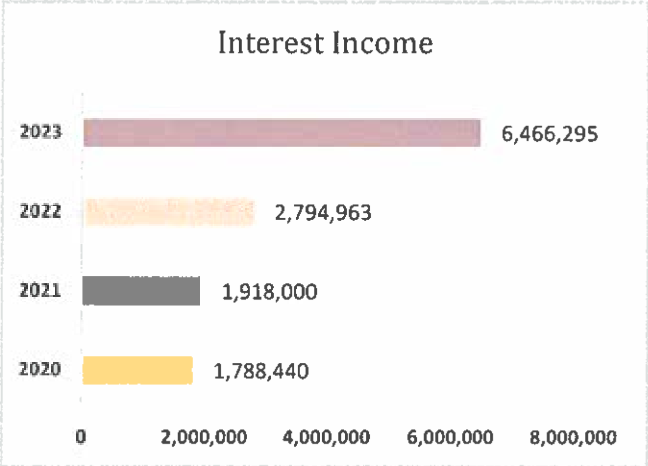
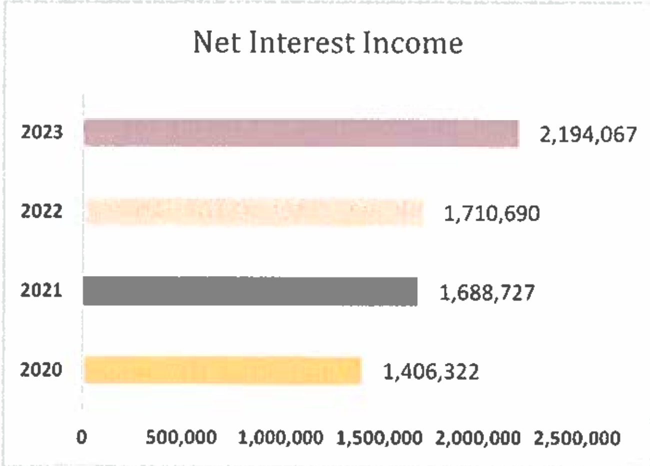
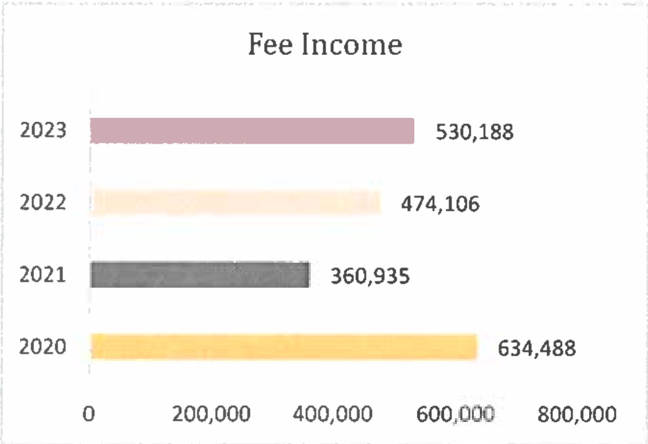
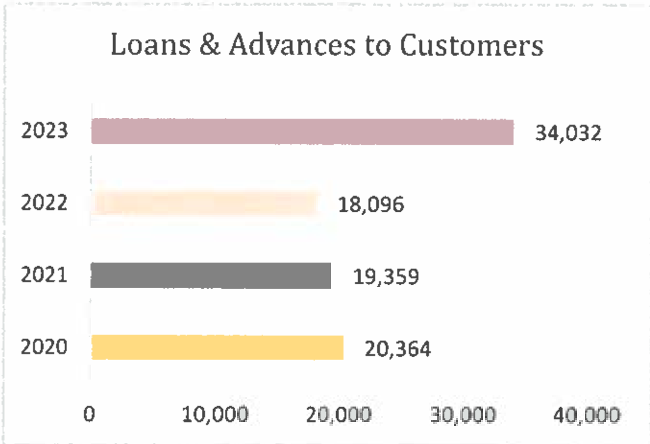
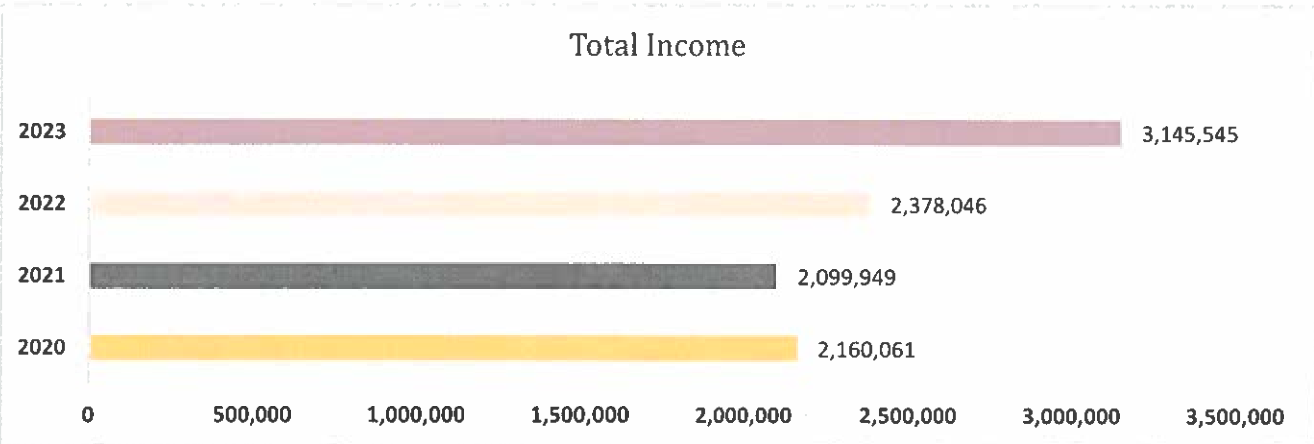
FINANCIAL HIGHLIGHTS AS AT 31ST DECEMEBER 2023











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PRINCIPAL ACTIVITIES

Bank of Ceylon (UK) Limited, is a wholly owned subsidiary of the Bank of Ceylon (BOC), the ultimate parent.

The Bank is authorised by the Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA to carry on certain regulated financial service activities, including deposit taking and dealing in investments as principal. The bank offers retail services, correspondent banking facilities, trade finance, retail, and commercial banking together with remittance services.

As a specialist bank, we cater to the lending needs of customers in the domestic market, particularly in segments overlooked by larger high-street banks. This focus necessitates having expertise in the areas we operate, ensuring exceptional customer service characterized by knowledge and expedited service delivery. We see specialization as setting us apart from our competitors. In addition to domestic lending, we extend trade finance services to numerous UK and international exporters.

The Directors are required by the Companies Act 2006 to set out in the report a fair review of the business of the bank.

Target Markets	Products & Services
Sri Lankan counterparties	Trade finance, short term funding, FOREX services & correspondence banking
U.K Commercial customers	Working capital, funding & FOREX services
U.K retail clients	Retail deposits, funding private rental properties & retail banking.

STRATEGIC REPORT CONT.

BUSINESS REVIEW 2023

Despite facing a challenging operating environment in 2023, the Bank achieved commendable progress, demonstrating resilience and adaptability in the face of economic headwinds. The UK experienced sluggish GDP growth coupled with high inflation, while Sri Lanka grappled with an economic crisis leading to a drastic decline in imports. It has been a challenging year for the Bank's trade finance business due to the events.

Nevertheless, amidst this backdrop, the Bank delivered a trading profit of GBP 777,457, reflecting the effectiveness of its prudent forward-looking strategies. Notably, the Bank achieved a record 88% growth in its UK lending portfolio, taking advantaged opportunities in the private rental sector, and expanding assets from GBP 18 million to GBP 34 million. The pipeline for pending loans remains robust, promising further growth in the future.

While traditional Treasury services experienced a decline in demand due to economic events in Sri Lanka, the bank capitalized on its strong liquidity position to maximize forex income. The utilization of credit lines for forex services, coupled with effective deposit-raising initiatives at competitive rates, contributed to significant growth in net interest income.

Despite challenges in the trade finance sector, particularly stemming from economic woes in Sri Lanka, proactive measures are being taken to mitigate the impact. The Bank is establishing new business connections in Asian markets to bolster trade finance activities, laying the groundwork for improved results in 2024.

Overall, the Bank's performance in 2023 underscores its ability to navigate complex market dynamics and capitalize on emerging opportunities, positioning the bank for continued growth and success in the future.

As the Bank continues to leverage its strengths and capitalize on emerging opportunities, it remains well-positioned for sustained growth and success in the dynamic financial landscape. Digitalization remains a top priority and the bank has commenced working with fintech companies to provide digital enablement which will offer better customer services.

TRADING PROFIT

The combination of an improving rate environment and robust lending momentum has yielded impressive results for the Bank, with trading profit rising to GBP 777,457 before ECL, compared to GBP 258,243 in 2022. This notable increase reflects the bank's adept management in navigating a rapidly changing economic landscape.

The Bank's ability to capitalize on favourable market conditions while maintaining strong lending momentum underscores its resilience and agility in adapting to evolving circumstances. This outcome attests to the bank's commitment to delivering value to its stakeholders amidst challenging conditions.

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IMPAIRMENT PROVISIONS

As exposure levels decreased due to reduced trade finance volumes from Sri Lanka, the carry-over provisions from 2022 exceeded the provision requirements at the end of 2023 by GBP 290,483. This surplus amount was reversed to profits, resulting in trading profit increasing from GBP 777,457 to a profit before tax of GBP 1,067,940. This represents a significant turnaround from the 2022 loss of GBP 146,619.

The Sri Lanka's International Sovereign Bond (ISB) remains in default with adequate provisioning being provided as set out in note 11 (page 53).

STATUTORY PROFIT

The statutory profit for 2023 is GBP 1,067,940 (2022 loss of GBP 146,619).

ASSET GROWTH

Total assets grew during the year with asset quality in all the categories remaining strong.

CAPITAL

The Bank maintained a strong CET1 capital position of GBP 13,684,688 (2022- GBP 12,852,280)with a CET1 ratio of 43% (2022: 44 %) and a total capital of GBP 14,788,668 (2022-13,818,899) with a ratio of 46% at 31st of December 2023 (2022: 48%). The Bank therefore retains a significant CET1 management buffer more than its Capital Requirements Directive IV (CRD IV) amount.

FUNDING STRATEGY

During the year, the bank successfully raised GBP 7.8 million in retail deposits, reporting a 68% increase in the level of customer deposits. This influx of deposits has elevated customer deposits to represent 13.6% of the bank's liabilities.

Moving forward, the bank's funding strategy will continue to prioritize deposit-led initiatives, emphasizing diversification to strengthen the stability of its funding base. By focusing on expanding and diversifying its deposit sources, the bank aims to maintain a robust funding structure that supports its lending activities while effectively managing risk.

This report was approved by the board of directors on 22nd April 2024 and is signed on its behalf by Aruna Kumara

Aruna Kumara
Chief Executive Officer
22nd *April 2024*

STRATEGIC REPORT CONT.

SECTION 172 STATEMENT

This section of the Strategic Report describes how our board have had regard to the matters set out in Section 172 (1) of the Companies Act 2006.

Directors must act in the way they consider, in good faith to promote the success of the Company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

- the likely consequences of any decision in the long term;
- the interests of the Company's employees;
- the need to foster the Company's business relationship with suppliers, customers, and others;
- the impact of the Company's operations on the community and the environment; and
- the desirability of the entity to maintain a reputation for high standards of business conduct.

The Directors take full account of the factors set out above in discharging their duties under section 172. The Board recognises that building strong relationships with our stakeholders is key in delivering our strategy to achieve sustainable growth for the benefit of all stakeholder's. The following summarises how the Directors fulfil their duties:

- Long term development

The Directors are fully engaged in the long-term direction of the Bank principally through approving the strategy. The Board have taken a keen interest in the digitalisation initiative planned to be implemented over the next two years and the opportunities it brings.

The Bank holds an annual Strategy meeting with its regulator, the PRA, where medium term developments and strategy of the Bank are reviewed and discussed.

- People

People are at the core of providing services to our customers. We manage our people's performance and development to make sure we operate effectively and efficiently, with high standards of conduct and regard for our customers. We also make sure that we share common values and seek to model the standards and values expected of all staff through day-to-day engagement. Executive directors keep in touch with staff through day-to-day activities while non-executive directors engage with staff during meetings, events and visits to the bank.

- Business Partners

We value all our business partners and have long term relationships with key stakeholders. Key business partners operate in payment services and banking software solution providers. Individual meetings have been held with key business partners and Directors have engaged with our solution providers to discuss and progress key strategic initiatives, as set out below. Forming strategic partnerships with key business partners is an important part of the strategic goals of the Bank. Such partnerships are encouraged by the Directors and closely monitored.

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- Community and Customers

Being a community bank, it is our purpose to serve the Sri Lankan community and bring about change with the community with which we interact. We make a point of being at the heart of the community we serve, and the Directors ensured that we provide services to our customers with increased face-to-face interaction. The Bank has been involved in many community activities through sponsoring events in 2023 where our customers, employees and Directors have been able to interact with the community.

- Regulators

Both executive and non-executive directors proactively liaise with the Bank's regulators. During 2023, the Bank liaised with the regulators on matters including cyber security and held an annual strategy meeting.

- Shareholders

The Bank has close relationship with its shareholder which has two nominated directors who serve both in the Bank's Board as well as the parent's Board. The Parent supports the growth of the Bank by encouraging the investment of profits into the business.

This report was approved by the board of directors on 22nd April 2024 and is signed on its behalf by Aruna Kumara.

Aruna Kumara
Chief Executive Officer
22nd April 2024

STRATEGIC REPORT CONT.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT FRAMEWORK

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Bank has appointed a Head of Risk and Compliance who is responsible for developing and monitoring the Bank's risk management policies.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Bank's activities.

The Bank's Audit and Risk Committee oversees how management monitors compliance with the Bank's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Bank. The Committee is assisted in its oversight role by Internal Audit, who undertake both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Bank's Audit and Risk Committee.

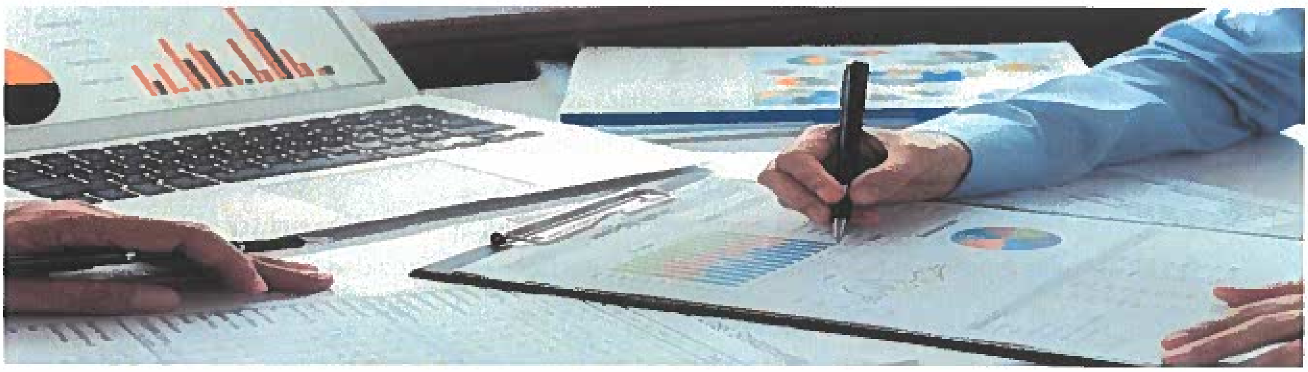
The Bank's principal risks categories has exposure to the following risks:

Credit Risk	Market Risk	Financial Risk	Operational and Resilience Risk

CREDIT RISK

"Credit risk" is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks, and investments in debt securities. Credit risk can arise in respect of both on and off-balance sheet exposures. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country, and sector risk).

As a financial institution, the Bank's maximum exposure to Credit Risk comprises all assets other than cash on hand, property and equipment and certain sundry debtors.



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	As at 31 December 2023 GBP 000	As at 31 December 2022 GBP 000
Cash and cash equivalents	115,702	86,759
Loans and advances to banks	1,831	7,501
Loans and advances to customers	34,032	18,096
Investments	435	453
Prepayments	103	68
Other assets	148	115
Maximum credit risk exposure	**152,251**	**112,992**
Investment grade assets (BOE)	108,774	83,615
Other assets	43,477	29,377
	152,251	**112,992**

MANAGEMENT OF CREDIT RISK

The Board of Directors has delegated responsibility for the day-to-day oversight of credit risk to the Bank's Credit Committee. The Credit Committee is responsible for the effective management of credit risk including the following:

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing risk appetite and risk limits.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Facilities require the approval of the Credit Manager, the Chief Executive Officer, the Credit Committee, or the Board of directors, as appropriate.
- Reviewing and assessing credit risk: the Credit Committee assesses all exposures in excess of designated limits before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposures to customers, counterparties, geography and by product.
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by the Credit Committee.
- Developing and maintaining the Bank's processes for measuring Expected Credit Loss (ECL); this includes processes for:
  - ✓ initial approval, regular validation and back-testing of the models used;
  - ✓ determining and monitoring significant increases in credit risk, and
  - ✓ horizon scanning for expected events.
- Reviewing compliance with agreed exposure limits, including those for country risk and product types. Regular reports on the credit quality of the portfolios are provided to the Credit Committee,

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which may require appropriate corrective action to be taken. These include reports containing estimates of ECL allowances.

Operating departments are required to implement the Bank's credit policies and procedures and are responsible for the quality and performance of their credit portfolios, and for monitoring and controlling all credit risks in the portfolios.

The credit process is reviewed on a regular basis by Internal Audit.

SENSITIVITY ANALYSIS OF ECL ESTIMATES

The balance sheet assets comprise exposures relating to trade finance loans, money market placements, investments, domestic lending and off-balance confirmations. The sensitivity of the ECL provision in relation to changes in scenario weights and probability of default are set out in the tables below.

Changes to scenario weightings

The ECL provision has been computed using the following weightings: downside 50%, base case 45% and an upside of 5%. The sensitivity analysis table below assumes a 10% deterioration in the weighting which would take the weighting to 55% for the downside, 40% for the base case and holding the upside weighting to 5%. This change in scenario weightings will result in a small change to the expected credit loss provision.

Sensitivity analysis: Impact of the change in scenario weightings from the base case given above.

The table below sets out the impact of the change to the 2023 base case.

2023	Base case	Secnario ('Downturn' weight increases by 10%; 'Base Case decreases by 10%)	%Change in ECL Allowance Incr/(Decr)
	GBP	GBP	%
Stage 1	28,220	29,875	5.9
Stage 2	-	-	-
Stage 3	471,736	471,736	-
Total ECL allowance	499,956	501,611	5.9

2022	Base case	Secnario ('Downturn' weight increases by 10%; 'Base Case decreases by 10%)	%Change in ECL Allowance Incr/(Decr)
	GBP	GBP	%
Stage 1	299,087	300,545	0.5
Stage 2	-		
Stage 3	491,352	491,352	-
Total ECL allowance	790,439	791,897	0.5

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Probability of Default (PD)

In this scenario, the PD is assumed to deteriorate by 10% from the base case assumption which was used to calculate the expected credit loss provision. The effect of the change in PD by 10% produces a change to the expected credit loss provision of 9.1%.

Sensitivity analysis: Changes in PDs assigned.

PDs deteriorate by 10% for each of the credit exposures.

2023	Base case	Scenario PD increases by 10%	%Change in ECL Allowance Incr/(Decr)
	GBP	GBP	%
Stage 1	28,220	30,777	9.1
Stage 2	-	-	-
Stage 3	471,736	471,736	-
Total ECL allowance	499,956	502,513	9.1

2022	Base case	Scenario PD increases by 10%	%Change in ECL Allowance Incr/(Decr)
	GBP	GBP	%
Stage 1	299,087	325,962	9.0
Stage 2	-		
Stage 3	491,352	491,352	-
Total ECL allowance	790,439	817,314	9.0

FINANCIAL CRIME RISK

"Financial crime risk" is the risk that the Bank's products and services will be used to facilitate financial crime against the Bank, its customer's and third parties.

MANAGEMENT OF FINANCIAL CRIME RISK

The bank adopts a risk-based approach to management of financial crime and the following controls and procedures support mitigation:

- A clearly defined financial crime risk policy, approved by the Board.
- Ongoing development, maintenance, and reporting of risk appetite measures on financial crime and fraud risk to the Audit and Risk Committee.

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- Consideration of financial crime and fraud risk in the context of product and propositions.
- Ongoing assessment of evolving regulatory policy requirements and ensuring the Bank meets the requirements of the UK Money Laundering Regulations.
- Regular oversight, review of systems, controls and higher risk activities and customers.

Financial crime risk is managed by the front office team, which is responsible for customer contact. The control framework, strategy, governance, standard setting, oversight, and training are managed by the Risk and Compliance team.

FINANCIAL RISK

Financial risk includes liquidity risk, market risk, capital risk and funding risk all of which have the ability to impact the financial performance of the Bank if managed improperly.

LIQUIDITY RISK

"Liquidity risk" is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent in the Bank's operations and investments. The maturity of all assets and liabilities is shown in notes 14 to 23. The Bank did not have any unmatched derivative exposures at the year end and hence no further liquidity exposure.

MANAGEMENT OF LIQUIDITY RISK

The Board sets the Bank's strategy for managing liquidity risk; oversight of the implementation is administered by the Asset and Liability Committee (ALCO). ALCO recommends to the Board the Bank's liquidity policies and procedures which are maintained and updated by the Bank's Finance Department in conjunction with its Risk Department. Treasury Department manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Bank. A summary report, including exceptions and remedial action taken is submitted regularly to ALCO.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The key elements of the Bank's liquidity strategy are as follows:

- Carrying an Annual Internal Liquidity Adequacy Assessment Process (ILAAP)
- Maintaining an adequate funding base of customer deposits and wholesale market deposits.
- Carrying a portfolio of high-quality liquid assets

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- Monitoring maturity mismatches and behavioural characteristics of the Bank's financial assets and financial liabilities.
- Stress testing the Bank's liquidity position against various exposure scenarios.

Treasury Department receives information regarding the liquidity profile of the Bank's financial assets and financial liabilities and details of other projected cash-flows from anticipated future business. Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term placements with central banks and loans and advances to other banks, to ensure that sufficient liquidity is maintained within the Bank.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and severe market conditions. The scenarios are developed considering both Bank specific events and market related events. The results of the tests are reviewed by ALCO and presented to the Board.

FUNDING RISK

"Funding risk" is the risk when the Bank is unable to raise or maintain funds of sufficient quality and quantity to support the delivery of the business plan or sustain the lending commitments. Prudent funding risk management reduces the likelihood of liquidity risk occurring, increases the stability of funding sources and ensures future balance sheet growth is sustainable.

MANAGEMENT OF FUNDING RISK

Funding plans includes an assessment of the Bank's capacity for raising funds across a selected number of primary funding sources. Refinancing risks are carefully managed and are subject to controls overseen by ALCO. The Bank operates a Fund Transfer Pricing module to ensure that the pricing of loans reflects the cost of funds.

MARKET RISK

"Market risk" is the risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments. The Bank's exposure to market risk is primarily due to interest rate and foreign exchange exposures.

Interest Rate Risk is assessed in Note 26 and Foreign Exchange Risk is assessed in Note 28.

The Bank's holdings of debt securities comprise Government of Sri Lanka bonds. These assets were valued at GBP 314,427 net of ECL provisions as of 31 December 2023 (investments at 31 December 2022 were GBP 327,534 net of ECL provision).

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MANAGEMENT OF MARKET RISK

The Bank does not maintain a trading portfolio and market risk arises from its day-to-day banking operations. Overall authority for market risk is delegated to ALCO, which sets up limits for each type of risk in line with the Board-approved risk appetite.

The Bank manages foreign exchange risk by means of currency exposure limits placed on intraday and overnight positions. ALCO is the monitoring body for compliance with these limits.

Interest rate risk is the risk of loss from future cash-flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed by the Treasury function principally through monitoring interest rate gaps. ALCO is the monitoring body for compliance with the Bank's appetite for interest rate risk.

OPERATIONAL RISK

"Operational risk" is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's processes, personnel, technology, and infrastructure and from external factors other than credit, market, and liquidity risks – e.g., those arising from legal and regulatory requirements and generally accepted standards of corporate behaviour.

MANAGEMENT OF OPERATIONAL RISK

The Bank's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank's policy requires compliance with all legal and regulatory requirements.

The Board has delegated to the Executive Committee responsibility for the development and implementation of controls to address operational risk. This is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions.
- requirements for the reconciliation and monitoring for transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and the proposed remedial actions;
- development of contingency plans;
- training and professional development;
- information technology and cyber risks; and
- risk mitigation, including insurance where this is cost-effective.

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Internal Audit undertakes periodic reviews of operational risk exposures. The results of Internal Audit reviews are discussed by the Executive Committee and submitted to the Audit and Risk Committee.

The results of the tests are reviewed by ALCO and presented to the Board.

CAPITAL ADEQUACY

The Bank is required to comply with the provisions of the Capital Requirements Regulation and Directive (CRD IV) which was transposed to the PRA rule book as part of the Brexit arrangements in respect of regulatory capital. The Bank's regulatory capital comprises ordinary share capital, revaluation reserves and retained earnings.

The regulator provides the Bank with its view of the amount and quality of capital that it considers the Bank must hold in addition to its Pillar 1 capital ("Pillar 2A") to meet the overall financial adequacy requirements for credit risk, market risk, counterparty credit risk, interest rate risk, pension obligation risk and group risk. It also provides its view of the amount of capital buffer the Bank should hold in addition to its total capital requirement to cover losses that may arise under a severe stress scenario but avoiding duplication with CRD IV buffers (Pillar 2B). The CET1 total capital ratio remains strong at the end of 2023 at 43% (2022 44%) see note 32.

MANAGEMENT OF CAPITAL ADEQUACY

The Bank's management uses regulatory capital ratios and buffer requirements in monitoring the Bank's capital adequacy. ALCO is the monitoring body for compliance with the Bank's appetite for the risk of insufficient capital.

Capital adequacy is re-assessed at least annually based on forward-looking projections. Regular capital adequacy stress testing is conducted under a variety of scenarios, covering both normal and severe market conditions. The results of the tests are reviewed by ALCO and presented to the Board.

FINANCIAL RISKS ARISING FROM CLIMATE CHANGE

Climate risk is the exposure to physical and transition risks arising from climate change. Physical risk arises from long-term changes in the climate and weather-related events, rising average temperatures, heatwaves, floods, storms, sea level rises, erosions etc.

Transition risk arises from the adjustment towards a low-carbon economy and could lead to changes in appetite, strategy, policy, and technology. These changes could prompt a reassessment of the value of a large range of assets and create increased financial exposures for the Bank as the costs and opportunities arising from climate change become apparent. Reputational risk may also arise from a failure to meet changing and more demanding societal and regulatory expectations.

The Bank accepts a level of climate risk in conducting its business. The Board provides oversight of climate - related risks through the Audit and Risk Committee. The Board has delegated day-to-day responsibility for managing the financial risk arising from climate change to the Head of Risk and Compliance with wider

STRATEGIC REPORT CONT.

climate-related risks and opportunities being managed by the executive team. The Bank is currently in the process of gathering data to support the climate risk assessment and, therefore risk appetite metrics and limits will evolve.

MANAGEMENT OF CLIMATE RISK

The Board has set the following priorities in managing climate risk during 2024. The focus will be on the following three areas.

- Reduce our carbon footprint by reducing the impact our operations have on the environment in the following areas:
    - 100% green gas and electricity
    - zero waste to landfill
    - continued reductions in paper usage.

- Support customers in their transition to a low carbon economy.
    - coaching our customers.
    - Sustainability- linked loans
    - Retrofit loans

- Embed climate considerations into the Bank's decision-making.
    - Environment committee
    - ESG to be embedded in our planning cycle.

GOVERNANCE

CORPORATE GOVERNANCE BOARD COMPOSITION

The Board of Bank of Ceylon (UK) Ltd comprises of three categories of Directors. Two Executive Directors, two independent Non-Executive Directors, and two Non-independent Non-Executive Directors appointed by BOC. The Board plays a pivotal role in providing leadership within the framework of prudent and effective controls, facilitating the assessment and management of risks.

The Board's responsibilities encompass defining the bank's purpose and values, setting its strategy and risk appetite, and steering the development of its culture. The governance framework includes not only the Board itself but also various committees such as the Audit and Risk Committee, and Executive Committees. The Board convenes quarterly to oversee the overall direction, supervision, and control of the bank. This includes evaluating the bank's competitive positioning, approving strategic and financial plans, and reviewing its financial performance and position.

Furthermore, the Board is tasked with reviewing and endorsing significant changes in the bank's structure and organization, establishing the risk management framework, and defining the overall risk appetite. It also holds responsibility for promoting sustainability and driving positive societal and environmental impact. Additionally, the Board reviews and approves key policies related to credit, large exposures, impairment, liquidity, and operational risk, ensuring alignment with the bank's risk management objectives.

The Audit and Risk Committee report on page 22 for the year ended December 31st, 2023, provides further insights into the bank's governance and risk management practices.

GOVERNANCE CONT.

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors present their Report, together with the audited financial statements for the year ended 31 December 2023.

BOARD OF DIRECTORS

These financial statements have been prepared under International Financial Reporting Standards, in conformity with the Companies Act 2006.

A review of the Bank's business operations, its objectives and activities are covered in the Chairman's Report and the Strategic Report.

DIRECTORS

The names of the directors who served on the board and changes to the composition of the board that has taken place during the financial year ended 31.12.2023:

- Mr. Ronald Perera
- Mr. W.D.R. Swanney
- Mr. Aruna Kumara
- Mr. R. England
- Mr. S. Samarakoon (Appointed on 23rd October 2023)
- Mr. Mr P L Balasuriya (Resigned on 10th May 2023)
- Mr. W. P. Russel Fonseka (Appointed 31st January 2023)

RESULTS & DEVIDENDS

The results for the year are set out in the income statement on page 29. The profit before taxation for the year ended 31 December 2023 was GBP 1,083,227 (2022 loss of GBP 146,619). A review of the financial performance of the Bank is included within the Strategic report page 5. The directors do not recommend a dividend for the financial year 2023 (2022-Nil).

POST BALANCE SHEET EVENTS.

There have been no post-balance sheet events.

GOING CONCERN

These financial statements have been prepared on a going concern basis, as the Directors are confident that Bank of Ceylon (UK) Ltd has the necessary resources to continue its operations for the foreseeable future, extending at least 12 months from the approval of the financial statements.

In reaching this conclusion, the Directors have considered a range of information concerning both present and future conditions. Pertinent information relevant to this assessment, includes the Bank's principal activities, challenges, and uncertainties, which are detailed in the Strategic Report.

GOVERNANCE CONT.

The Bank adheres to a formalized process of budgeting, reporting, and review. Its planning procedures entail forecasting profitability, capital position, funding requirements, and cash flow over a three-year horizon. The 2024 plan is formulated based on current and forecasted economic market conditions, with an assumption that the Sri Lankan economy will take two to three years to fully recover. Moreover, the plan accounts for offsetting the decline in trade finance business through the establishment of new connections with other Asian markets. Encouragingly, first-quarter achievements in 2024 have exceeded expectations and are on schedule to deliver the budgeted results.

The political and economic situation in Sri Lanka has shown signs of stabilisation, with exports, tourism, and foreign remittance levels steadily rebounding, surpassing pre-crisis levels. Notably, the IMF concluded its review of the second tranche under the structural funding of USD 2.9 billion, releasing $337 million.

The Bank has successfully raised sufficient deposits in the UK retail market in January 2024 to finance its growth and expansion ambitions. Despite the slow recovery of the Sri Lankan economy, will not impede the Bank's ability to fulfil its UK expansion plans.

Additionally, the parent bank, BOC Colombo, is anticipated to publish its annual report and financial statements for the year end 2023 shortly. The parent bank has published its interim financial statement to the Colombo stock exchange where it states a year-on-year growth of 30% in profit before tax. Notably, Fitch Ratings upgraded Bank of Ceylon Colombo's long-term foreign currency issuer default ratings to 'cc', reflecting an improved foreign currency liquidity position.

The Directors believe that the Bank has adequate resources to sustain its activities in the foreseeable future, including sufficient capital to meet regulatory requirements as stipulated by the Prudential Regulation Authority.

Following a comprehensive assessment of the Bank's financial position, cash flow projections, access to funding, underlying assumptions, and potential risks, the directors have concluded it appropriate to continue adopting the going concern basis for preparing the Annual Report and Accounts.

DISCLOSURE IN RESPECT OF FINANCIAL INSTRUMENTS

In the course of its normal business activities, the financial instruments transacted by the Bank include investments in counterparties (note 14), lending to customers (note 15), sovereign bonds (note 18). Please also see strategic report for additional disclosures.

DISCLOSURE OF INFORMATION TO THE INDEPENDENT AUDITOR

The Directors who held office at the date of approval of this Report confirm that, as far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware and each Director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

GOVERNANCE CONT.

QUALIFYING INDEMNITY INSURANCE

The Bank had a 'Directors' and Officers' liability insurance policy in place throughout the year.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank did not undertake any formal research and development activities in the ordinary course of business. See the Strategic Report for more information.

CHARITABLE DONATIONS

The Bank did not make any political or charitable contributions during the year (2022: Nil).

INDEPENDENT AUDITOR

MHA has expressed their willingness to continue in office and have been re-appointed pursuant to section 487(2) of the companies Act 2006.

This report was approved by the board of directors on 22nd April 2024 and is signed on its behalf by Aruna Kumara.

Aruna Kumara
Chief Executive Officer
22nd *April 2024*

GOVERNANCE CONT.

REPORT OF THE AUDIT AND RISK COMMITTEE
FOR THE YEAR ENDED 31 DECEMBER 2023

The Audit and Risk Committee (the "Committee") supports the Board, by ensuring oversight of the integrity of financial reporting and controls. This report provides an overview of the Committee's work and details how it has discharged its responsibilities during the year.

It has been another challenging year for the committee. Considerable time was spent understanding the implications of high inflation and other macroeconomic variables on the loan portfolio and provisioning levels. Additionally, the committee was involved in monitoring the developments in Sri Lanka following the economic crisis and its effects on BOC UK business.

From a risk perspective, the Committee has responsibility for ensuring that the business operates within the agreed Risk appetite, whilst ensuring inhouse capability to identify and manage new risks. The delegated oversight relating to risk includes:

- **Risk Management**
- **Compliance**
- **Whistleblowing, Fraud, Bribery and Financial Crime.**

In the area of Finance, the responsibilities of the Committee are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees. That is, assisting the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- The integrity of the financial statements and significant financial reporting judgements contained therein.
- The effectiveness of the system of internal control processes;
- The internal audit and external audit processes;
- The performance and independence of both internal and external auditor; and
- The engagement of external auditor for non-audit work.

Following each Committee meeting, the minutes of the meeting are distributed to the Board, and the Committee Chairman provides an update to the Board on key matters discussed by the Committee.

The composition of the Committee is as follows:

- W D R Swanney (Chair)
- R England

The Chief Executive Officer, Chief Operating Officer, Head of Finance and Treasury and Head of Risk and Compliance attend the meeting by invitation. Both the internal and external auditors are also invited to each meeting, and there is opportunity for discussion without the Executive Directors being present.

GOVERNANCE CONT.

KEY AREAS OF FOCUS DURING 2023

During the year the Committee met four times and has been involved with the following matters in addition to the other areas given in this report.

- A review of the RMF (risk management framework) audit was conducted, and areas for improvement were noted, along with proposed management actions. The committee is satisfied that management actions address the points raised.
- Reviewed the cyber security risk exposures and management actions.
- The Committee has spent much time considering the implications of the Sri Lankan economic crisis, high inflation, and the macro-economic environment.
- Held discussions with the PRA on the alignment with their priorities.

FINANCIAL REPORTING

The primary role of the Committee in relation to financial reporting is to review and assess with the Senior Management Team (comprising the Chief Executive Officer, the Chief Operating Officer, the Head of Finance and Treasury and the Head of Risk and Compliance) and the external auditor, the integrity and appropriateness of the annual financial statements considering amongst other matters:

- The committee continued to monitor the rapidly changing macro-economic environment both in Sri Lanka and UK.
- Deliberations regarding potential risks arising from the Sri Lankan economic crisis.
- Reviewed and challenged management's actions taken in response to the crisis.
- The committee considers whether the significant estimates and judgements made by management are appropriate.
- The levels of impairment provisions against loans under IFRS 9 are adequate in an environment of rising living costs and rising interest rates.
- The appropriateness and consistency of accounting policies and practices.
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements, including advising the Board on whether the Report and Financial Statements (the "Annual Report"), when taken as a whole are fair, balanced and understandable and provide information sufficient for Members to assess the Bank's performance, business model and strategy; and
- The material areas in which significant judgements have been applied.

The primary areas of judgement considered by the Committee in relation to the 2023 accounts were:

- Loan loss provision: review of the judgements used in arriving at the basis for the ECL provisioning, in line with IFRS9.
- Evaluation of the external auditor's response to the assessed risks of material misstatement presented by the Bank's Executive Committee.

GOVERNANCE CONT.

- Revenue recognition: Review of the design, implementation, and effectiveness of controls around the IFRS9 calculation of interest income and charges, including the timing of fees and commission recognition under effective interest rate methodologies; and
- Going concern: review of three-year business forecast and stress sensibilities.

The Committee considered whether the 2023 Annual Report was fair, balanced, and understandable. The Committee did this by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency. The Committee fully discharged its responsibilities in relation to financial reporting in the 2023 Annual Report.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

The Board recognises the importance of sound systems of internal control and risk management systems in the achievement of its objectives and the safeguarding of the Bank's assets. Internal controls and risk management systems also facilitate the effectiveness and efficiency of operations. This helps to ensure the reliability of internal and external reporting and assists in compliance with applicable laws and regulations.

The Bank operates in a dynamic business environment and, as a result, the risks it faces are continually changing. The internal controls and risk management systems have been designed to ensure a thorough and regular evaluation of the nature and extent of risk. This evaluation will enhance the Bank's ability to mitigate or react accordingly. The Senior Management Team is responsible for implementing the Board's risk and control policies. It is also recognised that all employees have responsibility for internal control as part of their accountability for achieving their objectives. Staff training and induction is designed to ensure that they are clear on their accountabilities in this area and are competent to operate and monitor the internal control framework.

The outsourced internal auditor provided independent assurance to the Board, through the Committee, on the effectiveness of the internal controls and risk management systems.

The Committee reviews the internal controls and risk management systems through regular reporting from the Senior Management Team, internal and external auditors. The main matters that were reviewed by the Committee in 2023 were:

- prudential and conduct related;
- internal audit plans;
- reports from the internal auditor; and
- the status of any issues raised in internal audit reports to ensure a timely resolution.

The information received and considered by the Committee provided 'adequate and effective' assurance that during 2023 there were no material breaches of control or regulatory standards. In addition, the Bank maintains an adequate internal control framework.

WHISTLEBLOWING, FRAUD AND BRIBERY, AND FINANCIAL CRIME

The Committee has reviewed the adequacy and security of the Bank's arrangements for its employees and contractors to raise concerns. This has allowed them to raise concerns, in confidence, about possible fraud

GOVERNANCE CONT.

or other wrongdoings in financial reporting or in other matters. The Committee has reviewed the annual report from the Money Laundering Reporting Officer ("MLRO") and the adequacy and effectiveness of the

Bank's anti-money laundering systems and controls. The Bank continues to protect itself and customers against the risks of financial crime through continued due diligence activities and staff training.

INTERNAL AUDIT, RISK AND COMPLIANCE

It is the responsibility of the Committee to monitor the effectiveness of internal audit and compliance activities and to ensure that adequate resources are being allocated. In order to provide the scalability and flexibility of specialist resources required in internal audit, the Bank continues to outsource this role to Grant Thornton LLP. The Head of Risk and Compliance is responsible for managing risk and compliance activities.

The Chair of the Committee meets privately with the internal auditor at least once per year without the Senior Management Team being present. This provides the opportunity for two-way comment and feedback on how the internal audit plan is progressing and how the relationship is performing.

In addition to reviewing the findings of internal audits and thematic issues identified, the Committee also reviewed the responses of the Senior Management Team and the tracking and completion of outstanding actions.

Following a detailed review of the scope of the internal audit work program for the year, the Committee approved the fee for the program of internal audit work for the year. The Head of Risk and Head of Compliance also submitted reports during the year in areas not covered by internal audit.

EXTERNAL AUDIT

The effectiveness of the external audit process is dependent on appropriate audit risk identification and at the start of the audit cycle, the Committee receives from the external auditor a detailed audit plan, identifying its assessment of the key risks.

The Chair of the Committee holds regular meetings with the external auditor. This provides the opportunity for open dialogue and feedback between the Committee and the Auditor without the Executive Directors being present. Matters typically discussed include the Auditor's assessment of financial reporting risks and key financial reporting judgements, the transparency and openness of interactions with the Senior Management Team, confirmation that there has been no restriction in scope placed on them and the independence of their audit.

The Committee approved the fees for audit services for 2023 after a review of the level and nature of the work to be performed and being satisfied that the fees were appropriate for the scope of the work required. The Committee considers the reappointment of the external auditor, including rotation of the Senior Statutory Auditor, each year and assesses their independence on an ongoing basis.

The Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) requires the Bank to rotate its statutory auditors after a maximum period of tenure. The maximum period has been set at twenty years in the UK, with a mandatory tender at the ten-year midpoint.

GOVERNANCE CONT.

There are no non-audit services provided by the current statutory auditors, MHA.

AUDIT AND RISK COMMITTEE EFFECTIVENESS

The Committee's Terms of Reference were reviewed during the year and found to be fit for purpose.

W D R Swanney
Chairman
22nd April 2024

GOVERNANCE CONT.

STATEMENT OF DIRECTORS RESPONSIBILITIES

IN RESPECT OF THE STRATEGIC REPORT, THE DIRECTORS' REPORT AND THE FINANCIAL STATEMENTS

The directors are responsible for preparing the Strategic Report, Directors' Report, and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Accounting Standards adopted in the United Kingdom ("UK adopted IFRS")

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of its profit or loss for that period. In preparing the financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable, relevant, and reliable;
- State whether they have been prepared in accordance with the Companies Act 2006 and in accordance with UK adopted IFRS.
- Assess the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- Use the going concern basis of accounting unless they either intend to liquidate the Bank or to cease operations or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Bank's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

By order of the Board:

Aruna Kumara
Chief Executive Officer
22nd April 2024

INDEPENDENT AUDITOR'S REPORT

For the purpose of this report, the terms "we" and "our" denote MHA in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of Bank of Ceylon (UK) Limited. For the purposes of the table on pages xx to xx that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA. The "Bank" is defined as Bank of Ceylon (UK) Limited. The relevant legislation governing the Bank is the United Kingdom Companies Act 2006 ("Companies Act 2006").

Opinion
We have audited the financial statements of Bank of Ceylon (UK) Limited for the year ended 31 December 2023. The financial statements that we have audited comprise:

- the Statement of Comprehensive Income
- the Statement of Financial Position
- the Statement of Changes in Equity
- the Statement of Cash Flows, and
- Note 1 to 30 of the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Bank's financial statements is applicable law and International Accounting Standards adopted in the United Kingdom ("UK adopted IFRS").

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2023 and of the Bank's profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards adopted in the United Kingdom ("UK adopted IFRS"); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the Directors' use of the going basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the bank's ability to continue to adopt the going concern basis of accounting included:

- The consideration of inherent risks to the Bank's operations and specifically its business model.
- The evaluation of how those risks might impact on the Bank's available financial resources.
- Where additional resources may be required, the reasonableness and practicality of the assumptions made by the Directors when assessing the probability and likelihood of those resources becoming available.
- Reviewing internal liquidity adequacy assessment process (ILAAP) and internal capital adequacy assessment process (ICAAP) in line regulatory requirement.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Overview of our audit approach

Scope	Our audit was scoped by obtaining an understanding of the Bank and its environment, including the Bank's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.		
Materiality	2023	2022	
Overall materiality	£295k	£266k	1.96% (2022: 2%) of net assets
Key audit matters			
Recurring	• Expected credit loss provisions - Impairment of loans and advances to customers.		

Key Audit Matters

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those matters which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit loss provisions - Impairment of loans and advances

Key audit matter description

At 31 December 2023 the Bank reported-

	2023	2022
	£'000	£'000
Total Loan balance	152,498	113,599
Expected credit losses (ECL)	499	790

The calculation of ECL require management to make significant judgments and estimates which are subjective due to significant uncertainty associated with the assumptions used.
The following areas have greater levels of management judgements and estimations involved and are therefore classified as significant risk areas in the estimation of ECL;

- Staging - Allocation of assets to stage 1, 2, or 3 on a timely basis in accordance with IFRS 9;
- Model estimations – Accounting interpretations, modelling assumptions and data used to build and run the Probability of Default ('PD'), Loss Given Default ('LGD') models that calculate the ECL;
- Economic scenarios - Inputs, assumptions and weightings used to estimate the impact of multiple economic scenarios including any changes to scenarios required;
- Adjustments – Adjustments to the model-driven ECL results are raised by management to address known impairment model limitations or emerging trends as well as risks not captured by models. In-model and post-model adjustments (IMAs and PMAs) which are recognised to address identify model data limitations are inherently uncertain and significant management judgement is involved in estimating certain.
- Significant increase in credit risk ("SICR") - the criteria selected to identify a SICR is a key judgement in the Bank's ECL calculation as this criteria determine whether a 12 month or a lifetime provision is recorded.

How the scope of our audit responded to the key audit matter

Controls testing - We evaluated the design and implementation of key controls across the processes relevant to ECL, including the judgments and estimates noted. These processes, among others, included those over:

- the generation of the multiple economic scenarios including governance processes and the application of weightings to the different scenarios
- the allocation of assets into stages including management's monitoring of stage effectiveness;

- model governance including monitoring and model validation;
- the recording of collateral into lending system for Retail loans;
- the determination of credit risk ratings;
- data accuracy and completeness;
- credit monitoring including governing the watchlist process and the identification of credit impaired loans;
- multiple economic scenarios; and
- the governance and review of in-model adjustments (IMA) and post-model adjustments (PMA);

We engaged the support of our external credit modelling experts to assess the performance of the ECL models and the appropriateness of management's key judgements and assumptions in the context of the current economic environment and our wider industry experience.

Staging - We evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9. We have evaluated management's credit monitoring which derives the probability of default estimates applied in the staging calculation. We have tested a sample of loans to assess the credit quality and to assess if the staging is appropriate.

We evaluated management's credit monitoring which drives the probability of default estimates applied in the staging calculation. We recalculated, on a sample basis, the risk ratings for performing loans. We also assessed the timing and robustness of management's annual credit review on loan exposures to evaluate whether it appropriately considered credit risk factors including publicly available information.

Model estimations – We evaluated and challenged the Bank's impairment methodologies for compliance with IFRS 9. We performed a risk assessment on all models involved in the ECL calculation to select models to test. We involved our external modelling experts to assist us to test this ECL models by testing the assumptions, inputs and formulae used. Our external credit modelling experts have independently replicated the PD, EAD and LGD models.

To evaluate data quality, we agreed a sample of ECL calculation data points to source systems, including balance sheet date data used to run the models and historic loss data to monitor models. We also tested the ECL data points from the calculation engine through to the general ledger and disclosures.

Economic scenarios – Our external expert has evaluated and challenged the economic scenarios and probability weightages. We have compared the management's scenarios with variety of external sources. Our expert has assessed if the forecasted macroeconomic variables are complete and accurate.

Adjustments - We assessed and tested the expert judgements applied by management to address the credit risk in the portfolio that was not reflected in modelled outputs, evaluating and challenging the methodology, completeness and application.

	Overall assessment - We performed an overall assessment of the ECL provision levels by stage to determine if they were reasonable by considering the overall credit quality of the Bank's portfolios. Disclosure - We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations.
Key observations communicated to the Bank's Audit Committee	We found the approach taken in respect of ECL to be consistent with the requirements of IFRS 9 and we have concluded that the assumptions and judgements made by the management in the application of ECL were reasonable and supportable.

Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Overall Materiality	**£295k (2022: £266k)**
• Basis of determining overall materiality	We determined materiality based on 1.96% (2022: 2%) of the net assets value. We have considered the primary users of the financial statements to be shareholders, customers of the Bank, the ultimate parent company, and the UK regulators (FCA and PRA). We have considered that Net Assets is the most appropriate threshold on which to base our assessment of materiality as it is the most relevant financial indicator used by the stakeholders to assess the Bank as well as compliance with appropriate regulatory requirements.
Performance materiality	£177k (2022: £186k)
• Basis of determining overall performance materiality	We set performance materiality based on 60% (2022: 70%) of overall materiality. Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls and the level of misstatements arising in previous audits.
Error reporting threshold	We agreed to report any corrected or uncorrected adjustments exceeding £14.7k (2022: £13k) to the Audit Committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The control environment

We evaluated the design and implementation of those internal controls of the Bank which are relevant to our audit, such as those relating to the financial reporting cycle.

We deployed our internal IT audit specialists to obtain an understanding of the general IT environment and found the IT controls to be operating effectively.

Climate-related risks

In planning our audit and gaining an understanding of the Bank, we considered the potential impact of climate-related risks on the business and its financial statements. We obtained management's climate-related risk assessment, along with relevant documentation and reports relating to management's assessment. We have agreed with managements' assessment that climate-related risks are not material to these financial statements.

Reporting on other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Strategic report and directors report

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received by branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities . This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud, Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery, or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Identifying and assessing potential risks arising from irregularities, including fraud

The extent of the procedures undertaken to identify and assess the risks of material misstatement in respect of irregularities, including fraud, included the following:

- We considered the nature of the industry and sector the control environment, business performance including remuneration policies and the Bank's own risk assessment that irregularities might occur as a result of fraud or error. From our sector experience and through discussion with the directors, we obtained an understanding of the legal and regulatory frameworks applicable to the Bank focusing on laws and regulations that could reasonably be expected to have a direct material effect on the financial statements, such as provisions of the Companies Act 2006, the Financial Services and Markets Act 2000; UK tax legislation or those that had a fundamental effect on the operations of the Bank including the regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).

- We enquired with the directors and management concerning the Bank's policies and procedures relating to:
  - identifying, evaluating and complying with the laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they had any knowledge of actual or suspected fraud; and
  - the internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.

- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included utilising the spectrum of inherent risk and an evaluation of the risk of management override of controls. We determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce costs, creating fictitious transactions to hide losses or to improve financial performance, and management bias in accounting estimates particularly in determining expected credit loss.

Audit response to risks identified
In respect of the above procedures:
- we corroborated the results of our enquiries through our review of the minutes of the Bank's board and audit committee meetings, inspection of the complaints register, inspection of legal and regulatory correspondence and correspondences from the regulators PRA and the FCA;
- audit procedures performed by the engagement team in connection with the risks identified included:
  - ➢ reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations expected to have a direct impact on the financial statements.
  - ➢ testing journal entries, including those processed late for financial statements preparation, those posted by infrequent or unexpected users, those posted to unusual account combinations;
  - ➢ evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias;
  - ➢ enquiry of management around actual and potential litigation and claims.
  - ➢ challenging the assumptions and judgements made by management in its significant accounting estimates, in particular those relating to the determination of the expected credit losses as reported in the key audit matter section of our report; and
  - ➢ obtaining confirmations from third parties to confirm existence of year end balances.
- the Bank operates in a highly regulated banking industry. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities; and
- we communicated relevant laws and regulations and potential fraud risks to all engagement team members, including experts, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Other requirements
We were appointed by the Directors on 20 December 2019. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 5 years.

We did not provide any non-audit services which are prohibited by the FRC's Ethical Standard to the Company, and we remain independent of the company in conducting our audit.

Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Rakesh Shaunak FCA
(Senior Statutory Auditor)
for and on behalf of MHA, Statutory Auditor
London, United Kingdom
22 April 2024

MHA is the trading name of MacIntyre Hudson LLP, a limited liability partnership in England and Wales (registered number OC312313)

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2023

	Note	2023	2022
		GBP 000	GBP 000
Interest income	4	6,466	2,795
Interest expense	5	(4,272)	(1,084)
Net interest Income		**2,194**	**1,711**
Fees and commission income	6	530	474
Net gains from Forex transactions		421	193
Net Operating income		**3,145**	**2,378**
Personnel expenses	7	(1,302)	(1,126)
Operational expenses	8	(940)	(877)
Depreciation	9	(116)	(106)
Amortization	10	(9)	(11)
Impairment gains/losses on credit exposure	11	290	(405)
		(2,077)	(2,525)
Profit/(Loss) from ordinary activities before tax		**1,068**	**(147)**
Tax credit/(charge)on loss from ordinary activities		(179)	1
Profit/(Loss) from ordinary activities after tax		**889**	**(146)**
Fair value gain on valuation of property		574	-
Deferred tax liability		(290)	-
Other comprehensive income		**284**	-
Total comprehensive income/(loss) for the year		**1,173**	**(146)**

The accompanying notes on pages 43 to 69 forms an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

AS AT 31ST DECEMBER 2023

	Note	2023	2022
Assets		**GBP 000**	**GBP 000**
Cash and cash equivalents	13	115,702	86,759
Loans and advances to banks	14	1,831	7,501
Loans and advances to customers	15	34,032	18,096
Derivatives	16	268	1,146
Prepayment and accrued income	17	103	68
Other assets	18	148	115
Investments	19	435	453
Property and equipment	9	3,812	3,450
Intangible assets	10	22	11
Total assets		**156,353**	**117,599**
Liabilities			
Deposits by banks	20	120,815	90,034
Customer accounts deposits	21	19,229	11,427
Derivatives	22	189	852
Accruals	23	357	236
Other liabilities	24	239	974
Current Liabilities		**140,829**	**103,523**
Current tax	12	179	
Deferred tax		534	245
Total liabilities		**141,542**	**103,768**
Equity			
Share capital	25	15,000	15,000
Revaluation reserve		1,104	820
Accumulated losses		(1,293)	(1,989)
Equity shareholders' funds		**14,811**	**13,831**
Total liabilities and equity		**156,353**	**117,599**

The accompanying notes on pages 43 to 69 form an integral part of these financial statements.

These financial statements were approved by the Board of Directors and were authorised for issue on the 22nd of April 2024, and were signed on its behalf by:

Aruna Kumara
Chief Executive Officer

STATEMENT OF CHANGES TO EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2023

	Share Capital	Accumulated losses	Revaluation Reserve	Total Equity
Equity Shareholder's funds 1 January 2023	GBP 000	GBP 000	GBP 000	GBP 000
Cost at 1 January 2023	15,000	(1,989)	820	13,831
Profit for the year	-	889	-	889
Retained earnings Adjustment	-	(193)	-	(193)
Revaluation Reserve movement	-	-	284	284
Equity Shareholder's funds 31st December 2023	**15,000**	**(1,293)**	**1,104**	**14,811**

	Share Capital	Accumulated losses	Revaluation Reserve	Total Equity
Equity Shareholder's funds 1 January 2022	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cost at 1st January 2022	15,000	(1,843)	745	13,902
Total Comprehensive Income		(146)		(146)
Revaluation Reserve movement			75	75
Equity Shareholder's funds 31st December 2022	**15,000**	**(1,989)**	**820**	**13,831**

The accompanying notes on pages 43 to 67 form an integral part of these financial statements

STATEMENT OF CASHFLOW

FOR THE YEAR ENDED 31 DECEMBER 2023

Net cash flow from operating activitie:	Note	2023 GBP 000	2022 GBP 000
Profit / loss before tax		1,068	(147)
Non-cash items included in profit and other adjustments:			
Depreciation of operating property, plant, and equipment	9	116	106
Amortization of intangible assets	10	9	11
Impairment losses on loans to customers	11	(290)	392
Net (increase) / decrease in operating assets:			
Loans to customers		(15,946)	1,260
Financial instruments		6,867	13,513
Other Receivable		(68)	(1,112)
Net increase / (decrease) in operating liabilities			
Retail deposits		7,802	5,616
Financial instruments		30,118	61,911
Other liabilities		(617)	1,598
Cash generated by operations		29,059	83,148
Net cash flow from investing activities		29,059	83,148
Purchase of operating property, plant, and equipment		(116)	(2)
Net cash flow from financing activities			
Repayment on investments		-	747
Net increase/(decrease) in cash and cash equivalents		28,943	83,893
Opening cash and cash equivalents		86,759	2,866
Closing Cash and cash equivalents		115,702	86,759
Represented by balance within:			
Cash	13	32	39
Short term bank balances		115,670	86,720
		115,702	86,759

The accompanying notes on pages 43 to 67 forms an integral part of these financial statement

NOTES TO THE FINANCIAL STATEMENTS

1) REPORTING ENTITY

Bank of Ceylon (UK) Limited (the "Bank") is a company incorporated in England and Wales under the Companies Act 2006 and is domiciled in the United Kingdom. The Bank is authorised by the PRA and regulated by the FCA and the PRA to carry on certain regulated financial services activities including deposit-taking and dealing in investments as principal. The Bank offers retail services, corporate and correspondent banking facilities in addition to trade finance and remittance services.

Information regarding the principal activities and operations of the Bank and its regulatory status is set out in the Report of the Directors and in the notes to the financial statements.

2) BASIS OF ACCOUNTING

These financial statements of the Bank have been prepared in accordance with International Accounting Standards adopted in the United Kingdom ("UK adopted IFRS") and those parts of the Companies Act 2006 applicable to companies applying UK adopted IFRS. They were authorised for issue by the Bank's Board of Directors on the 22nd of April 2024.

A) New standards and amended standards

The following new standards or amendments to existing standards were applicable for the first time but have no impact on the financial statements.

Lease liability in a sale and leaseback transaction (Amendments to IFRS 16)

The amendments to IFRS 16 change the basis of calculation of a gain or loss arising on a sale and leaseback transaction to better reflect in terms of economic substance, the lessee's retained ownership interest.

The amendment is effective for financial years beginning on or after 1 January 2023 and is not yet endorsed by the UK Endorsement Board (UKEB).

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendment narrows the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporal differences e.g., leases and decommissioning liabilities.

For changes affecting leases and decommission liabilities, the associated deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date.

For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The amendment is effective for financial years beginning on or after 1 January 2023 and is endorsed by the UKEB.

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments, as issued in 2020, aim to clarify the requirements on determining whether a liability is current or non-current, and apply for annual reporting periods beginning on or after 1 January 2023.

The IASB has subsequently proposed further amendments to IAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than 1 January 2023. The amendment is not yet endorsed by the UKEB.

Amendments to References to the Conceptual Framework in IFRS standards.

In February 2021, the IASB issued amendments to IAS8 that replaces the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are clarified as monetary amounts in financial statements that are subject to measurement uncertainty. Where an entity's accounting policy requires an item to be measured at monetary amounts that cannot be observed directly, it should develop an accounting estimate to achieve this objective.

The amendments are effective for annual periods beginning on or after 1 January 2023 and will be applied from that date.

The amendments to IAS 1 and IAS 8 clarify that information is material if omitting, misstating, or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments also clarify that information is deemed to be obscured if communicated in a manner that has a similar effect on the primary users of financial statements, had the information been omitted or misstated instead.

b) Going concern basis of accounting

The financial statements of the Bank have been prepared on a going concern basis, as the directors continue to be of the opinion that the Bank has sufficient resources to continue in business for the foreseeable future.

The directors' opinion that the financial statements should be prepared on a going concern basis has been reached after reviewing the company's budget, cash flow forecast for the next three years.

In forming this opinion, the directors have had due regard to the guidance issued by the Financial Reporting Council in April 2016 entitled 'Guidance on Going Concern basis of accounting and reporting on material uncertainties, solvency, and liquidity.

c) Functional and presentational currency

The functional currency of the Bank is pounds Sterling, the currency of the country in which the bank is incorporated. These financial statements are presented in Sterling (GBP) and amounts are rounded to the nearest thousand pounds, except when otherwise indicated.

d) Basis of measurement

These financial statements have been prepared on the historical cost basis. The exception to this is the following assets: cash and cash equivalents and non-defaulted investments. Property plant & equipment is on a revalued basis. Liabilities include derivatives which are recorded at fair value while all other liabilities are on a historical basis.

e) Critical accounting estimates

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. There have been no significant changes in the basis upon which critical estimates and judgements have been determined compared to those applied as of 31st December 2023.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

The Bank considers data from reputable external sources to form a general market consensus which informs its central scenario. These sources include data and forecast from public statements, PRA and private sector economic research bodies. The Bank also takes account of public statements from bodies such as the Bank of England and the UK Government in deciding its final position.

The base case used for the IFRS9 impairment is consistent with the base case scenario which forms the basis for the banks business planning and forecasting. The upside and downside scenarios continue to be derived from the base scenario. The sever scenarios has been derived from the guidelines provided by the Bank of England. To ensure that the scenario is appropriately sever a slightly higher level of unemployment. The assumption under the severe scenario includes a worsening of the trade finance business with Sri Lanka which is assumed to deteriorate further with money market deposits assumed to decline.

The weightings attached to each scenario are set out below:

Base case scenario	45%
Upside scenario	5%
Downside Scenario	50%

The impacts of these scenarios on capital and liquidity have been considered by the board in assessing the going concern of the bank as set out on pages 9 and 10.

3) MATERIAL ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

a) Interest income and expense

Interest income is recognised in the income statement using the effective interest method which discounts the estimated future cash payments or receipts over the expected life of the financial instruments to the gross carrying amount of the non-credit impaired financial asset. Interest expense is recognised in the income statement using the same effective interest method on the amortised cost of the financial liability.

The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

b) Foreign currency

Transactions in foreign currencies are translated to the functional currency, Sterling, at the

exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currency are translated into Sterling at the closing exchange rate and resultant gains and losses on translation are included in the statement of comprehensive income.

c) Fees and commissions

The bank earns fees and commission income from diverse range of financial services to customers. Fee and commission income is recognised at an amount that reflects the consideration to which the bank expects to be entitled in exchange for the services provided.
Fees and commission that are not an integral part of the effective interest rate are excluded from fees and commission from customers. Fee and commission income includes the provision of retail and corporate products and services, comprising of trade finance, E-cash remittances, and treasury payments and mortgage services.

Fees and commission income derived from trade finance mainly arise from advising letter of credit that originate in other geographies.

Most of the fee and commission income is earned on the execution of a single performance obligation and as such, it is not necessary to make significant judgements when allocating the transaction price to the performance obligation. As such, fee and commission income is recognised at a point in time.

d) Derivatives

Derivative contracts consist of currency swap contracts outstanding at the reporting date. In assessing the impact of market movements derivatives are valued using MTM which is reflected in the balance sheet. The bank does not use derivative financial instruments for speculative or trading purposes.

e) Investments

Investment comprises of sovereign bonds and US Treasury bonds. US treasuries are held for liquidity purposes in accordance with LCR requirements while sovereign bond investments are held for income purposes. These investments are initially measured at the transaction price and then subsequently measured at amortised cost with interest income recognised in the profit and loss using the effective interest method.

f) Property and equipment

The Bank's premises are shown at fair value based on periodic valuation by an external independent valuer's report less subsequent depreciation and impairment losses. Valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date.

The revaluation reserve is released against future depreciation and impairment charges. The transfer to retained earnings should not be made through profit or loss.

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The Bank's property, plant and equipment is carried at cost, less accumulated depreciation, and impairment losses. Impairment is assessed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Furniture and fittings are measured and recorded on financial statements at their historical cost since the value is unlikely to fluctuate, it is recorded at cost price. However, carrying value of the particular asset is subject to yearly depreciation charge and impairment is assessed regularly.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The estimated useful lives for the current year are as follows:

Buildings	50 years
Refurbishment	10 years
Fixture's fittings and furniture	10 years
IT equipment and software	5 years

Depreciation methods, useful lives and residual values are reassessed at each financial year end and adjusted if appropriate.

g) Revaluation reserves

The Bank's main office building whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be carried out every third year to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

h) Intangible assets

Intangible assets comprise computer software which is not considered as an integral part of the related hardware. Intangible assets acquired by the Bank, and which have finite useful lives are measured at cost less accumulated amortisation and impairment losses, if any. Other intangible assets acquired by the Bank, and which have infinite useful lives are measured at cost less accumulated impairment losses, if any. Any impairment loss on an intangible asset is recognised if the carrying amount of the asset group is not recoverable and below its fair value.

i) Amortisation

Amortisation is recognised in the statement of comprehensive income on a straight-line basis over the estimated useful lives of the intangible assets from the date they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software	5 years

j) Financial assets and financial liabilities

i. Classification

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Bank's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Bank assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Bank reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Bank's operations.

Reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless the Bank elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss, but fair value gains and losses are not subsequently reclassified to profit or loss following de-recognition of the investment.

ii. Loans and advances

Loans and advances to customers arise when providing money directly to a customer and includes a mortgage, term lending and overdrafts. They are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method adjusted for ECL. They are derecognised when the rights to receive cash flows have expired or when substantially all the risks and reward of ownership are transferred.

iii.Recognition

The Bank initially recognises loans, advances, and deposits at fair value on the date at which they are originated.

iv.De-recognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

v. Offsetting

Financial assets and liabilities are offset, and the net amount presented in the statement of financial position when and only when the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and liability simultaneously.

Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arises from similar transactions such as the Bank's trading activity.

vi. Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount minus any reduction for impairment.

vii. Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available the fair value of a financial instrument using quoted prices in an active market for that instrument. Where no such market exists for the particular asset or liability, the valuation technique used to arrive at the fair value, including the use of the transaction prices obtained in recent arm's length transactions where possible, discount cash flow analysis and other valuation techniques commonly used by market participants. In doing so fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity – specific inputs.

viii.Impairment

Impairment provisioning ECL (expected credit loss) is determined by using a staging model and forward-looking information. Impairment provision on all financial assets is recognised either on 12-month losses or lifetime expected losses.

- ❖ Probability of Default (PD) is used to assess the likelihood of a default event occurring within the next 12 months.

- Loss Given Default (LGD) represents the extent of loss on a defaulted exposure.

- Exposure at Default (EAD) is the amount expected to be owed, at the time of the default.

- Expected credit loss (ECL) is calculated as the discounted multiple of the Probability of default, the exposure at default and the loss given a default.

Stage 1 – are financial assets that have not decreased significantly in credit quality since initial recognition or that have low credit risk at the reporting date. In forming this judgement Credit department and Risk department jointly review and update all customer account information, in making an assessment for all lending. In assessing the credit risk of investments and treasury assets, the Bank uses external rating agency data to identify any changes since initial recognition. For stage 1 assets, the Bank recognises a 12-month expected loss allowance on initial recognition. Interest revenue is calculated on the gross carrying amount of the asset.

Stage 2- exposures are where an account has exceeded 30 days past due or where a there has been a significant increase in credit risk since initial recognition. An exposure will be considered to have deteriorated, where there are delays in payments or where external information reflects a weakening in credit risk. In the case of investments, a rating decline could cause the staging to be downgraded. The Bank also takes into consideration the impact of macroeconomic factors on an institutional counterparty. Where there has

been a subsequent improvement in credit risk such that a Stage 2 asset is considered to have same or better credit risk as it had at inception the asset shall be re-classified as Stage1. For Stage 2 assets lifetime ECL is recognized, but interest revenue is still calculated on the gross carrying amount of the asset.

Stage 3 - are exposures where there is objective evidence that the credit risk is impaired. For Stage 3 assets, lifetime ECL is recognized, and interest income is calculated on the net carrying amount (that is, net of credit allowance).

Significant increase in credit risk (SICR)

The Bank defines a SICR, in the following hierarchical order:

- Change in credit risk based on qualitative indicators causing the asset to be included under watch list, forbearance, and bankruptcies.

- Exposure becomes 30 days past due:

ix. Financial guarantees

Financial guarantees are contracts that the Bank enters, to make specified payments to reimburse the holder of the guarantee, for a loss it incurs because a specified debtor fails to make payment, when due in accordance with the terms of a debt instrument. These guarantees are issued for a fee.

k) Confirmation of documentary credits

A confirmed letter of credit is a guarantee given by the Bank to an exporter. This is in addition to the letter of credit received from the importer's bank. The confirmed letter decreases the risk for the exporter. The confirmation assures the exporter payment in the event the importers bank fails to pay the exporter. Confirmations are issued for a fee.

l) Cash and cash equivalents.

Cash and cash equivalents include cash in hand and funds held with Bank's, on current, on demand or with maturities of three months or less from inception.

m) Pension liabilities

The Bank operates a defined contribution pension scheme and the amount charged in the profit and loss in respect of pension costs, is the contribution payable in the period.

n) Taxation

Current tax is the expected tax payable on the taxable income for the year using tax rates laws enacted or substantively enacted on the reporting date.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated using rates and laws that have been enacted or substantively enacted at the reporting date which are expected to apply when the temporary difference reverses.

Deferred tax on revalued property is calculated based on the expected manner of the recovery value of the property.

Deferred tax is recognised in profit or loss unless it relates to an item of other comprehensive income or equity in which case it is recognised in other comprehensive income or equity respectively.

o) VAT

Expenses are recognised gross of any amounts of value added tax. Where value added tax is recoverable in part from the taxation authorities it is reflected as other income within the Statement of Comprehensive Income.

p) Financial risk management

The management of credit risk, liquidity risk, and market risk are set out in the strategic report on pages 13 to 19.

4) Interest Income	Year ended 31st December 2023 GBP 000	Year ended 31st December 2022 GBP 000
Loans and advances to customers	1,414	1,074
Loans and advances to banks	5,045	1,699
Interest from investments	7	22
	6,466	2,795

Interest income for all interest-bearing financial instruments is recognised in the statement of comprehensive income using the effective interest rate method.

5) Interest Expense	Year ended 31st December 2023 GBP 000	Year ended 31st December 2022 GBP 000
Customer deposits	219	113
Amounts due to banks	4,053	971
	4,272	1,084

6) Fees and commission	Year ended 31st December 2023 GBP 000	Year ended 31st December 2022 GBP 000
International commission	119	124
Domestic commission	332	301
Other income	79	49
	530	474

All international income is derived from trade finance services provided to Sri Lankan counterparties.

7) Personnel expenses	Year ended 31st December 2023 GBP 000	Year ended 31st December 2022 GBP 000
Staff		
Salary and allowances	888	728
Social security costs	97	88
Pension costs	33	33
	1,018	849
Directors		
Salary and allowances	256	242
Social security costs	28	35
	284	277
Total staff cost	1,302	1,126

Average number of employees during the year		
Executive directors	2	2
Independent non-executive directors	2	2
Executive management	3	2
Clerical and other grades	19	18
	26	24

The Bank makes defined contributions to the personal pension funds of employees under Group Personal Pension arrangements. Contributions are recognised in the Statement of Comprehensive Income as they are payable.

DIRECTORS' EMOLUMENTS

The total emoluments of the directors were GBP 256,366 (2022 – GBP 241,713). The highest paid director received emoluments of GBP 122,518 in 2023 (2022- GBP 96,233).

8) Operational expenses

	Year ended 31st December 2023 GBP 000	Year ended 31st December 2022 GBP 000
Audit of statutory financial statements	112	94
Other administrative expenses	828	783
	940	877

9) Property Plant and Equipment

	Land GBP 000	Freehold property GBP 000	Computer equipment GBP 000	Furniture equipment GBP 000	Total 2023 GBP 000
Cost at 1 January 2023	**1,760**	**1,640**	**360**	**200**	**3,960**
Additions in the year	-	81	-	15	97
Cost at 31 December 2023	**1,760**	**1,721**	**360**	**215**	**4,057**
Accumulated depreciation					
Depreciation at 1 January 2023	-	**(114)**	**(235)**	**(157)**	**(506)**
Depreciation charged for the year	-	(44)	(56)	(16)	(116)
Revaluation	185	192	-	-	377
Depreciation at 31 December 2023	**185**	**35**	**(291)**	**(173)**	**(245)**
Net book value at 31 December 2023	**1,945**	**1,755**	**69**	**42**	**3,812**

	Land	Freehold property	Computer equipment	Furniture equipment	Total 2022
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cost at 1 January 2022	**1,760**	**1,640**	**358**	**200**	**3,958**
Additions in the year	-	-	2	-	2
Cost at 31 December 2022	**1,760**	**1,640**	**360**	**200**	**3,960**
Accumulated depreciation					
Depreciation at 1 January 2022	-	**(75)**	**(175)**	**(141)**	**(391)**
Depreciation charged for the year	-	(37)	(60)	(16)	(113)
Revaluation	-		-	-	-
Depreciation at 31 December 2022	-	**(112)**	**(235)**	**(157)**	**(504)**
Net book value at 31 December 2022	**1,760**	**1,528**	**125**	**43**	**3,456**

Land and building occupied by the Bank as its main office, was valued on 16th February 2024 using the same independent firm of valuers who carried out the previous valuation in 2023. The valuation model used to determine the property value is the rental value for office space as defined by the Royal Institution of Chartered Surveyors. The valuation at the end of 2023 given in the table above reflects the latest valuation of GBP 3,700,000. The original cost of the head office building is GBP 2,560,000 and accumulated depreciation as 31/12/2023 is GBP 374,000 (2022- GBP 281,200). The prior year comparative numbers have not been amended in the 2022 table above to give effect to the revaluation as at 1st January 2022. Further, the comparative numbers in the financial statement for PPE has not been restated as the impact of the change is not material.

10) Intangible assets – computer software

	2023 Computer Software	2022 Computer software
Cost	**GBP 000**	**GBP 000**
Cost at 1st January	737	737
Additions in the year	20	-
Cost at 31st December	757	737
Accumulated Amortisation		
Depreciation at 1st January	(726)	(715)
Depreciation charge for the year	(9)	(11)
Depreciation at 31st December	(735)	(726)
Net Book value at 31st December	**22**	**11**

Intangible assets represent software licenses purchased and having a useful economic life of 5 years.

11) Expected credit loss provisioning

Loans, advances to banks and cash	Gross Exposure	Stage 1	Stage 2	Stage 3	Total	Net Exposure
Balance at 1st January 2023	94,550	(290)	-	-	(290)	94,260
Net re-measurement of loss allowance		281	-	-	281	
Balance at 31st December 2023	117,542	(9)	-	-	(9)	117,533

Loans and advances to customers	Gross Exposure	Stage 1	Stage 2	Stage 3	Total	Net Exposure
Balance at 1st January 2023	18,105	(9)	-	-	(9)	18,096
Net re-measurement of loss allowance		(9)	-	-	(9)	
Balance at 31st December 2023	34,050	(18)	-	-	(18)	34,032

Investments	Gross Exposure	Stage 1	Stage 2	Stage 3	Total	Net Exposure
Balance at 1st January 2023	944	-	-	(491)	(491)	453
Transfer to stage 1		-	-	-	-	
Net re-measurement of loss allowance		-	-	20	20	
Balance at 31st December 2023	906	-	-	(471)	(471)	435

Total ECL provision	Gross Exposure	Stage 1	Stage 2	Stage 3	Total	Net Exposure
Balance at 1st January 2023	113,599	(299)	-	(491)	(790)	112,809
Transfers						
Net re-measurement of loss allowance		270	-	20	290	
Balance at 31st December 2023	152,498	(29)	-	(471)	(500)	152,000

Loans, advances to banks and cash	Gross Exposure	Stage 1	Stage 2	Stage 3	Total	Net Exposure
Balance at 1st January 2022	24,157	(187)	-	-	(187)	23,970
Net re-measurement of loss allowance		(103)	-	-	(103)	
Balance at 31st December 2022	94,550	(290)	-	-	(290)	94,260

Loans and advances to customers	Gross Exposure	Stage 1	Stage 2	Stage 3	Total	Net Exposure
Balance at 1st January 2022	19,365	(6)	-	-	(6)	19,359
Net re-measurement of loss allowance		(3)	-	-	(3)	
Balance at 31st December 2022	18,105	(9)	-	-	(9)	18,096

Investments	Gross Exposure	Stage 1	Stage 2	Stage 3	Total	Net Exposure
Balance at 1st January 2022	1,691	(19)	(173)	-	(192)	1,499
Transfer to stage 1	-	-	-	-	-	
Net re-measurement of loss allowance	-	19	173	(491)	(299)	
Balance at 31st December 2022	944	-	-	(491)	(491)	453

Total ECL provision	Gross Exposure	Stage 1	Stage 2	Stage 3	Total	Net Exposure
Balance at 1st January 2022	45,213	(212)	(173)	-	(385)	44,828
Transfers	-	-	-	-	-	-
Net re-measurement of loss allowance		(87)	173	(491)	(405)	-
Balance at 31st December 2022	113,599	(299)	-	(491)	(790)	112,809

Financial Instruments held by the Bank comprise of loans to banks, loans and advances to customers, investments in sovereign bonds, bills discounting, and confirmation of letters of credit. All loans and advances to customers are against property or cash collateral.

The table below set out the net exposure after ECL provisioning by geographic location.

Geographical Location	Amount GBP '000'
UK	146,390
France	1,394
JPY	3
Netherland	1,499
Sri Lanka	687
USA	1,995
Total	**151,968**

As shown in the table above, the category - loans, advances to banks and cash combines the assets described in notes 13 and 14. In addition, the ECL provision includes letter of credit confirmations, which is an off-balance sheet item.

Sri Lankan International sovereign bonds (ISBs) of USD 1million remain in default following non-payment of interest and capital. The sovereign rating was downgraded to selective default (SD) in April 2022. Accordingly, the investment was impaired and an ECL provision of 60% loss given default was made based on historical data for debt defaults in the region. Discussions between the GOSL and debt holders are continuing towards reaching a final settlement. The ISB is carried in the books at a value of GBP 435,000 net of provision. The overall reduction in ECL provisioning by £290,000 at the end of 2023, reflects the reduced trade finance business volumes and counterparty exposures to Sri Lanka following the economic crisis.

The credit loss provision as at 31st December 2023 is GBP 499,956 (2022 GBP 790,000).

12) Analysis of the tax charge

	As at 31st December 2023	As at 31st December 2022
UK corporation tax at 23.5% (2022-19%)	179	-
Adjustments in respect of prior periods	(2)	(1)
Total tax charge /(credit)	177	(1)
Origination and reversal of timing differences	2	-
Adjustments in respect of prior periods (Regarding revaluation reserves)		(84)
Effect of tax rate change on opening balance		-
Total deferred tax charge /(credit)	2	(84)
Tax on profit on ordinary activities	179	(85)

	As at 31st December 2023	As at 31st December 2022
Profit/loss from ordinary activities before tax	1,068	(147)
Tax at 23.5% (2022-19%)	254	(28)
Fixed assets differences	20	18
Adjustments in respect of prior periods	(3)	(1)
Effect of expenses not deductible for tax purposes	1	1
Effect of tax rate change	7	(3)
Temporary differences not recognised	(100)	(73)
	179	(85)

Management have decided not to recognise a deferred tax asset of GBP 160,262 (2022: GBP 260,479) arising on GBP 641,047 (2022: GBP 1,041,917) of tax losses until the Bank establishes a consistent record of profitability.

Finance Act 2021 enacted an increase of corporation tax from 19% to 25% with effect from 1st April 2023. For this reason, the applicable rate in the tax reconciliation changed from 19% for the year ended 31st December 2022 to 23.5% for the year ended 31st December 2023. Deferred tax liabilities on 31st December 2023 have been valued using 25% rate.

13) Cash and cash equivalents

	As at 31st December 2023 GBP 000	As at 31st December 2022 GBP 000
Cash in hand	32	39
Current Account balances	6,896	3,118
Bank of England reserve account	108,774	83,615
	115,702	86,772
Less impairment loss allowance	-	(13)
	115,702	86,759

The above table reflects money market placements with maturities below 60 days from the date of origination.

14) Loans and advances to banks

	Year ended 31st December 2023 GBP 000	Year ended 31st December 2022 GBP 000
Repayable within one month	1,500	247
Repayable within three months but > than 1 month	252	-
Repayable with agreed maturity within 1 year but > than 3 months	88	7,531
	1,840	7,778
Less impairment loss allowance	(9)	(277)
Net Loans	1,831	7,501

Loans to banks repayable within the one-month category, increased during the year as overnight money market deposits from counterparties grew. The ECL provision assessed at the end of the year is GBP 9,000. Loans and advances to banks included GBP Nil in relation to bills discounted issued by BOC Group companies (2022 GBP 54,000).

15) Loans and advances to customers

As at 31st December 2023

	Gross amount GBP 000	Impairment allowances GBP 000	Carrying amount GBP 000
Personal loans and advances	30,188	(18)	30,170
Commercial loans and advances	3,862	-	3,862
	34,050	(18)	34,032

The ECL provision against all loans granted have been assessed at GBP 18,796 at the end of 2023 (2022 GBP 8,743). Included in this category are loans and advances to staff which amounts to GBP 47,107 (2022 GBP 31,506).

As at 31st December 2022

	Gross amount GBP 000	Impairment allowances GBP 000	Carrying amount GBP 000
Personal loans and advances	10,750	(9)	10,741
Commercial loans and advances	7,355	-	7,355
	18,105	(9)	18,096

16) Derivatives

	31st December 2023 GBP 000	31st December 2022 GBP 000
Currency swaps	268	1,146
	268	1,146

17) Prepayment and accrued income

	31st December 2023 GBP 000	31st December 2022 GBP 000
Prepayments	103	68
	103	68

18) Other assets

	Year ended 31st December 2023 GBP 000	Year ended 31st December 2022 GBP 000
Cheque clearing	42	17
Others	106	98
	148	115

Others in the above table represent interest receivable of £68,000, suspense account debtors of £20,000 and others of £18,000. (2022- £58,000, £26,000 & £14,000)

19) Investments

	Year ended 31st December 2023 GBP 000	Year ended 31st December 2022 GBP 000
Investments in securities measured at amortised cost	906	944
Less impairment loss allowance	(471)	(491)
	435	453

The investments above have been classified as held to collect and recognised at amortized cost. Bank investments consist of defaulted ISB's issued by GOSL and US Treasury bills. The GOSL investment is denominated in USD and matured on 18th April 2023. Following the GOSL decision to suspend interest and capital payments pending a restructuring of the country's external debt, the instrument was downgraded to selective default (SD). Consequently, the investment was impaired in 2022 using a loss-given default of 60%. This was based on historical data on losses for the region published by the rating agency. Negotiations between the external creditors and GOSL are continuing in arriving at a settlement.

20) Deposits by banks

	As at 31st December 2023 GBP 000	As at 31st December 2022 GBP 000
Repayable on demand or at short notice	93,491	15,167
Repayable with agreed maturity within three months	11,530	52,013
Repayable with agreed maturity within 3 months & 1Yr		
Repayable with agreed maturity of over 1 year	15,794	22,854
	120,815	90,034

21) Customer account deposits

	As at 31st December 2023 GBP 000	As at 31st December 2022 GBP 000
Repayable on demand or at short notice	4,237	4,960
Repayable with agreed maturity within three months	159	39
Repayable with agreed maturity over 3 months	14,833	6,428
	19,229	11,427

22) Derivatives - Liabilities

	As at 31st December 2023 GBP 000	As at 31st December 2022 GBP 000
Currency swaps	189	852
	189	852

23) Accruals

	As at 31st December 2023 GBP 000	As at 31st December 2022 GBP 000
Accruals	357	236
	357	236

24) Other Liabilities

	As at 31st December 2023 GBP 000	As at 31st December 2022 GBP 000
Trade payables	239	974
	239	974

25) Share Capital

	As at 31 December 2023 GBP 000	As at 31 December 2022 GBP 000
15,000,000 (2022: 15,000,000) Authorised, issued, and fully paid shares of GBP 1 each	15,000	15,000

Ordinary shares were issued at par, and they qualify for standard voting rights and equal dividends.

26) Related Parties and Ultimate Controlling Parties

The Bank of Ceylon (UK) Limited is a wholly owned subsidiary of Bank of Ceylon the ultimate parent which is a licensed commercial bank established in Sri Lanka under the Banking Act No. 30 of 1988 and owned by the Government of Sri Lanka.

The registered office of the Parent is situated at No. 01, Bank of Ceylon Square, Bank of Ceylon Mawatha, Colombo 01, Sri Lanka. Copies of the Parent consolidated accounts are obtainable at: http://web.boc.lk/index.php.

The Bank has a related party relationship with its Parent, associates, directors and executive officers including business entities over which they can exercise control or significant influence, or which can exercise significant influence over the Bank. The Bank's management are of the opinion that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

The Bank enters into commercial transactions in the ordinary course of business with these parties on an arm's length basis. In the normal course of business, the Bank has discounted bills of exchange, received commissions on exports bills and paid interest on deposits received from the parent during the year. Two ten-year deposits of GBP 10.7 million and USD 6 million are currently rolled over annually for a further ten-year period.

Interest payable to the Bank of Ceylon in respect of deposits held during 2023 amounted to GBP 3,936,987 (2022 GBP 971,321). As at the 31 December 2023, Bank of Ceylon (UK) Limited held deposits of GBP 115,749,041 (2022 GBP 74,866,902) excluding Vostro balances on behalf of the Bank of Ceylon. Bills discounted on behalf of the Bank of Ceylon as at 31/12/2023 amounted to GBP nil (2022 GBP 53,051) and confirmation on behalf of the Bank of Ceylon as at 31/12/2023 amounted to GBP nil (2022 GBP 111,295).

	As at 31st December 2023 GBP 000	As at 31st December 2022 GBP 000
Repayable on demand or at short notice	88,873	2,642
Repayable with agreed maturity within three months	10,004	52,013
Repayable with agreed maturity within 3 months & 1Yr		
Repayable with agreed maturity of over 1 year	15,794	22,854
	114,671	77,509

27) Transactions with directors and managers

As at December 2023 GBP 17,000 was outstanding by way of loans to managers of the bank (2022- GBP 1,000).

28) Contingent Liabilities

	As at 31st December 2023 GBP 000	As at 31st December 2022 GBP 000
Documentary credits	19	1,690
	19	1,690

Documentary credits consist of confirmed letters of credit, received from correspondent banks, on behalf of export customers. These financial instruments have been included in assessing expected credit loss provisioning under IFRS9.

29) Interest rate risk

As at 31st Dec 2023	Carrying Value GBP 000	0-3 Months GBP 000	3-12 Months GBP 000	Over 1 Year GBP 000	Non-Interest Bearing GBP 000
Assets					
Cash and cash equivalents	115,702	108,774	-	-	6,928
Loans and advances to banks	1,831	1,743	88	-	-
Loans and advances to customers	34,032	22,016	693	11,323	-
Debt securities	435	121	-	314	-
Financial derivatives	268	268	-	-	-
Prepayments	103	-	-	-	103
Other assets	148	-	-	-	148
Total assets	**152,519**	**132,922**	**781**	**11,637**	**7,179**
Liabilities					
Deposits by banks	120,815	105,398	15,417	-	-
Customer accounts	19,229	2,308	2,874	11,747	2,300
Derivatives	189	189	-	-	-
Accruals	357	-	-	-	357
Other liabilities	418	-	-	-	418
Deferred tax	534	-	-	-	534
Total liabilities	**141,542**	**107,895**	**18,291**	**11,747**	**3,609**
Net interest gap		25,027	(17,510)	(110)	3,570
Cumulative interest gap		25,027	7,517	7,407	

As at 31st Dec 2022	Carrying Value GBP 000	0-3 Months GBP 000	3-12 Months GBP 000	Over 1 Year GBP 000	Non-Interest Bearing GBP 000
Assets					
Cash and cash equivalents	86,759	83,615	-	-	3,144
Loans and advances to banks	7,501	4,828	2,673	-	-
Loans and advances to customers	18,096	15,766	-	2,330	-
Debt securities	453	126		339	(12)
Financial Derivatives	1,146	-	1,146	-	-
Prepayments	68	-	-	-	68
Other assets	115	-	-	-	115
Total assets	**114,138**	**104,335**	**3,819**	**2,669**	**3,315**
Liabilities					
Deposits by banks	90,034	52,013	22,854		15,167
Customer accounts	11,427	2,283	392	6,036	2,716
Derivatives	852		852	-	-
Accruals	236	-	-	-	236
Other liabilities	974	-	-	-	974
Deferred tax	245	-	-	-	245
Total liabilities	**103,768**	**54,296**	**24,098**	**6,036**	**19,338**
Net interest gap		50,039	(20,279)	(3,367)	(16,023)
Cumulative interest gap		50,039	29,760	26,393	

Interest rate risk arises from the possibility that changes in interest rates could adversely affect the value of a financial instrument which includes loans, deposits, and debt securities. An increase in interest rates by 1.00% would contribute additional interest income of GBP 144,550 (2022 - GBP 263,930) and a decrease will produce a reverse effect.

30) Maturity Analysis

As at 31st Dec 2023	Total	0-3 Months	3-12 Months	Over 1 Year	Over 5 Years
Assets	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cash and cash equivalents	115,702	115,702	-	-	-
Loans and advances to banks	1,831	1,743	88	-	-
Loans and advances to customers	34,032	425	3,200	30,407	-
Debt securities	435	121	-	314	-
Derivatives	268	268	-	-	-
Prepayments	103	-	-	-	103
Other assets	148	-	-	-	148
Total assets	**152,519**	**118,259**	**3,288**	**30,721**	**251**
Liabilities					
Deposits by banks	120,815	105,398	-	15,417	-
Customer accounts	19,229	4,608	2,874	11,747	-
Derivatives	189	189	-	-	-
Accruals	357	-	-	-	357
Other liabilities	418	-	-	-	418
Deferred tax	534	-	-	-	534
Total Liabilities	**141,542**	**110,195**	**2,874**	**27,164**	**1,309**
Net maturity gap		8,064	414	3,557	(1,058)
Cumulative maturity gap		8,064	8,478	12,035	

As at 31st Dec 2022	Total	0-3 Months	3-12 Months	Over 1 Year	Over 5 Years
Assets	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cash and cash equivalents	86,759	86,759	-	-	-
Loans and advances to banks	7,501	4,827	2,674	-	-
Loans and advances to customers	18,096	192	850	17,054	-
Debt securities	453	126	-	327	-
Derivatives	1,146	-	1,146	-	-
Prepayments	68	-	-	-	68
Other assets	115	-	-	-	115
Total assets	**114,138**	**91,904**	**4,670**	**17,381**	**183**
Liabilities					
Deposits by banks	90,034	72,689	-	17,345	-
Customer accounts	11,427	4,999	389	6,039	-
Derivatives	852	-	852	-	-
Accruals	236	-	-	-	236
Other liabilities	974	-	-	-	974
Deferred tax	245	-	-	-	245
Total Liabilities	**103,768**	**77,688**	**1,241**	**23,384**	**1,455**
Net maturity gap		14,216	3,429	(6,003)	(1,272)
Cumulative maturity gap		14,216	17,645	11,642	-

31) Foreign Exchange Exposure

The Bank's exposure to foreign currency risk, based on notional amounts, was as follows:

As at 31st Dec 2023	Total GBP 000	GBP GBP 000	Euro GBP 000	LKR GBP 000	USD GBP 000
Assets					
Cash and cash equivalents	115,702	112,221	1,552	40	1,888
Loans and advances to banks	1,831	-	1,491	-	340
Loans and advances to customers	34,032	34,032	-	-	-
Debt securities	435	(472)	-	-	907
Derivatives	268	-	-	-	268
Prepayments	103	103	-	-	-
Other assets	148	80	-	-	68
Total assets	**152,519**	**145,964**	**3,043**	**40**	**3,471**
Liabilities					
Deposit by Banks	120,815	111,600	3,022	-	6,193
Customer accounts	19,229	19,169	21	-	39
Derivatives	189	-	-	-	189
Accruals	357	357	-	-	-
Other liabilities	418	331	-	-	87
Deferred Tax	534	534	-	-	-
Total Liabilities	**141,542**	**131,991**	**3,043**	**-**	**6,508**
Net Maturity Gap		13,973	-	40	(3,037)
Foreign exchange contracts		(3,000)	-	-	3,000
Cumulative maturity gap		10,973	-	40	(37)

As at 31st Dec 2022	Total	GBP	Euro	LKR	USD GBP
Assets	GBP 000	GBP 000	GBP 000	GBP 000	000
Cash and cash equivalents	86,759	83,785	1,717	24	1,233
Loans and advances to banks	7,501	3,652	1,107	-	2,742
Loans and advances to customers	18,096	18,096	-	-	-
Debt securities	453	(491)	-	-	944
Derivatives	1,146	635	511	-	-
Prepayments	68	68	-	-	-
Other assets	115	57	-	-	58
Total assets	**114,138**	**105,802**	**3,335**	**24**	**4,977**
Liabilities					
Deposits by Banks	90,034	79,892	2,782	-	7,360
Customer accounts	11,427	11,356	42	-	29
Derivatives	852	405	447	-	-
Accruals	236	236	-	-	-
Other liabilities	974	794	-	-	180
Deferred tax	245	245	-	-	-
Total liabilities	**103,768**	**92,928**	**3,271**	**0**	**7,569**
Net maturity gap		12,874	64	24	(2,592)
Foreign exchange contracts		(2,480)	(64)	-	2,544
Cumulative maturity gap		10,394	-	24	(48)

Foreign exchange risk is the sensitivity to potential movements in exchange rates of a position's value that is denominated in a different currency from the base currency. Hence, a long or open position in a foreign currency may produce a loss if that currency depreciates against the base currency. As at 31st December 2023 a 5% strengthening of Sterling against the US Dollar would have reduced profits by GBP 1,850 and a 5% weakening would have a reverse effect.

32) Capital Management

The Bank's approach to capital management is set out on page 18 in the Strategic Report. As at 31 December 2023, after deducting book value of intangible assets from shareholder funds the available capital is GBP 13,684,668.

33) Fair Value.

As at 31st Dec 2023	Carrying Value GBP 000	Fair Value GBP 000	Level 1 GBP 000	Level 2 GBP 000	Level 3 GBP 000
Assets					
Cash and cash equivalents	115,702	115,702	-	115,702	-
Loans and advances to banks	1,831	-	-	1,831	-
Loans and advances to customers	34,032	-	-	-	34,032
Derivatives	268	268	268	-	-
Investment	435	121	-	121	-
Property Plant & Equipment	3,439	-	-	3,282	-
Total	155,707	116,091	268	120,936	34,032
Liabilities					
Deposit by Banks	120,815	-	-	120,815	-
Customer account	19,229	-	-	19,229	-
Derivatives	189	189	189	-	-
Total	140,233	189	189	140,044	-

As at 31st Dec 2022	Carrying Value GBP 000	Fair Value GBP 000	Level 1 GBP 000	Level 2 GBP 000	Level 3 GBP 000
Assets					
Cash and cash equivalents	86,759	86,759	-	86,759	-
Loans and advances to banks	7,501	-	-	7,501	-
Loans and advances to customers	18,096	-	-	-	18,096
Derivatives	1,146	1,146	1,146	-	-
Investment	453	125	-	125	-
Property Plant & Equipment	3,450	-	-	3,282	-
Total	117,405	88,030	1,146	97,667	18,096
Liabilities					
Deposit by Banks	90,034	-	-	90,034	-
Customer account	11,427	-	-	11,427	-
Derivatives	852	852	852	-	-
Total	102,313	852	852	101,461	-

IFRS 13 Fair value requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below with judgement applied in determining the boundary between Level 2 and 3 classifications. There have not been any transfers between levels during the year.

The Bank analyses financial instruments into the following three categories as outlined below.

- Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments. These financial instruments consist primarily of liquid listed equity shares and certain exchange-traded derivatives.

- Level 2 financial instruments are those valued using techniques based primarily on observable market data. Instruments in this category are valued using quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. Financial instruments included are other government agency securities, investment-grade corporate bonds, less liquid listed equities, state and municipal obligations, certain money market securities and most OTC derivatives.

Level 3 financial instruments are those valued using techniques that incorporate information other than observable market data. Instruments in this category have been valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data.

Additional information on the above asset is contained in the strategic report on pages 13 to 20.

Cash, bank loans.

The fair values of cash and cash equivalents, bank loans are carried at amortised cost are not materially different from their book values. In arriving at that conclusion market inputs have been considered, but since all of these assets mature within three-month period no changes have been assumed.
As these valuations are not wholly market based, these assets are considered to be level 2 measurements.

Investments

Have been valued using quoted prices for similar instruments as at the year end.

Property plant and equipment.

The Bank re values its office building every third year using an independent firm of valuers. The valuation model used to value the property is the rental value for office space as defined by the royal institute of Charted Surveyors. The office building was valued on the 16th of February 2024 and reflects the fair value. Equipment is carried at cost less depreciation or impairment.

Loans to customers

To assess the likely fair value of the loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from its loans to customers based on a mixture of market-based inputs, such as rates and pricing and non-market-based inputs such as redemption rates. Given the mixture of observable and non-observable inputs, these assets classed as level 3 measurements.

Derivatives

The Bank does not assume in the normal course of business any significant foreign exchange exposures. Short-term foreign exchange currency swaps are utilised, where cost-efficient, as a funding mechanism, principally to convert sterling funds to US dollars. The Bank does not utilise derivatives to assume any form of credit or market risk.

There were no transfers of assets between levels during 2022 or 2023 and no significant changes in valuation techniques.

34) Events after the reporting period.

There have been no reportable events after the reporting period.

The principal activity of the Bank of Ceylon (UK) Ltd is providing retail and wholesale banking services in the UK. Please refer to the basis of preparation for further details on how the information was prepared.

Country-by-Country disclosure (GBP 000)

Country	Turnover	Profit/(Loss) before tax	Corporation tax paid/received	Subsidies received	Headcount (including temp/contract staff)
	GBP 000	GBP 000	GBP 000	GBP 000	
UK	7,417	1,068	-	-	26
Global	7,417	1,068	-	-	26

BASIS OF PREPARATION

Country: The geographical location of the Bank considers the country of incorporation or residence as well as the relevant tax jurisdiction. In this context, the countries applicable will be the United Kingdom

Turnover: Bank of Ceylon (UK) Ltd defines revenue, as the sum of the following income statement items:

- Income from retail and commercial lending
- Income from treasury operations
- Income from investments
- Fee based income.

Profit/ (loss) before tax: As with turnover, the definition of profit and loss before tax is consistent with that in the Bank's financial statements. These numbers also include profit or loss on the sale of fixed assets.

Corporation tax paid: This column discloses the cash amount of corporation tax paid in each country in 2023.

Public subsidies received: In the context of CBCR, this is interpreted as direct support by the government. There were no subsidies received by Bank of Ceylon (UK) Ltd in 2023.

Number of employees: Employee numbers reported reflect the number of employees on a full time, temporary and contract basis.

Accounting framework: Amounts reported are based on International Accounting Standards adopted in the United Kingdom ("UK adopted IFRS").