



Bank of Ceylon (UK) Ltd

Financial Statements

For the year ended 31 December 2017

Company registration no. 06736473

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BOARD OF DIRECTORS

Mr Ronald C Perera, PC	Chairman
Mr Anthony John Pulle	Executive Director and Chief Executive Officer
Mr M.P.Ruwan Kumara Resigned on 25 th April 2017.	Executive Director and Chief Operating Officer
Mr S. Sabesan Appointed 16 th August 2017	Executive Director and Chief Operating Officer
Mr W.D.R. Swanney	Independent Non-Executive Director
Mr R. England	Independent Non-Executive Director
Mr D.M. Gunasekera	Non- Executive Director and General Manager, BOC
Mr Colin Finlayson	Company Secretary
Registered office	1 Devonshire Square, London, EC2M 4WD
Solicitor	Field Fisher Riverbank House, 2 Swan Lane, London EC4R 3TT
Auditor	KPMG LLP 15 Canada Square, E14 5GL

CHAIRMAN'S REPORT

Good progress has been made during 2017, on the foundations that we established two years ago. Against the backdrop of ongoing economic uncertainty, regulatory reforms and competitive pressure, the Bank remained focused on delivering its strategic priorities which included the financial turnaround of the business, through greater customer satisfaction, optimisation of resources and furthering the achievement of a balanced credit portfolio.

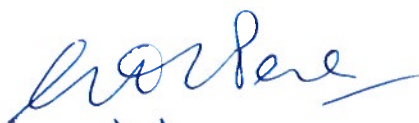
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Across our retail and corporate franchises, the drive to achieving a balanced credit portfolio is increasingly successful. Net loans to customers increased by £ 2.6 million during 2017, enhancing net interest margins. The Bank continues to maintain good credit quality standards with overall risk remaining low through continued discipline in underwriting standards and risk appetite. In the SME sector, the Bank has financed the construction of a 45 bed, purpose built care home which was completed at the end of 2017 and is now expected to commence commercial operations early in the New Year. In the area of residential Buy-to-Let mortgages, the Bank continues to attract new customers requiring a tailored approach to meet their individual requirements that are not catered for by the high street banks.

As a specialist bank we continue to deliver the needs of our banking clients with speed and efficiency. The continued improvements during the year have generated higher volumes enabling the Bank to further leverage its existing operating capabilities without compromising on any of the risks and regulatory requirements.

The Bank is committed to maintaining high standards of corporate governance and has implemented all of the new regulatory initiatives that were introduced during 2017. The Board carried out an externally facilitated review of its governance effectiveness during the year, which confirmed that the Board has provided effective oversight of the business and is engaged both in developing sound risk policies and in guiding longer term plans of the Bank. Inevitably in such exercises, the review has identified some areas where the Board can further improve its effectiveness and these are being addressed.

The outlook for 2018 will be challenging with continued economic uncertainty, the risk of sterling pressure and ongoing regulatory changes. The Bank enters 2018 with a clearer strategy, a stronger foundation and a motivated team which are better placed to handle some of the uncertainties that lie ahead. I would like to express my thanks to my fellow Board members, the leadership team and all colleagues across the Bank for their contribution to everything we have achieved together.



Ronald C Perera, PC

Chairman 7th March 2018

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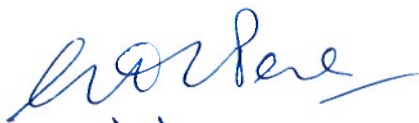
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Chairman 7th March 2018

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors submit their Report together with the audited financial statements for the year ended 31 December 2017.

Operating environment

Loan growth during 2017 has been steady with new originations being achieved in all of the three key strategic segments Personal, Buy-to-Let and Business loans. The achievement gained during the year is helping to diversify the loan portfolio, contribute to enhancing overall returns whilst creating a stable revenue base for future growth. Treasury have also been able to make further progress by attracting larger business volumes from existing banking clients creating new opportunities for optimising the existing product range and further enriching the fee based income mix. MiFID II went live on the 3rd of January 2018 with a smooth transition. The treasury team have worked carefully with all of the correspondent banking clients to ensure compliance with all the regulatory requirements in advance of the go live date. Cross border trade between Sri Lanka and the United Kingdom reached significant levels during the year, following the sterling weakness. Trade Finance were well positioned to take advantage of this opportunity, the Bank having established itself as reliable lead UK bank providing speedy services to a large number of UK exporters. The increase in volumes have led to improved fee base income and higher bills discounting during the year.

The balance sheet at the end of 2017 grew a further 2% in terms of the asset book excluding money market investments, with the CET1 ratio remaining at a healthy level. The loan to value secured against UK residential properties continues to be below 60% on average. Both these factors provide adequate room for further growth and expansion during 2018.

The 2017 results delivered a return to profitability in line with expectations through furthering our strategic objectives. As a consequence, the reported profit for the year is a £18,000 after taxation (2016: loss of £123,000).

Going Concern Basis of Accounting

These financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. That review includes a review of the income statement and financial position, policies and processes for managing credit, liquidity and market risk. In addition, in making their assessment the Directors have considered future projections of profitability, cash flows and capital resources which the Directors have subjected to stress testing.

Disclosure of information to the 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.

Charitable donations

The company did not make any political or charitable contributions during the year. (2016: Nil)

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board:

Anthony John Pulle, Chief Executive Officer

7th March 2018

Strategic Report

The Directors present the Strategic Report of the company for year ended 31 December 2017 in accordance with Companies Act 2006, section 414C.

The purpose of this report is to inform relevant stakeholders of the company as to how the Directors have performed their fiduciary duty under section 172 of Companies Act 2006.

Business Model and Business Review

Bank of Ceylon (UK) Ltd (the Bank) is a wholly owned subsidiary of Bank of Ceylon (BOC).

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, corporate and correspondent banking facilities in addition to trade finance services.

The Directors are required by the Companies Act to set out in this report a fair review of the business of the Bank within their business review. The information that fulfils this requirement can be found within the Chairman's Report on page 4.

Corporate Governance

The Board of Directors of the Bank comprises of two executive directors and two non-independent non-executive directors appointed by BOC. Additionally there are two independent non-executive directors on the Board.

The Board meets quarterly and has defined responsibilities for the overall direction, supervision and control of the Bank. This includes assessment of the Bank's competitive position, approval of strategic and financial plans and review of the performance and financial status. It reviews and approves significant changes in the Bank's structure and organisation, establishes the risk framework and the overall risk appetite. Other responsibilities include review and approval of key policies in relation to credit, large exposures, impairment, liquidity and operational risk. The Board also approves and monitors the Bank's policies, procedures and processes in connection with the fight against financial crime.

Financial risk management

The Bank has exposure to the following risks:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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 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 report on the effectiveness of those controls to the Board of Directors.

The Bank's Audit and Risk Committee is responsible for ensuring that the Bank complies with its risk management policies through periodic assessment of key risk indicators and reviews of reports prepared by the Head of Risk and Internal and External Auditors.

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 investment debt securities. 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).

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 by agreeing and recommending to the Board: credit and concentration risk policies, underwriting guidelines and standard proposals within the Board's overall risk appetite, by approving individual credits and lending decisions in line with the responsibility delegated by the Board. The credit process is reviewed on a regular basis by Internal Audit. The members of the Credit committee comprise of the CEO, who is the Chairman, the COO, Head of Risk, Head of Trade Finance, Head of Finance and the Manager, credit.

Liquidity risk

Liquidity risk is the risk that the Bank although solvent, will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

The Bank's approach to managing liquidity is to ensure that it holds a buffer of High Quality Liquid Assets that will enable it to meet its obligations as they fall due under normal and a range of stressed conditions without incurring unacceptable losses or risking damage to the Bank's reputation. Liquidity is managed centrally by the Treasury function according to the liquidity policy approved by the Board. The Bank's liquidity risk appetite is documented in its Individual Liquidity Adequacy Assessment Process (ILAAP). The Bank's ILAAP is prepared annually and may be reviewed by the Prudential Regulation Authority ("PRA"). The Bank conducts stress tests on its liquidity position and the results of the tests are reviewed by the Bank's Asset and Liability Committee (ALCO) and presented to the Board.

Market risk

Market risk is the risk that arises out of a change to market prices, such as interest rate changes and credit spreads. These changes could affect the Bank's income or the value of the Bank's holdings of financial instruments. The Bank's exposure to market risk is primarily due to interest rate and foreign exchange exposure.

The Bank manages foreign exchange risk by means of currency exposure limits placed on intraday and overnight positions. Interest rate risk is actively managed by the Treasury function principally through monitoring interest rate gaps.

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. These can also include risks arising from legal and regulatory requirements and generally accepted standards of corporate conduct.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness. Controls, limits and procedures are in place to provide business and operational resilience.

Capital management

The Bank's regulator sets and monitors the capital requirements of the Bank. The Bank is required to comply with the provisions of the Capital Requirements Directive (CRD) in respect of regulatory capital. The Bank's regulatory capital comprises ordinary share capital and retained earnings.

Management uses the regulatory capital ratios in monitoring the Bank's capital base. The PRA provides individual capital guidance (ICG) to the Bank that sets capital requirements in excess of the minimum statutory own funds requirements under the CRD as adopted in the UK. A key input to the ICG setting process is the Bank's Internal Capital Adequacy Assessment Process (ICAAP) which is reviewed at least annually by the Board of Directors.

Regulatory risk

In the post-financial crisis environment, the regulatory landscape has changed and has become more complex with increased supervision and enforcement. Regulators are increasingly evaluating the robustness of regulated firms' business models and their products portfolios. Consequently, more reporting has been required by the regulatory authorities to monitor financial risk, allowing them to take prompt action where they see negative trends or anticipate problems within an organisation. Management use information systems within the Bank to monitor compliance with the regulatory frame work.

By order of the Board:



Anthony John Pulle, Chief Executive Officer

7th March 2018

AUDIT AND RISK COMMITTEE REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The Audit and Risk Committee (the “Committee”) is an essential part of the Bank’s governance framework to which the Board has delegated oversight of the following areas:

- financial reporting;
- internal controls and risk management systems;
- whistleblowing, fraud and bribery;
- internal audit;
- compliance;
- external audit; and
- risk management.

This report provides an overview of the Committee’s work and details of how it has discharged its responsibilities during the year.

The responsibilities of the Committee are in line with the provisions of the Financial Reporting Council (FRC) Guidance on Audit Committees. The main function of the Committee is to assist the Board in fulfilling its oversight responsibilities, specifically the ongoing review, monitoring and assessment of:

- the integrity of the financial statements, any formal announcements relating to financial performance 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, Head of Risk and Head of Compliance attend the meeting by invitation. Both the internal and external auditors are also invited to each meeting. There is opportunity for discussion without the Executive Directors being present.

Key areas reviewed during 2017

The Committee met five times during the year and focused on the following matters:

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, the Head of Risk, the Head of Compliance and the Head of Trade Finance and Banking Relationships) and the external auditor the integrity and appropriateness of the annual financial statements concentrating on amongst other matters:

- the quality and acceptability 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 2017 accounts were:

- loan loss provisions: Review of judgements used to determine timing of recognition and valuation of loan loss provisions in line with IAS39;

- revenue recognition: Review of the design, implementation and effectiveness of controls around the calculation of interest income and charges, including the timing of fees and commission recognition under effective interest rate methodologies; and
- Operating property: Review of the remaining useful economic life of the head office property.

The Committee considered whether the 2017 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 of the 2017 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, 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 thorough and regular evaluation of the nature and extent of risk and the Bank's ability to mitigate or react accordingly. It is the role of the Senior Management Team to implement the Board's policies on risk and control. It is also recognised that all employees have responsibility for internal control as part of their accountability for achieving 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 on the effectiveness of the internal controls and risk management systems through the Committee.

The Committee review the internal controls and risk management systems through regular reporting from the Senior Management Team, internal and external auditors. The main internal control matters which were reviewed by the Committee in 2017 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 2017 there were no material breaches of control or regulatory standards and that; overall, the Bank maintained an adequate internal control framework.

Whistleblowing, fraud and bribery

The Committee has reviewed the adequacy and security of the Bank's arrangements for its employees and contractors to raise concerns, in confidence, about possible fraud or other wrongdoings in financial reporting or 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.

Internal audit, risk and compliance

The Committee is responsible for monitoring internal audit and compliance activities and effectiveness and ensuring that sufficient resources are in place. In order to provide the scalability and flexibility of specialist resources required within internal audit, the Bank continues to outsource this role to Grant Thornton LLP ("GT"). The risk function is managed the Head of Risk and the compliance function is managed by the Head of Compliance who is also the MLRO.

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.

Key reviews were completed by GT through their agreed work programme during the year including areas of internal control significance, specifically, Board effectiveness, human resources, trade finance and financial crime.

Internal audit findings and thematic issues identified were considered by the Committee, as well as the Senior Management Team's response and the tracking and completion of outstanding actions.

The Committee considers guidance from the Chartered Institute of Internal Auditors entitled 'Effective Internal Audit in the Financial Services Sector' when ensuring that the internal auditors and the Committee were fulfilling their obligations in a robust manner.

The Committee also approved the fee for the programme of internal audit work for the year having reviewed the scope of the work programme in detail.

The Head of Risk and Head of Compliance also submitted a number of 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 from 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 2017 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 also assesses their independence on an ongoing basis.

The Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) were implemented in the UK on 17 June 2016. This legislation requires all EU public interest entities (including the Bank) to rotate their 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. This means that the Bank will have to put out for tender the audit for the year ended 31 December 2019 at the latest.

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

Risk management

The Committee reviewed the Bank's Risk Management Framework and Risk Appetite Statement incorporating a review of the outputs and assumptions used in preparing the ICAAP, ILAAP and Recovery Plan documents. The Committee also analysed the Bank's performance against the Risk Appetite Statement as reported by the Senior Management Team.

Audit and Risk Committee effectiveness

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

Approved by the Board on 7 March 2018 and signed on its behalf by

W D R Swanney

Chair of the Audit, Risk and Compliance Committee

7 March 2018

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, the 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 IFRSs as adopted by the EU and applicable law.

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 company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with IFRSs as adopted by the EU; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company 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 company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF CEYLON (UK) LTD

Our opinion is unmodified

We have audited the financial statements of Bank of Ceylon (UK) Limited ("the Bank") for the year ended 31 December 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity, statement of cash flows and the related notes, including the accounting policies in note 3.

In our opinion the financial statements:

- give a true and fair view of the state of Bank's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were appointed as auditor by the directors in May 2010. The period of total uninterrupted engagement is for the 8 financial years ended 31 December 2017. We have fulfilled our ethical responsibilities under, and we remain independent of the Bank in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

2 Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those 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. We summarise below the key audit matter in arriving at our audit opinion above, together with our key audit procedures to address that matter and, as required for public interest entities, our results from those procedures. This matter was addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on this matter.

Key audit matter	The risk	Our response
Impairment of loans and receivables: Impairment provision £23 thousand (2016: £23 thousand). Refer to financial statements page 5 (directors report), page 23 (accounting policy), and page 32 (Loans and advances to customers impairment note).	Subjective estimate: An impairment provision should be raised where impairment is identified on an individual loan (individual impairment) An impairment provision should be raised for all other loans (where the impairment has arisen but not yet been identified (collective impairment))	Our procedures included: Control design and operation: for new loans originated in the year we tested the design and operating effectiveness of key controls over loan origination. We also tested the design and effectiveness of key controls over the determination of whether loans displayed indicators of impairment.

	<p>The assessment as to whether there is impairment (on an individual or collective basis) and the determination of an appropriate impairment provision (where impairment is identified) is an inherently judgemental area which is particularly sensitive to the value of the underlying collateral.</p>	<p>Test of detail: We identified a sample of loans using attribute sampling which included specific items identified based on risk characteristics including arrears status and type and size of loan to identify individual loans which may have unidentified impairments. We tested whether there was objective evidence of impairment for each of these loans by reference to relevant supporting information such as indexed valuation of collateral to challenge the completeness and accuracy of the bank's individual impairment provision estimate.</p> <p>Historical comparisons: To challenge management's assertion that there was no objective evidence of material incurred but not identified impairment in the mortgage portfolio we critically assessed the bank's assumptions on past loss experience by comparing the assumptions to the Bank's historical experience.</p> <p>Our sector experience: We challenged the Bank's key assumptions on the valuation of collateral by applying our own expectations based on our knowledge of the Bank and experience of the industry within which it operates.</p> <p>Assessing transparency: We assessed the adequacy of the Bank's disclosures about the degree of estimation involved determining whether an impairment provision is required.</p> <p>Our results: We found the resulting estimate of the impairment of loans and advances to be acceptable.</p>
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Scope – disclosure of IFRS 9 effect

The Bank is adopting IFRS 9 Financial Instruments from 1 January 2018 and have included an estimate of the financial impact of the change in accounting standard in accordance with *IAS 8 Changes in Accounting Estimates and Errors* as set out in note 2. This disclosure notes that the Bank continues to refine its expected credit loss model and embed its operational processes which may change the actual impact on adoption. While further testing of the financial impact will be performed as part of our 2018 year-end audit, we have performed sufficient audit procedures for the purposes of assessing the disclosures made in accordance with IAS 8.

3 Our application of materiality and an overview of the scope of our audit

Materiality for the financial statements as a whole was set at £605k (2016: £624k), determined with reference to a benchmark of a three year average of total assets of which it represents 0.5% (2016:0.5%). We consider a three year average of total assets to be the most appropriate benchmark as it provides a more stable measure year on year than profit before tax. We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £18.0k (2016: £18.7k), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Our audit of the bank was undertaken to the materiality level specified above and was all performed at the Bank's head office in London.

4 We have nothing to report on going concern

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

5 We have nothing to report on the strategic report and the directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in those reports;
- in our opinion the information given in the strategic report and the directors' report for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

6 We have nothing to report on the other matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the Bank, or returns adequate for our audit have not been received from 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.

We have nothing to report in these respects.

7 Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 5, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; 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; 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 they either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud, other irregularities, or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud, other irregularities 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 the financial statements. The risk of not detecting a material misstatement resulting from fraud or other irregularities is higher than for one resulting from error, as they may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control and may involve any area of law and regulation not just those directly affecting the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

Irregularities – ability to detect

We identified relevant areas of laws and regulations that could have a material effect on the financial statements from our sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Bank's regulatory correspondence.

We had regard to laws and regulations in areas that directly affect the financial statements including financial reporting (including related company legislation) and taxation legislation. We considered the extent of compliance with those laws and regulations as part of our procedures on the related annual accounts items.

In addition we considered the impact of laws and regulations in the specific areas of regulatory capital and liquidity, conduct, financial crime including money laundering, sanctions list and market abuse regulations recognising the financial and regulated nature of the Bank's activities. With the exception of any known or possible non-compliance, and as required by auditing standards, our work in respect of these was limited to enquiry of the directors and inspection of regulatory correspondence. We considered the effect of any known or possible non-compliance in these areas as part of our procedures on the related annual accounts items.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

As with any audit, there remained a higher risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls.

8 The purpose of our audit work and to whom we owe our responsibilities

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.



Alexander Snook (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
15 Canada Square
London
E14 5GL

7 March 2018

STATEMENT OF COMPREHENSIVE INCOME**For the year ended 31 December 2017**

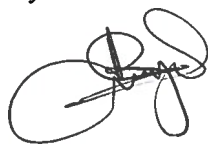
	Note	Year ended 31 December 2017 GBP 000	Year ended 31 December 2016 GBP 000
Interest income		1,589	1,444
Interest expense	4	(275)	(267)
Net interest income		1,314	1,177
Fees and commissions	5	606	610
Net gains from Forex transactions		154	149
Operating income		2,074	1,936
Administration expenses	6	(1,884)	(1,876)
Depreciation	10	(54)	(48)
Amortization	11	(118)	(135)
Profit / (Loss) from ordinary activities before tax		18	(123)
Tax credit /(charge) on loss from ordinary Activities	12	-	-
Profit /(Loss) from ordinary activities after tax		18	(123)
Other comprehensive income			
Net change in the fair value of available for sale investments		(1)	(13)
Other comprehensive income/(loss) for the year		(1)	(13)
Total comprehensive income/(loss) for the year		17	(136)

The notes on pages 22 to 41 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION**As at 31 December 2017**

	Note	31 December 2017 GBP 000	31 December 2016 GBP 000
Assets			
Cash at bank and in hand		1,142	1,298
Loans and advances to banks	13	75,978	116,949
Loans and advances to customers	14	13,502	10,845
Investments	15	5,434	7,001
Property and equipment	10	2,929	2,950
Intangible assets	11	76	165
Other assets		263	265
Total assets		99,324	139,473
Liabilities			
Deposits by banks	16	80,834	120,253
Customer accounts	17	4,714	5,461
Other liabilities	18	437	428
Total liabilities		85,985	126,142
Equity			
Share capital	19	15,000	15,000
Fair value reserve		0	1
Revaluation reserve		426	435
Retained earnings		(2,087)	(2,105)
Equity shareholders' funds		13,339	13,331
Total liabilities and equity		99,324	139,473

These financial statements were approved by the Board of Directors on 7th March 2018 and were signed on its behalf by:



Anthony John Pulle, Chief Executive Officer

The notes on pages 22 to 41 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY**For the Year ended 31 December 2017**

	Share Capital GBP 000	Fair value Reserve GBP 000	Retained earnings GBP 000	Revaluation Reserve GBP 000	Total equity GBP 000
Equity shareholders' funds 1 January 2017	15,000	1	(2,105)	435	13,331
Profit for the year	-	-	18	-	18
Revaluation reserve movement	-	-	-	(9)	(9)
Net change in the fair value of available for sale investments	-	(1)	-	-	(1)
Equity shareholders' funds 31 December 2017	15,000	0	(2,087)	426	13,339
 Equity shareholders' funds 1 January 2016	 15,000	 14	 (1,982)	 445	 13,477
Loss for the year	-	-	(123)	-	(123)
Revaluation Reserve	-	-	-	(10)	(10)
Net change in the fair value of available for sale investments	-	(13)	-	-	(13)
 Equity shareholders' funds 31 December 2016	 15,000	 1	 (2,105)	 435	 13,331

The notes on pages 22 to 41 are an integral part of these financial statements

STATEMENT OF CASH FLOWS**For the year ended 31 December 2017**

	Note	Year ended 31 December 2017 GBP 000	Year ended 31 December 2016 GBP 000
Cash flow from operating activities:			
Profit before tax		18	(123)
Adjusted for:			
Depreciation	10	54	48
Amortization	11	118	135
Other non-cash items and net change in the fair value of Investment		(1)	(13)
		<u>189</u>	<u>47</u>
Changes in:			
Loans and advances to banks	13	40,971	(9,698)
Loans and advances to customers	14	(2,657)	(1,913)
Investments	15	1,567	(3,035)
Other assets		2	(34)
Deposits by banks	16	(39,419)	13,664
Customer accounts	17	(747)	141
Other liabilities	18	9	72
		<u>(274)</u>	<u>(803)</u>
Net cash flow used in operating activities		<u>(85)</u>	<u>(756)</u>
Cash flow from investing activities			
Acquisition of fixed assets	10 & 11	(71)	(51)
Net cash flow used in investing activities		<u>(71)</u>	<u>(51)</u>
Cash flow from financing activities			
Proceeds from the issue of share capital		-	-
Net cash flow from financing activities		<u>-</u>	<u>-</u>
Net increase / (decrease) in cash and cash equivalent		(156)	(807)
Cash and cash equivalents at 1 January		<u>1,298</u>	<u>2,105</u>
Cash and cash equivalents at 31 December		<u>1,142</u>	<u>1,298</u>

The notes on pages 22 to 41 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS**1) Reporting entity**

Bank of Ceylon (UK) Ltd (the “Bank”) is a company incorporated in the United Kingdom under the Companies Act 2006.

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 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 Preparation**a) Statement of compliance**

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

The International Accounting Standards Board (IASB) issued the final version of IFRS 9 Financial Instruments in July 2014 to replace the existing standard IAS 39 Financial Instruments: Recognition and Measurement, effective for periods beginning on or after 1 January 2018. The standard introduces a new approach for classification and measurement, impairment and general hedge accounting requirement.

IFRS 9 adopts a principles-based approach to the classification of financial assets considering entity’s business model for managing the asset and contractual cash flow characteristics. Based on these principles, financial assets are measured at fair value through profit or loss, fair value through other comprehensive income or amortized cost. For financial liabilities, there is no fundamental change in the classification and measurement model under IFRS 9. However, for financial liabilities designated at fair value through profit or loss, gains or losses attributable to changes in own credit risk will be presented in Other Comprehensive Income.

The standard also requires entities to adopt Expected Credit Loss Impairment (ECL) model for all financial assets not measured at fair value through profit or loss. The ECL model assesses changes in credit quality since initial recognition using a three stage approach. The stages are:

Stage 1 – these are financial assets that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk at the reporting date. For these assets, entities are required to recognize a 12 month expected loss allowance on initial recognition. Interest revenue is calculated on the gross carrying amount of the asset

Stage 2 – these are financial assets that have experienced significant increase in credit risk since initial recognition but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized, but interest revenue is still calculated on the gross carrying amount of the asset.

Stage 3 – these are financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized and interest revenue is calculated on the net carrying amount (that is, net of credit allowance).

Finally, the hedge accounting provisions of the standard requires entities to align the accounting of hedge relationships more closely with an entity’s risk management practices, permits hedge accounting to be applied more broadly to a greater variety of hedging instruments and requires additional disclosures. The hedge accounting requirement aspect of the standard will not apply to the Bank on 1 January 2018 as it does not have any financial instrument that qualifies for measurement in line with the requirement.

The new impairment model and the classification and measurement requirements will be applied by adjusting the Bank’s Statement of Financial Position on January 1, 2018, the date of initial application, with no restatement of the comparative period financial information.

The adoption of IFRS 9 is not expected to result in any material change in the classification of financial assets when compared to the classification under IAS 39. However, the

Bank's financial assets will be classified in line with the business model requirement of IFRS 9: Available for Sale (AFS) to Fair Value Through Other Comprehensive Income (FVTOCI), Available for Trading to Fair Value Through Profit or Loss (FVTPL), Held to Maturity and Loans and Receivables to Amortised Cost. The Bank estimates that the impact of implementing IFRS 9 on its 1 January 2018 balance sheet will require the establishment of an expected loss provision in the range of approximately £35K - £70K. However, this quantum is based upon the specific composition and nature of the bank's portfolio of contracts and economic conditions at the date of transition and the processes and the associated controls that are in place to comply with the new requirements have not been operational for a full reporting period.

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 and 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 January 2013 entitled 'Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland).

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.

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. In this regard, management has applied such judgement relating to loan impairments and credit risk.

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.

3) Significant 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 and interest expense are recognised in the statement of comprehensive income for all interest bearing financial instruments classified as held to maturity or other loans and receivables using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. 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

Fees and commissions are recognised on an accruals basis as the service is provided.

IFRS 15: In May 2014, the International Accounting Standards Board (IASB) issued IFRS 15 "Revenue from Contracts with Customers", which replaces the existing standard IAS 18 Revenue. IFRS 15 establishes principles for reporting the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard introduces a new five step model for revenue recognition to be applied to contracts with customers, except for revenue arising from items such as financial instruments, insurance contracts and leases. In April 2016, the IASB issued clarifications to IFRS 15 on revenue recognition relating to identifying performance obligations, application guidance on principal versus agent and licenses of intellectual property. IFRS 15 is not expected to have a material impact on the financials.

d) Impairment of financial assets

At each reporting date the Bank assesses whether there is objective evidence that a financial asset (or group of financial assets), not carried at fair value through profit or loss, is impaired.

The Bank will regard a financial asset as impaired when, based on current information and events such as default, non-payment of principal and interest for a period of 90 days and/or bankruptcy and/or liquidation, it is considered that the creditworthiness of the borrower has undergone a deterioration such that it expects that the recoverable amount of the asset is below the then current carrying amount. For available for sale investments a significant or prolonged decline in its fair value below its cost is objective evidence of impairment in general, the Bank considers a decline in 20% to be significant and a period of nine months to be prolonged.

The Bank considers evidence of impairment at both a specific asset and collective level. All

individually significant financial assets are assessed for specific impairment. Assets that are not individually significant are collectively assessed for impairment by grouping together financial assets (carried at amortised cost) with similar credit risk characteristics, taking into account asset type, industry, geographic location, collateral type, past due status, historical loss experience and other relevant factors.

When a subsequent event causes the amount of impairment loss to decrease, the impairment loss (or proportion of the impairment loss) is reversed through the statement of comprehensive income.

e) Property and equipment

The Company's premises are shown at fair value based on periodic valuation by external independent valuers 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. Subsequent depreciation and impairment will be taken through the income statement.

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

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
Fixtures 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.

f) 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.

Amortisation

Amortisation is recognised in the consolidated income statement 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
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g) Financial assets and financial liabilities

i) Recognition

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

ii) 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.

iii) 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.

iv) 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.

v) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When a market for financial instrument is not active, the Bank establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties if available), reference to the current fair value of other instruments that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Assets are measured at a bid price.

h) Cash and cash equivalents

Cash and cash equivalents include cash in hand and funds held with banks on current account with no contractual maturity.

i) Loans and advances

Loans and advances are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances are initially measured at fair value and subsequently measured at their amortised cost using the effective interest method, except when the Bank chooses to carry the loans and advances at fair value through profit or loss.

j) Available for sale investments

Available for sale investments are non-derivative financial assets that are designated as available for sale and that are not classified as held to maturity investments, or at fair value through profit or loss, or loans and receivables. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the statement of comprehensive income.

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale investments are initially recognised on trade date (the date on which the Bank commits to purchase the asset). These investments are subsequently carried at fair value.

Gains and losses arising from changes in fair value of the available for sale financial assets other than foreign exchange gains and losses from monetary items are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gains or losses previously recognised in equity is recognised in profit or loss.

Interest income on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial assets is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

k) Held- to- maturity investments

Held-to-maturity investments are non - derivative financial assets with fixed maturity that the Bank has the positive intention and ability to hold to maturity other than;

- i. Those that the Bank designates upon initial recognition as at fair value through profit and loss;
- ii. Those that the Bank designates as available- for -sale

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method, less any provision for impairment.

A sale or reclassification of a significant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments to available-for-sale financial assets.

l) Pension liabilities

The Bank operates a defined contribution pension scheme and the amount charged to the Statement of Comprehensive Income in respect of pension costs is the contribution payable in the period.

m) Taxation

Current tax is the expected tax payable on the taxable income for the year using tax rates enacted at the date of the statement of financial position.

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.

n) 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 income within the Statement of Comprehensive Income.

o) Trading profit

Trading profit relates to foreign exchange income derived from currency transactions and the revaluation of assets and liabilities denominated in currencies other than Sterling.

p) Identity of related parties

Related parties comprise the shareholder and its related entities, directors and key management of the Bank. The Bank, in the ordinary course of business, enters into transactions, at agreed terms and conditions, with other business enterprises or individuals that fall within the definition of related party contained in International Accounting Standard 24.

q) Unless otherwise stated all financial figures have been rounded off to the nearest one thousand Pounds Sterling

4) Interest expense

	Year ended 31 December 2017 GBP 000	Year ended 31 December 2016 GBP 000
Interest paid to related entities	211	214
Other interest paid on deposits	64	53
	275	267

5) Fees and commissions

	Year ended 31 December 2017 GBP 000	Year ended 31 December 2016 GBP 000
International commission	305	293
Domestic commission	263	281
Other income	38	36
	606	610

6) Administration expenses

	Year ended 31 December 2017 GBP 000	Year ended 31 December 2016 GBP 000
	Note	
Wages and salaries including directors	1,000	982
Social security costs	138	132
Other pension costs	38	36
Total staff costs	7 1,176	1,150
Fees payable to Banks auditors for the audit of the Bank's financial statements	35	32
Other administration expenses	673	694
Total administration expenses	1,884	1,876

7) Staff Costs

	Year ended 31 December 2017 GBP 000	Year ended 31 December 2016 GBP 000
Staff		
Salary and allowances	753	757
Social security costs	109	95
Pension costs	38	36
	900	888
Directors		
Salary and allowances	247	225
Social security costs	29	37
	276	262
Total staff costs	1,176	1,150
The average number of persons employed by the Bank during the period was made up as follows:	Year ended 31 December 2017	Year ended 31 December 2016
Executive directors	2	2
Non-executive directors	2	2
Executive management	4	4
Clerical and other grades	18	18
	26	26

8) Pension costs

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.

9) Directors' Emoluments

The total emoluments of the directors were GBP 247,217 (2016 – GBP 225,875). The highest paid director received emoluments of GBP 95,980 in 2017. The highest paid director in 2016 received GBP 92,155.

10) Property and Equipment

	Freehold Property GBP 000	Computer Equipment GBP 000	Furniture & Equipment GBP 000	Land GBP 000	Total GBP 000
Cost					
Cost at 1 January 2017	1,500	55	159	1,450	3,164
Additions in the year	-	21	21	-	42
Revaluation	-	-	-	-	-
Transfers	-	-	-	-	-
Cost at 31 December 2017	1,500	76	180	1,450	3,206
Accumulated depreciation					
Depreciation at 1 January 2017	(118)	(46)	(50)	-	(214)
Depreciation charged for the year	(30)	(6)	(18)	-	(54)
Revaluation	(9)	-	-	-	(9)
Depreciation at 31 December 2017	(157)	(52)	(68)	-	(277)
Net book value at 31 December 2017	1,343	24	112	1,450	2,929
	Freehold Property GBP 000	Computer Equipment GBP 000	Furniture & Equipment GBP 000	Land GBP 000	Total GBP 000
Cost					
Cost at 1 January 2016	1,500	51	123	1,450	3,124
Additions in the year	-	4	36	-	40
Revaluation	-	-	-	-	-
Transfers	-	-	-	-	-
Cost at 31 December 2016	1,500	55	159	1,450	3,164
Accumulated depreciation					
Depreciation at 1 January 2016	(79)	(42)	(36)	-	(157)
Depreciation charged for the year	(30)	(4)	(14)	-	(48)
Revaluation	(9)	-	-	-	(9)
Depreciation at 31 December 2016	(118)	(46)	(50)	-	(214)
Net book value at 31 December 2016	1,382	9	109	1,450	2,950

11) Intangible assets

	Computer Software -2017 GBP 000	Computer Software -2016 GBP 000
Cost		
Balance at 1 January 2017	678	667
Additions in the year	29	11
Balance at 31 December 2017	707	678
Accumulated amortization		
Balance at 1 January 2017	(512)	(377)
Amortization for the year	(118)	(135)
Balance at 31 December 2017	(630)	(512)
Net book value at 31 December 2016	76	165

12) Analysis of the tax charge

	Year ended 31 December 2017 GBP 000	Year ended 31 December 2016 GBP 000
Current tax being United Kingdom Corporation Tax for the period at 19% (2016- 20%)	-	-
Deferred tax arising from timing differences in recognition	-	-
(Credit)/ Charge for year	-	-
	Year ended 31 December 2017 GBP 000	Year ended 31 December 2016 GBP 000
Tax on profit from ordinary activities – being UK Corporation Tax at 19% (2016 – 20 %)	18	(25)
(Loss)/profit from ordinary activities before tax	18	(123)
Tax at 19% (2016 – 20 %)	3	(25)
Tax in relation to prior year	-	-
Effect of expenses not deductible for tax purposes	6	3
Effect of tax rate changes	3	-
Recognition of losses	(12)	-
Current tax losses not utilised		22
(Credit) / Charge for the year	-	-

No deferred tax asset has been recognised. Management has decided not to recognise a deferred tax asset of GBP 281,000 arising out of GBP 1,596,000 of prior year losses until we establish a track record of profitability.

13) Loans and advances to banks

	As at 31 December 2017	As at 31 December 2016
	GBP 000	GBP 000
Repayable within one month	69,396	113,769
Repayable within three months but greater than 1 month	3,715	1,724
Repayable with agreed maturity within 1 year but greater than 3 months	2,867	1,456
	75,978	116,949

Loans and advances to banks included GBP 191,200 in relation to five bills discounted which were issued by BOC Group companies (2016 GBP 200,343).

14) Loans and advances to customers

	As at 31 December 2017		
	Gross amount GBP 000	Impairment allowance GBP 000	Carrying amount GBP 000
Personal loans and advances	5,640	-	5,640
Commercial loans and advances	7,885	(23)	7,862
	13,525	(23)	13,502

	As at 31 December 2016		
	Gross amount GBP 000	Impairment allowance GBP 000	Carrying amount GBP 000
Personal loans and advances	5,007	-	5,007
Commercial loans and advances	5,861	(23)	5,838
	10,868	(23)	10,845

Full provision has been made against loans assessed as impaired. The carrying value of impaired loans is GBP nil (2016 GBP nil). Loans and advances to staff were GBP 36,820 (2016 GBP 51,000)

15) Investments

	As at 31 December 2017 GBP 000	As at 31 December 2016 GBP 000
Available for sale	0	1,001
Held to maturity	5,434	6,000
	5,434	7,001

Available for sale investments relate to debt securities issued by the government of the UK and are held as part of the Bank's stock of high quality liquidity assets in accordance with the Capital Requirements Directive (CRD IV).

Held to maturity are investments in US dollar denominated Sri Lanka Government and corporate bonds.

16) Deposits by banks

	As at 31 December 2017 GBP 000	As at 31 December 2016 GBP 000
Repayable on demand or at short notice	6,347	5,358
Repayable with agreed maturity within three months	56,928	96,808
Repayable with agreed maturity within 3 months & 1yr	0	0
Repayable with agreed maturity of over 1 year.	17,559	18,087
	80,834	120,253
Amounts include the following Group deposits:		
Repayable on demand or at short notice	1,577	2,728
Repayable with agreed maturity within three months	49,077	62,700
Repayable with agreed maturity over 3 months & 1yr	0	0
Repayable with agreed maturity of over 1 year.	17,559	18,087
	68,213	83,515

17) Deposits by customers

	As at 31 December 2017 GBP 000	As at 31 December 2016 GBP 000
Repayable on demand or at short notice	4,327	4,916
Repayable with agreed maturity within three months	49	157
Repayable with agreed maturity over 3 months & 1yr	338	388
	4,714	5,461

18) Other Liabilities

	As at 31 December 2017 GBP 000	As at 31 December 2016 GBP 000
Accrued expenses	103	80
Trade payables	334	348
	437	428

19) Share Capital

	As at 31 December 2017 GBP 000	As at 31 December 2016 GBP 000
15,000,000 (2015: 15,000,000) Authorised, issued and fully paid shares of GBP 1 each	15,000	15,000

20) Related Parties

The Bank of Ceylon (UK) Limited is a wholly owned subsidiary of Bank of Ceylon, 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. An annual rolling ten year deposit of £16.7 M will mature during 2025.

Interest payments to the Bank of Ceylon in respect of deposits held during 2017 amounted to GBP 211,000 (2016 GBP 214, 000). As at the 31 December 2017, Bank of Ceylon (UK) Limited held deposits of GBP 68,213,523 (2016 GBP 83,514,958) excluding Vostro balances on behalf of the Bank of Ceylon.

21) Contingent Liabilities

	As at 31 December 2017	As at 31 December 2016
	GBP 000	GBP 000
Guarantees Issued	160	160
Documentary credits and short term trade related transactions	370	655
	530	815

22) Interest rate risk

31 December 2017	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 at bank and in hand	1,142	-	-	-	1,142
Loans and advances to banks	75,978	73,111	2,867	-	-
Loans and advances to customers	13,502	13,502	-	-	-
Debt securities	5,434	-	2,425	2,985	24
Property and equipment	2,929	-	-	-	2,929
Intangible assets	76	-	-	-	76
Other assets	263	-	-	-	263
Total assets	99,324	86,613	5,292	2,985	4,434
Liabilities					
Deposits by Banks	80,834	57,817	16,671	-	6,346
Customer accounts	4,714	1,705	338	-	2,671
Other liabilities	437	-	-	-	437
	85,985	59,522	17,009	0	9,454
Share capital	15,000	-	-	-	15,000
Fair value reserve	-	-	-	-	-
Revaluation Reserve	426	-	-	-	426
Retained earnings	(2,087)	-	-	-	(2,087)
Total liabilities and equity	99,324	59,522	17,009	0	22,793
Net interest gap		27,091	(11,717)	2,985	(18,359)
Cumulative interest gap		27,091	15,374	18,359	-
31 December 2016					
Assets					
Cash at bank and in hand	1,298	-	-	-	1,298
Loans and advances to banks	116,949	115,493	1,456	-	-
Loans and advances to customers	10,845	1,064	981	8,800	-
Debt securities	7,001	1,000	-	5,918	83
Property and equipment	2,950	-	-	-	2,950
Intangible assets	165	-	-	-	165
Other assets	265	-	-	-	265
Total assets	139,473	117,557	2,437	14,718	4,761
Liabilities					
Deposits by Banks	120,253	102,166	18,087	-	-
Customer accounts	5,461	5,073	388	-	-
Other liabilities	428	-	-	-	428
	126,142	107,239	18,475	0	428
Share capital	15,000	-	-	-	15,000
Fair value reserve	1	-	-	-	1
Revaluation Reserve	435	-	-	-	435
Retained earnings	(2,105)	-	-	-	(2,105)
Total liabilities and equity	139,473	107,239	18,475	0	13,759
Net interest gap		10,318	(16,038)	14,718	(8,998)
Cumulative interest gap		10,318	(5,720)	8,998	-

An increase of .50% in interest rates would bring additional income of GBP 91,000 (2016 - GBP 91,000). A .25% reduction in interest rates would have a negative impact of GBP 22,765.

23) Maturity Analysis

31 December 2017	Total	0-3 Months	3-12 Months	Over 1 Year	Undated
Assets	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cash at bank and in hand	1,142	-	-	-	1,142
Loans and advances to banks	75,978	73,111	2,867	-	-
Loans and advances to customers	13,502	1,686	408	11,408	-
Debt securities	5,434	-	2,425	3,009	-
Property and equipment	2,929	-	-	-	2,929
Intangible assets	76	-	-	-	76
Other assets	263	263	-	-	-
Total assets	99,324	75,060	5,700	14,417	4,147
Liabilities					
Deposits by Banks	80,834	63,275	-	17,559	-
Customer accounts	4,714	4,376	338	-	-
Other liabilities	437	-	-	-	437
	85,985	67,651	338	17,559	437
Share capital	15,000	-	-	-	15,000
Fair value reserve	0	-	-	-	0
Revaluation Reserve	426	-	-	-	426
Retained earnings	(2,087)	-	-	-	(2,087)
Total liabilities and equity	99,324	67,651	338	17,559	13,776
Net maturity gap		7,409	5,362	(3,142)	(9,629)
Cumulative maturity gap		7,409	12,771	9,629	-

31 December 2016	Total	0-3 Months	3-12 Months	Over 1 Year	Undated
Assets	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cash at bank and in hand	1,298	-	-	-	1,298
Loans and advances to banks	116,949	115,493	1,456	-	-
Loans and advances to customers	10,845	1,064	981	8,800	-
Debt securities	7,001	1,001	-	6,000	-
Property and equipment	2,950	-	-	-	2,950
Intangible assets	165	-	-	-	165
Other assets	265	265	-	-	-
Total assets	139,473	117,823	2,437	14,800	4,413
Liabilities					
Deposits by Banks	120,253	102,166	-	18,087	-
Customer accounts	5,461	5,073	388	-	-
Other liabilities	428	-	-	-	428
	126,142	107,239	388	18,087	428
Share capital	15,000	-	-	-	15,000
Fair value reserve	1	-	-	-	1
Revaluation Reserve	435	-	-	-	435
Retained earnings	(2,105)	-	-	-	(2,105)
Total liabilities and equity	139,473	107,239	388	18,087	13,759
Net maturity gap		10,584	2,049	(3,287)	(9,346)
Cumulative maturity gap		10,584	12,633	9,346	-

24) Foreign exchange exposure

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

31 December 2017	Total	GBP	Euro	LKR	USD
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Assets					
Cash at bank and in hand	1,142	224	574	4	340
Loans and advances to banks	75,978	65,608	158	-	10,212
Loans and advances to customers	13,502	12,741	761	-	-
Debt securities	5,434	-	-	-	5,434
Property and equipment	2,929	2,929	-	-	-
Intangible assets	76	76	-	-	-
Other assets	263	138	2	-	123
Total assets	99,324	81,716	1,495	4	16,109
Liabilities					
Deposits by Banks	80,834	64,927	1,437	0	14,470
Customer accounts	4,714	4,636	32	-	46
Other liabilities	437	368	24	-	45
	85,985	69,931	1,493	0	14,561
Share capital	15,000	15,000	-	-	-
Fair value reserve	0	0	-	-	-
Revaluation reserve	426	426	-	-	-
Retained earnings	(2,087)	(2,087)	-	-	-
Total liabilities and equity	99,324	83,270	1,493	0	14,561
Gross exposure (liability)		(1,554)	2	4	1,548
Foreign exchange contracts		1,492	-	-	-1,494
Net exposure (liability)		(62)	2	4	54

31 December 2016	Total	GBP	Euro	LKR	USD
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Assets					
Cash at bank and in hand	1,298	186	920	-	192
Loans and advances to banks	116,949	95,081	420	-	21,448
Loans and advances to customers	10,845	9,929	916	-	-
Debt securities	7,001	1,001	-	-	6,000
Property and equipment	2,950	2,950	-	-	-
Intangible assets	165	165	-	-	-
Other assets	265	121	8	-	136
Total assets	139,473	109,433	2,264	-	27,776
Liabilities					
Deposits by Banks	120,253	90,507	2,197	16	27,533
Customer accounts	5,461	5,353	33	-	75
Other liabilities	428	371	27	-	30
	126,142	96,231	2,257	16	27,638
Share capital	15,000	15,000	-	-	-
Fair value reserve	1	1	-	-	-
Revaluation Reserve	435	435	-	-	-
Retained earnings	(2,105)	(2,105)	-	-	-
Total liabilities and equity	139,473	109,562	2,257	16	27,638
Gross exposure (liability)		(129)	7	16	138
Foreign exchange contracts		-	-	-	-

Net exposure (liability)	(129)	7	16	138
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At 31 December 2017 a 5% strengthening of Sterling against the US Dollar would have reduced profits by GBP 8,000 and a 5% weakening would have a reverse effect.

25) Risk management

The Bank has exposure to the following risks:

- credit risk
- liquidity risk
- market risk
- operational risk

The management of these risks is set out in the Strategic Report.

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.

	As at 31 December 2017 GBP 000	As at 31 December 2016 GBP 000
Cash at bank	1,101	1,259
Loans and advances to banks	75,978	116,949
Loans and advances to customers	13,502	10,845
Investments	5,434	7,001
Other assets	263	265
Maximum credit risk exposure	<u>96,278</u>	<u>136,319</u>
Investment grade assets	68,444	110,636
Other assets	<u>27,834</u>	<u>25,683</u>
	<u>96,278</u>	<u>136,319</u>

Exposure to Liquidity Risk arises from the difficulty in meeting obligations settled by delivering cash or another financial asset. The maturity of all assets and liabilities are shown in note 23 above. The Bank did not have any derivative exposures at the year end and hence no further liquidity exposure.

Market risk is considered to comprise three elements, Interest Rate Risk (assessed in Note 22 above), Foreign Exchange Risk (assessed in Note 24 above) and Price Risk. The Bank's holdings of debt securities comprise UK Government Gilts held for liquidity purposes in accordance with CRD IV and Eurobonds issued by the Government of Sri Lanka and Sri Lankan financial institutions. These assets were valued at GBP 5,434,000 at 31 December 2017 (investments at 31 December 2016 were GBP 7,001,000).

26) Fair Value

The term “financial instrument” includes both financial assets and financial liabilities. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm’s length transaction.

The Bank analyses financial instruments held at fair value into the 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. Financial instruments included are primarily unlisted equity shares.

2017

	Level 1 GBP 000	Level 2 GBP 000	Level 3 GBP 000	Total GBP 000
Financial instrument assets				
Debt Securities		5,434		5,434
Loans and advances to customers	-	-	13,502	13,502
Total	0	5,434	13,502	18,936

2016

	Level 1 GBP 000	Level 2 GBP 000	Level 3 GBP 000	Total GBP 000
Financial instrument assets				
Debt securities	1,001	6,000	-	7,001
Loans and advances to customers	-	-	10,845	10,845
Total	1,001	6,000	10,845	17,846

27) Capital Management

The Bank's approach to capital management is as set out in the Strategic Report. The regulatory capital of the Bank was GBP 13,263,736 at 31 December 2017 after deducting the book value of intangible assets from shareholder's funds (GBP 13,166,000 at 31 December 2016). The Bank complied with all regulatory capital requirements throughout the year.

28) Subsequent events

There were no subsequent events.

Bank of Ceylon (UK) Ltd Country-by-Country Reporting as at 31 December 2017

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 (£'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	2,349	18	0	0	26
Global	2,349	(18)	0	0	26

Basis of preparation

Country: The geographical location of the Company considers the country of incorporation or residence as well as the relevant tax jurisdiction. In this context, the countries applicable will be 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 Company'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 2017.

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 2017.

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 Financial Reporting Standards ("IFRSs") as adopted by the EU and applicable law and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

