BANK OF CEYLON (UK) LTD

Gateway to Sri Lanka

Bank of Ceylon (UK) Ltd

Financial Statements

For the year ended 31 December 2018

Company registration no. 06736473

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BOARD OF DIRECTORS

Mr E.R.C Perera, PC Resigned on 5th December 2018.	Chairman
Mr W.D.R. Swanney	Independent Director and Acting Chairman
Mr A R F John Pulle Resigned on 20th December 2018	Executive Director and Chief Executive Officer
Mr C N Meneripitiyage Don Appointed on 28th January 2019.	Executive Director and Chief Executive Officer
Mr S. Sabesan	Executive Director and Chief Operating Officer
Mr R. England	Independent Non-Executive Director
Mr D.M. Gunasekera Resigned on 22nd February 2018.	Non- Executive Director and General Manager, BOC
Mr K B S Bandara Appointed on 7th March 2018	Non- Executive Director and General Manager, BOC
Mr C J M 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

2018 was another encouraging year, building on the success of 2017 - all the more satisfying against the backdrop of ongoing economic and political uncertainty in Sri Lanka and the UK. Despite competitive pressure, the Bank continued to focus on delivering its strategic priorities building on the financial turnaround of the business, through greater customer satisfaction, optimisation of resources and furthering the achievement of a balanced credit portfolio.

I am delighted to report the Bank's success in delivering a profit of £85,000, building on the positive result of 2017, transforming the Bank from a loss-making entity to a business that is starting to deliver positive results for the Bank of Ceylon Group.

Across our retail and corporate franchises, the drive to achieve a balanced credit portfolio is increasingly successful. Although net loans to customers were marginally down from 2017, this has not affected 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 continued to offer facilities to new and developing businesses. 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. The Bank carried out an externally facilitated review of its culture during the year, which confirmed that the Board has provided effective leadership, and set a positive tone in this area. Inevitably in such exercises, the review has identified some areas where the Board can further improve its effectiveness and leadership, and these are being addressed.

The outlook for 2019 will be challenging, in the midst of continued economic and political uncertainty, the risk of sterling pressure and ongoing regulatory changes. As we look ahead, we see significant challenges in both our key markets, Sri Lanka and the UK. Changes in the external environment, evolving customer behaviours and expectations will create opportunities and challenges for a bank of our size. The Bank enters 2019, however, with a clear strategy, a strong foundation and a motivated team well placed to handle the uncertainties that lie ahead.

Ronald Perera and Anton John Pulle stepped down from their respective board positions of Chairman and Chief Executive Officer at the end of 2018. I would like to place on record the Board's appreciation for their invaluable input over the last three years. I would also like to express my thanks to my other fellow Board members, the leadership team and all colleagues across the Bank for their contribution to everything we have achieved together.

David Swanney
Acting Chairman
15th March 2019

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 2018.

Operating environment

Cross border trade with Sri Lanka reached record levels during the year, benefiting both trade finance and treasury services. Sterling weakness helped boost our customer trade volumes to Sri Lanka. This opening, whilst enhancing trade finance volumes, created new opportunities for supplying export shipment finance, which in turn helped exporters to optimise trade volumes. Treasury services also benefited from increased money market volumes all of which contributed to delivering a profit ahead of budget.

The UK's economic uncertainty has reduced demand for lending, despite credit conditions remaining benign during 2018. Competition in the Buy to Let market intensified during in the second half of the year resulting in a competitive pricing environment being created. In response to this challenge, the Bank has introduced lending products that are starting to attract a new segment of customers. There is still significant uncertainty as to the outcome of the UK's negotiation with the EU. As BOC (UK) Ltd does not engage in trade finance or lending services with EU markets, the impact of a no deal scenario could pose a number of unknown consequences and the situation will be closely monitored. The outlook for 2019 has been based on our planning assumption that a transitional arrangement will be reached between the UK and EU by March 2019. Stress testing of financial assets under IFRS 9, assumes medium probability of a no deal, where house prices are expected to decline by up-to 40% in an adverse economic scenario. Even under such extreme conditions, the Bank will be able to continue operating as the LTV on the lending portfolio is in the 60% range.

The capital position remains strong with the CET1 ratio 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 2019.

The 2018 results delivered a profit in excess of budget through furthering our strategic objectives. As a consequence, the reported profit for the year is a £85,000 before taxation (2017: profit of £18,000).

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 next three years.

In making the going concern assessment the Board has considered the following:

Time horizon:

- The Directors have a reasonable expectation that the Bank will be able to continue in operation and meet is liabilities as they fall due over the next three years. The three year time frame is chosen as it is the period covered by the Bank's Business Plan, its internal stress testing and is representative of the continued level of regulatory change in the financial services industry.

Considerations:

- The Board has carried out an assessment of the Bank's risk profile and reviewed how those risks are managed and controlled.
- It has reviewed the Bank's liquidity and funding profile.
- It has considered the stability of its major markets.
- It has considered viability under internal stress tests.

- It has considered its operational resilience and its ability to respond to circumstances which could result in operational disruption.

Risks:

Amongst other risks the Board assessed the impact of:

- UK withdrawal from the EU (Brexit). The review also included an assessment of the potential impacts of Brexit under various withdrawal scenarios. The most severe scenario is considered to be a disorderly withdrawal (a "no deal Brexit") and the most relevant immediate risks to the Bank under this scenario are:
  - Market volatility, including currencies and interest rates, could have an impact on the Bank's profitability.
  - A credit ratings agency downgrade applied to the UK government and/or to the Bank's UK counterparties could increase regulatory capital usage.
  - An increased risk of a UK recession with lower growth, higher unemployment and falling house prices could negatively impact the Bank's lending portfolio.
  - The legal framework within which the Bank operates could change and become more uncertain and could have an impact on its contractual obligations.
  - A change in trade barriers between the UK and other countries. The current trade agreement with Sri Lanka is under an EU agreement and a change in trade arrangements under a bilateral agreement could impact the Bank's UK exporting customers.
- Sudden shocks or geopolitical unrest in Sri Lanka could alter the behaviour of depositors and other counterparties and affect the Bank's ability to maintain appropriate capital and liquidity ratios.
- The decision by the FATF in October 2017 to list Sri Lanka as a jurisdiction with strategic AML/CFT (the "grey list") concerns. Any deterioration in the FATF's assessment could impact the Bank's ability to process payments through its counterparties.
- Evolving operational risks such as cyber security, technology and resilience.

The impact of these and other risks after mitigating actions was assessed using stress and scenario testing, and the judgement of the Directors and management.

Assessment:

- The Bank faces a number of financial, conduct and operational risks which are managed within its risk management framework.
- The Board sets the Bank's Risk Appetite within which the business is required to operate.
- Management and the Board then oversee the ongoing risk profile.
- Internal Audit provides independent assurance to the Board through the Board Audit and Risk Committee over the effectiveness of governance, risk management and controls.
- At the FATF Plenary held in February 2019 it was reported that the FATF had made an initial determination that Sri Lanka had completed its agreed action plan to resolve FATF concerns. This determination warranted an on-site verification evaluation, which is to take place in May 2019. The findings of this evaluation could result in Sri Lanka being removed from the FATF "grey list" in June 2019.

On the basis of their assessment of the Bank's financial position the Directors are of the opinion that the Bank has a reasonable expectation to continue in operational existence for the next three years. The Directors are satisfied that this period is sufficient to enable a reasonable assessment of viability to be made.

<u>Disclosure of information to the auditor</u>

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. (2017: Nil)

Auditor

Pursuant to section 487 of the Companies Act 2006, KPMG LLP's will have completed their term at the end the 2018 and consequently the Bank will re- tender the audit for 2019.

By order of the Board:

C.N. Meneripitiyage,

Chief Executive Officer
15th March 2019

STRATEGIC REPORT

The Directors present the Strategic Report of the company for the year ended 31 December 2018 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 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

Introduction and overview

The Bank has exposure to the following risks:
- credit risk;
- liquidity risk;
- market risk; and
- 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 monitor risks and adherence to limits. The risk management policies and systems are reviewed regularly to reflect changes in the 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 Audit and Risk Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes 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.

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).

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 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, geographies 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 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
    - incorporation of forward looking information.
- 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, 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.

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.

Management of liquidity risk

The Bank's Board of Directors sets the Bank's strategy for managing liquidity risk and oversight of the implementation is administered by 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 and 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:

- Maintaining an adequate funding base of customer deposits and wholesale market deposits.
- Carrying a portfolio of highly liquid assets
- Monitoring maturity mismatches and behavioural characteristics of the Bank's financial assets and financial liabilities.
- Stress testing the Bank's liquidity position against various exposures.

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 then maintains a portfolio of short term liquid assets, largely made up of short term placements with central banks and loans and advance 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 taking into account both Bank specific events and market related events. The results of the tests are reviewed by ALCO and presented to the Board.

Market risks

"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 exposure.

Management of market risks

The Bank does not maintain a trading portfolio and market risks arise from its day-to-day banking operations. Overall authority for market risk is vested in ALCO which sets up limits for each type of risk in line with the Bank's 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 so as 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 of Directors 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.

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

<u>Capital adequacy</u>

The Bank is required to comply with the provisions of the EU Capital Requirements Directive (CRD) 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 (its "Pillar 2A") to meet the overall financial adequacy requirements under regulatory rules, and regarding the application of capital buffers. The Bank has utilised the transitional relief arrangements granted under IFRS 9 and has set off 95% of the 2018 ECL provision, in arriving at the regulatory capital as set out in note 29.

Management of capital adequacy

The Bank's management uses the 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 the ALCO and presented to the Board.

<u>Regulatory risk</u>

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, operational resilience and their product 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 of regulatory risk

The Bank monitors developments and proactively engages with the regulators wherever possible to ensure that new regulatory requirements are considered fully and can be implemented in an effective manner.

There is an increasing focus by the regulators on conduct of business. The Bank continues to develop and enhance its management of conduct including employee training and performance.

By order of the Board:

C.N. Meneripitiyage

Chief Executive Officer
15th March 2019

AUDIT AND RISK COMMITTEE REPORT FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018
The Committee met four 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.
- Provisions in line with IFRS9

The primary areas of judgement considered by the Committee in relation to the 2018 accounts were:

- Evaluate the effectiveness of the external auditor's response to the assessed risks of material misstatement presented by the Bank's ECL.
- revenue recognition: Review of the design, implementation and effectiveness of controls around the IFRS 9, 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 2018 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 2018 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 2018 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 2018 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, senior manager and certification regime, IT controls, recovery plan and resolution pack, internal capital adequacy and internal liquidity adequacy assessment process (ICAAP and ILAAP) and conduct and culture.

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 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 2018 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 12 March 2019 and signed on its behalf by

W D R Swanney
Chair of the Audit, Risk and Compliance Committee
15th March 2019

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 Financial Reporting Standards as adopted by the European Union (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 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 IFRSs as adopted by the EU;
- 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:

C.N. Meneripitiyage,

Chief Executive Officer
15th March 2019

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

1 Our opinion is unmodified
We have audited the financial statements of Bank of Ceylon (UK) Limited ("the Bank") for the year ended 31 December 2018 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 and note 4.

In our opinion the financial statements:

- give a true and fair view of the state of Bank's affairs as at 31 December 2018 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 9 financial years ended 31 December 2018. 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: including 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 matters in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were 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
The impact of uncertainties due to Britain exiting the European Union on our audit. Refer to page 6 (directors report) and 27 (going concern basis of accounting)	***Unprecedented levels of uncertainty*** All audits assess and challenge the reasonableness of estimates, in particular as described in impairment of loans and receivables and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • Our Brexit knowledge – We considered the directors' assessment of Brexit-related sources of risk for the Bank's business and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks.

	depend on assessments of the future economic environment and the Bank's future prospects and performance. Brexit is one of the most significant economic events for the UK and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.	• Sensitivity analysis – When addressing impairment of loans and receivables and other areas that depend on forecasts, we compared the directors' sensitivity analysis to our assessment of the worst reasonably possible, known adverse scenario resulting from Brexit uncertainty and, where forecasts cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty. • Assessing transparency – As well as assessing individual disclosures as part of our procedures on impact of impairment of loans and receivables on our audit we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under impairment of loans and receivables, we found the resulting estimates and related disclosures of impairment of loans and receivables and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a bank and this is particularly the case in relation to Brexit.
Impairment of customer loans and receivables. Refer to page 14 (Audit and Risk Committee report), page 31 (accounting policy) and page 36 (related disclosures.	The calculation of Expected Credit Losses (ECL) in line with IFRS 9 is an inherently judgemental area within the financial statements and there is a risk that key assumptions used for calculating ECL may not be supported by robust and objective evidence, or may be out of line with wider industry experience, or may not reflective of external conditions. The change in the credit risk of assets since initial recognition is a key component of the ECL calculation under IFRS 9. If there has been a significant increase in credit risk (SICR) since initial recognition the asset moves to stage 2 and attracts a significantly higher lifetime ECL.	Our procedures included: **Test of controls**: We have tested the design and implementation of controls over the determination of asset staging. **Test of details:** Key aspects of our testing involved: • We performed independent credit reviews for a sample of loans. This included testing the appropriateness of asset staging determined through the credit reviews. • We involved KPMG Financial Risk Management specialists to review the staging assumptions and IFRS 9 model. **Our sector experience**: We challenged the appropriateness of the staging criteria using our knowledge of the industry. **Methodology implementation**: We tested, on a sample basis, that assets were included in the correct staging bucket within the model. **Assessing transparency**: We assessed the adequacy of the Bank's disclosures about the degree of estimation involved determining the asset staging and ECL calculation. **Our results**:

	We therefore focussed our testing on the application of the staging criteria to the assets covered by IFRS 9.	We found the resulting estimate of the impairment of loans and advances to be acceptable. (2017: acceptable)

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 £550k (2017: £605k) determined with reference to a benchmark of a three year average of total assets of which is represents 0.5% (2017: 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 £16k (2017: £18k), 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
The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Bank or to cease its operations, and as they have concluded that the Bank's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Bank will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Bank's business model, including the impact of Brexit, and analysed how those risks might affect the Bank's financial resources or ability to continue operations over the going concern period. The risk that we considered most likely to affect the Bank's available financial resources over this period was:

- The availability of liquidity and funding in the event of a market-wide stress scenario including the impact of Brexit.

As these were risks that could potentially cast significant doubt on the Bank's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Bank's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise. We also considered less predictable but realistic second order impacts, such as the impact of Brexit on the erosion of customer confidence in the Bank which could result in a rapid reduction of available financial resources.

Based on this work, 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 a year from the date of approval of the financial statements.

We have nothing to report in these respects, and we did not identify going concern as a key audit matter.

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 [17], 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 or other irregularities (see below), 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.

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 and discussed with the directors and other management the policies and procedures regarding

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

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the bank is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the bank is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the bank’s licence to operate. We identified the following areas as those most likely to have such an effect: regulatory capital and liquidity recognising the financial and regulated nature of the Bank’s activities. Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. These limited procedures did not identify actual or suspected non-compliance.

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations (irregularities) is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it. In addition, 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. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

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
15th March 2019

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 GBP 000	Year ended 31 December 2017 GBP 000
Interest income		1,835	1,589
Interest expense	5	(467)	(275)
Net interest income		**1,368**	**1,314**
Fees and commissions	6	814	606
Net gains from Forex transactions		119	154
Operating income		**2,301**	**2,074**
Administration expenses	7	(2,103)	(1,884)
Depreciation	11	(56)	(54)
Amortization	12	(44)	(118)
ECL provisioning	13	(13)	-
Profit / (Loss) from ordinary activities before tax		**85**	**18**
Tax credit /(charge) on loss from ordinary Activities	14	-	-
Profit /(Loss) from ordinary activities after tax		**85**	**18**
Other comprehensive income			
Net change in the fair value of available for sale investments		-	(1)
Other comprehensive income/(loss) for the year		**-**	**(1)**
Total comprehensive income/(loss) for the year		**85**	**17**

-

The notes on pages 27 to 50 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	31 December 2018 GBP 000	31 December 2017 GBP 000
Assets			
Cash at bank and in hand		992	1,142
Loans and advances to banks	15	136,517	75,978
Loans and advances to customers	16	12,708	13,502
Investments	17	4,642	5,434
Property and equipment	11	2,885	2,929
Intangible assets	12	33	76
Other assets		538	263
Total assets		**158,315**	**99,324**
Liabilities			
Deposits by banks	18	138,890	80,834
Customer accounts	19	5,367	4,714
Other liabilities	20	678	437
Total liabilities		144,935	85,985
Equity			
Share capital	21	15,000	15,000
Revaluation reserve		417	426
Retained earnings		(2,037)	(2,087)
Equity shareholders' funds		13,380	13,339
Total liabilities and equity		**158,315**	**99,324**

These financial statements were approved by the Board of Directors on 12th March 2019 and were signed on its behalf by:

C.N Meneripitiyage,

Chief Executive Officer

The notes on pages 27 to 50 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2018

	Share Capital GBP 000	Fair value Reserve GBP 000	Retained earnings GBP 000	Revaluation Reserve GBP 000	Total equity GBP 000
Equity shareholders' funds 31 December 2017	**15,000**	**0**	**(2,087)**	**426**	**13,339**
Adjustment on adoption of IFRS 9			(35)		**(35)**
Equity shareholders' funds 1 January 2018	**15,000**	**0**	**(2,122)**	**426**	**13,304**
Profit for the year	-	-	85	-	**85**
Revaluation reserve movement	-	-	-	**(9)**	**(9)**
Equity shareholders' funds 31 December 2018	**15,000**	**0**	**(2,037)**	**417**	**13,380**
Equity shareholders' funds 1 January 2017	**15,000**	**1**	**(2,105)**	**435**	**13,331**
Profit for the year	-	-	18	-	18
Revaluation Reserve	-	-	-	(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**

The notes on pages 27 to 50 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	Year ended 31 December 2018 GBP 000	Year ended 31 December 2017 GBP 000
Cash flow from operating activities:			
Profit before tax		85	18
Adjusted for:			
Depreciation	11	56	54
Amortization	12	44	118
Other non-cash items - net change in fair value of Investment and ECL provisions	13	13	(1)
		198	189
Changes in:			
Loans and advances to banks	15	(60,541)	40,971
Loans and advances to customers	16	784	(2,657)
Investments	17	755	1,567
Other assets		(275)	2
Deposits by banks	18	58,056	(39,419)
Customer accounts	19	653	(747)
Other liabilities	20	241	9
		(327)	(274)
Net cash flow used in operating activities		**(129)**	**(85)**
Cash flow from investing activities			
Acquisition of fixed assets	11 &12	(21)	(71)
Net cash flow used in investing activities		**(21)**	**(71)**
Cash flow from financing activities			
Proceeds from the issue of share capital		-	-
Net cash flow from financing activities		**-**	**-**
Net increase / (decrease) in cash and cash equivalent		(150)	(156)
Cash and cash equivalents at 1 January		**1,142**	**1,298**
		992	**1,142**
Cash and cash equivalents at 31 December		**992**	**1,142**

The notes on pages 27 to 50 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 accounting

These financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union. They were authorised for issue by the Bank's Board of Directors on the 12th of March 2019.

This is the first set of annual financial statements in which IFRS9 Financial instruments and IFRS15 Revenue from Customers with Contracts, have been applied.

a) 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. The review also included an assessment of the potential impacts of Brexit under various withdrawal scenarios.

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).

b) 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.

c) Basis of measurement

These financial statements have been prepared on the historical cost basis.

d) 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) Changes in accounting policies

The Bank adopted IFRS 9 which replaces IAS 39 and IFRS 15 which replaces IAS 18 from the 1st of January 2018. A number of other new standards are also effective from 1st January 2018 but they do not have a material effect on the Banks financial statements. Due to the transition method chosen, by the Bank in applying IFRS 9 and IFRS15, comparative information throughout these financial statements have not been restated to reflect its requirements.

Accordingly, the information presented for 2017 does not reflect the requirements of IFRS 9 and IFRS 15. Therefore it is not comparable to the information presented for 2018 under IFRS 9 and IFRS15.

With the exception to the change below, the Bank has consistently applied the accounting policies to all periods presented in these financial statements.

IFRS 9 Financial Instruments

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The main changes to the accounting polices resulting from the adoption of IFRS9 are:

a) Classification

Financial assets are classified on the basis of two criteria:

- The business model within which financial assets are managed : and

- Their contractual cash flow characteristics (whether the cash flows represents 'solely payment of principal and interest)

b) Measurement

Measurement is based on the following assessments that existed at the date of initial application

- A financial asset has been measured at amortised cost where the assets are held within the business model whose objective is to hold financial assets in order to collect contractual cash flow and their contractual cash flows represent solely payments of principal and interest.

- A financial asset has been measured at fair value through other comprehensive income where an asset is held within the business model, where the objective is to collect contractual cash flows and selling of financial assets.

- All other financial assets are measured at fair value through profit and loss.

c) Impairment

Impairment provisioning ECL (expected credit loss) is determined by using a staging model and forward looking information. Impairment provision on all financial assets are 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 counterparties. 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 revenue 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;

IFRS 9 impairment assessment is also applied to all off balance sheet exposures including undrawn commitments and financial guarantees.

IFRS 15 Revenue form Contracts from Customers

The Bank adopted IFRS 15 on the 1st of January. The timing or amount of fees and commission received from customers has not been impacted by the adoption of IFRS 15.

Future accounting developments

IFRS 16 'Leases' replaces IAS 17 ‘Leases’ and is effective for annual periods beginning on or after 1 January 2019. The impact of these accounting changes is still being assessed by the Bank and reliable estimates cannot be determined at this stage.

4) 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

Income from Fees and commissions relate mainly to transactions and service fees which are recognised on an accruals basis as the service is provided.

d) Property and equipment

The Company’s premises are shown at fair value based on periodic valuation by external independent valuer’s 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.

e) 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

f) Financial assets and financial liabilities (applicable policies from 1st January 2018).

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) Recognition

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

iii) 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.

iv) 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.

v) 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.

vi) 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.

vii) Impairment

Impairment provisioning ECL (expected credit loss) is determined by using a staging model and forward looking information. Impairment provision on all financial assets are 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 counterparties. 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 revenue 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;

IFRS 9 impairment assessment is also applied to all off balance sheet exposures including undrawn commitments and financial guarantees.

g) Cash and cash equivalents

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

h) 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.

i) 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.

j) 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.

k) 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.

l) 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.

m) 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.

n) Unless otherwise stated all financial figures have been rounded off to the nearest one thousand GBP.

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5) Interest expense

	Year ended 31 December 2018 GBP 000	Year ended 31 December 2017 GBP 000
Interest paid to related entities	398	211
Other interest paid on deposits	69	64
	467	**275**

6) Fees and commissions

	Year ended 31 December 2018 GBP 000	Year ended 31 December 2017 GBP 000
International commission	569	305
Domestic commission	245	263
Other income	-	38
	814	**606**

7) Administration expenses

	Note	Year ended 31 December 2018 GBP 000	Year ended 31 December 2017 GBP 000
Wages and salaries including directors		1,062	1,000
Social security costs		147	138
Other pension costs		39	38
Total staff costs	8	1,248	1,176
Fees payable to Banks auditors for the audit of the Bank's financial statements		62	35
Other administration expenses		793	673
Total administration expenses		**2,103**	**1,884**

8) Staff Costs

	Note	Year ended 31 December 2018 GBP 000	Year ended 31 December 2017 GBP 000
Staff			
Salary and allowances		825	753
Social security costs		119	109
Pension costs	9	39	38
		983	900

Directors			
Salary and allowances	10	237	247
Social security costs	10	28	29
		265	276
Total staff costs		**1,248**	**1,176**

The average number of persons employed by the Bank during the period was made up as follows:

	Year ended 31 December 2018	Year ended 31 December 2017
Executive directors	2	2
Non-executive directors	2	2
Executive management	4	4
Clerical and other grades	17	18
	25	**26**

9) 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.

10) Directors' Emoluments

The total emoluments of the directors were GBP 237,027 (2017 – GBP 247,217). The highest paid director received emoluments of GBP 95,426 in 2018. The highest paid director in 2017 received GBP 95,980.

11) 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 2018	1,500	76	180	1,450	3,206
Additions in the year	-	4	17	-	21
Revaluation	-	-	-	-	-
Transfers	-	-	-	-	-
Cost at 31 December 2018	1,500	80	197	1,450	3,227
Accumulated depreciation					
Depreciation at 1 January 2018	(157)	(52)	(68)	-	(277)
Depreciation charged for the year	(30)	(8)	(18)	-	(56)
Revaluation	(9)	-	-	-	(9)
Depreciation at 31 December 2018	(196)	(60)	(86)	-	(342)
Net book value at 31 December 2018	**1,304**	**20**	**111**	**1,450**	**2,885**

	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**

12) Intangible assets

	Computer Software -2018 GBP 000	Computer Software -2017 GBP 000
Cost		
Balance at 1 January 2018	**707**	678
Additions in the year	**-**	29
Balance at 31 December 2018	**707**	707
Accumulated amortization		
Balance at 1 January 2018	(630)	(512)
Amortization for the year	(44)	(118)
Balance at 31 December 2018	(674)	(630)
Net book value at 31 December 2016	33	77

13) ECL provisioning

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**2018 Total GBP 000**	**2017 Total GBP 000**
Balance at 1 January	(10)	**-**	**-**	**(10)**	-
Net re-measurement of loss allowance	8	-	-	8	-
Balance at 31 December	**(2)**	**-**	**-**	**(2)**	-

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**2018 Total GBP 000**	**2017 Total GBP 000**
Balance at 1 January	**(3)**	**-**	**(23)**	**(26)**	**(23)**
Net re-measurement of loss allowance	(6)	-	-	(6)	-
Balance at 31 December	**(9)**	**-**	**(23)**	**(32)**	**(23)**

Investments	**Stage 1**	**Stage 2**	**Stage 3**	**2018 Total GBP 000**	**2017 Total GBP 000**
Balance at 1 January	**(22)**	**-**	**-**	**(22)**	-
Net re-measurement of loss allowance	(15)	-	-	(15)	-
Balance at 31 December	**(37)**	**-**	**-**	**(37)**	-

Loans and advances to customers includes an opening provision of £23,000 being the full provision in respect of a single loan under IAS 39. This loan has since been categorised under stage 3 under IFRS 9.

With the exception of the above loan, all other assets have been assessed for credit risk and as there has been no evidence of a significant increase in the individual credit risks, all of the portfolios have been categorised under stage 1.

14) Analysis of the tax charge

	Year ended 31 December 2018 GBP 000	Year ended 31 December 2017 GBP 000
Current tax being United Kingdom Corporation Tax for the period at 19% (2017- 19%)	-	-
Deferred tax arising from timing differences in recognition	-	-
(Credit)/ Charge for year	-	-

	Year ended 31 December 2018 GBP 000	Year ended 31 December 2017 GBP 000
Tax on profit from ordinary activities – being UK Corporation Tax at 19% (2017 – 19 %)	85	18
(Loss)/profit from ordinary activities before tax	85	18
Tax at 19% (2017 – 19 %)	16	3
Tax in relation to prior year	-	-
Effect of expenses not deductible for tax purposes	7	6
Effect of tax rate changes	-	3
Temporary differences not recognised	(23)	(12)
(Credit) / Charge for the year	-	-

No deferred tax asset has been recognised. Management has decided not to recognise a deferred tax asset of GBP 239,067 arising out of GBP 1,406,274 of timing differences until Bank establishes a track record of profitability.

15) Loans and advances to banks

	As at 31 December 2018 GBP 000	As at 31 December 2017 GBP 000
Repayable within one month	133,963	69,396
Repayable within three months but greater than 1 month	56	3,715
Repayable with agreed maturity within 1 year but greater than 3 months	2,500	2,867
	136,519	**75,978**
Less impairment loss allowance	**(2)**	-
Net Loans	136,517	**75,978**

Loans and advances to banks included GBP 0 in relation to bills discounted which were issued by BOC Group companies (2017 GBP 191,200).

16) Loans and advances to customers

	As at 31 December 2018		
	Gross amount GBP 000	**Impairment allowances GBP 000**	**Carrying amount GBP 000**
Personal loans and advances	5,492	(9)	5,483
Commercial loans and advances	7,248	(23)	7,225
	12,740	**(32)**	**12,708**

	As at 31 December 2017		
	Gross amount GBP 000	**Impairment allowances 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**

The IFRS 9 provision against all loans granted have been assessed at GBP 32,000 at the end of 2018. (2017 GBP 23,000 under IAS39). Loans and advances to staff were GBP 93,435 (2017 GBP 36,820)

17) Investments

	As at 31 December 2018 GBP 000	**As at 31 December 2017 GBP 000**
Investment securities measured at amortised cost	**4,679**	-
Held to maturity	**-**	5,434
Less impairment loss allowance	**(37)**	-
	4,642	**5,434**

The above assets have been classified as held to collect and so have been recognised at amortised cost. Investment securities are investments in US dollar denominated Sri Lanka Government and corporate bonds.

18) Deposits by banks

	As at 31 December 2018 GBP 000	As at 31 December 2017 GBP 000
Repayable on demand or at short notice	3,790	6,347
Repayable with agreed maturity within three months	117,200	56,928
Repayable with agreed maturity within 3 months & 1yr	-	-
Repayable with agreed maturity of over 1 year.	17,900	17,559
	138,890	**80,834**

Amounts include the following Group deposits:		
Repayable on demand or at short notice	1,489	1,577
Repayable with agreed maturity within three months	117,200	49,077
Repayable with agreed maturity over 3 months & 1yr	-	-
Repayable with agreed maturity of over 1 year.	17,900	17,559
	136,589	68,213

19) Deposits by customers

	As at 31 December 2018 GBP 000	As at 31 December 2017 GBP 000
Repayable on demand or at short notice	4,968	4,327
Repayable with agreed maturity within three months	38	49
Repayable with agreed maturity over 3 months & 1yr	361	338
	5,367	4,714

20) Other Liabilities

	As at 31 December 2018 GBP 000	As at 31 December 2017 GBP 000
Accrued expenses	126	103
Trade payables	552	334
	678	437

21) Share Capital

	As at 31 December 2018 GBP 000	As at 31 December 2017 GBP 000
15,000,000 (2017: 15,000,000) Authorised, issued and fully paid shares of GBP 1 each	15,000	15,000

22) 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 £17.9 M will mature during 2025.

Interest payments to the Bank of Ceylon in respect of deposits held during 2018 amounted to GBP 398,000 (2017 GBP 211, 000). As at the 31 December 2018, Bank of Ceylon (UK) Limited held deposits of GBP 135,100,113 (2017 GBP 68,213,523) excluding Vostro balances on behalf of the Bank of Ceylon.

23) Contingent Liabilities

	As at 31 December 2018	As at 31 December 2017
	GBP 000	GBP 000
Guarantees Issued	160	160
Documentary credits and short term trade related transactions	391	370
	551	530

24) Interest rate risk

31 December 2018	**Carrying Value**	**0-3 Months**	**3-12 Months**	**Over 1 Year**	**Non-Interest Bearing**
	GBP 000	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Assets					
Cash at bank and in hand	992	-	-	-	992
Loans and advances to banks	136,517	134,017	2,500	-	-
Loans and advances to customers	12,708	12,708	-	-	-
Debt securities	4,642	1,551	2,361	775	(45)
Property and equipment	2,885	-	-	-	2,885
Intangible assets	33	-	-	-	33
Other assets	538	-	-	-	538
Total assets	**158,315**	**148,276**	**4,861**	**775**	**4,403**
Liabilities					
Deposits by Banks	138,890	117,205	17,900	-	3,785
Customer accounts	5,367	1,764	361	-	3,242
Other liabilities	678	-	-	-	678
	144,935	118,969	18,261	0	7,705

Share capital	15,000	-	-	-	15,000
Revaluation Reserve	417	-	-	-	417
Retained earnings	(2,037)	-	-	-	(2,037)
Total liabilities and equity	**158,315**	**118,969**	**18,261**	**0**	**21,085**
Net interest gap		29,307	**(13,400)**	**775**	**16,682**
Cumulative interest gap		29,307	**15,907**	**16,682**	

31 December 2017	**Carrying Value**	**0-3 Months**	**3-12 Months**	**Over 1 Year**	**Non-Interest Bearing**
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	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
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	-

An increase of .50% in interest rates would bring additional income of GBP £83,432 (2017 - GBP 91,000). A .25% reduction in interest rates would have a negative impact of GBP 41,716.

25) Maturity Analysis

31 December 2018	**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	992	-	-	-	992
Loans and advances to banks	136,517	134,017	2,500	-	-
Loans and advances to customers	12,708	130	374	12,204	-
Debt securities	4,642	1,551	2,319	772	
Property and equipment	2,885	-	-	-	2,885
Intangible assets	33	-	-	-	33
Other assets	538	538	-	-	-
Total assets	**158,315**	**136,236**	**5,193**	**12,976**	**3,910**
Liabilities					
Deposits by Banks	138,890	120,990		17,900	
Customer accounts	5,367	5,006	361		
Other liabilities	678				678

	144,935	125,996	361	17,900	678
Share capital	15,000	-	-	-	15,000
Revaluation Reserve	417	-	-	-	417
Retained earnings	(2,037)	-	-	-	(2,037)
Total liabilities and equity	**158,315**	**125,996**	**361**	**17,900**	**14,058**
Net maturity gap		10,240	4,832	(4,924)	(10,148)
Cumulative maturity gap		10,240	15,072	10,148	

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
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	-

26) Foreign exchange exposure

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

31 December 2018	**Total**	**GBP**	**Euro**	**LKR**	**USD**
Assets	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	992	256	705		31
Loans and advances to banks	136,517	131,141		-	5,376
Loans and advances to customers	12,708	12,129	579	-	-
Debt securities	4,642	-	-	-	4,642
Property and equipment	2,885	2,885	-	-	-
Intangible assets	33	33	-	-	-
Other assets	538	126	281	-	131
Total assets	**158,315**	**146,570**	**1,565**	**-**	**10,180**
Liabilities					
Deposits by Banks	138,890	130,572	1,520	0	6,798
Customer accounts	5,367	5,283	46	-	38
Other liabilities	678	510	20	-	148
	144,935	136,365	1,586	0	6,984
Share capital	15,000	15,000	-	-	-

Revaluation reserve	417	417	-	-	-
Retained earnings	(2,037)	(2,037)	-	-	-
Total liabilities and equity	**158,315**	**149,745**	**1,586**	**0**	**6,984**
Gross exposure (liability)		(3,175)	(21)		3,196
Foreign exchange contracts		3,078	-	-	(3,096)
Net exposure (liability)		**(97)**	**(21)**	**0**	**100**

31 December 2017	**Total GBP 000**	**GBP GBP 000**	**Euro GBP 000**	**LKR GBP 000**	**USD 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	-	-	-
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**

At 31 December 2018 a 5% strengthening of Sterling against the US Dollar would have reduced profits by GBP 5,000 and vice-versa of a reverse effect.

27) 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 2018 GBP 000	**As at 31 December 2017 GBP 000**
Cash at bank	962	1,101
Loans and advances to banks	136,517	75,978
Loans and advances to customers	12,708	13,502

Investments	4,642	5,434
Other assets	538	263
Maximum credit risk exposure	155,367	96,278

Investment grade assets	134,211	68,444
Other assets	21,156	27,834
	155,367	96,278

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 25 above), Foreign Exchange Risk (assessed in Note 26 above) and Price Risk. The Bank's holdings of debt securities comprise Government of Sri Lanka and Sri Lankan financial institutions. These assets were valued at GBP 4,613,000 at 31 December 2018 (investments at 31 December 2017 were GBP 5,558,000).

28) 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 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. Financial instruments included are primarily unlisted equity shares.

Following the adoption of IFRS 9, the financial instruments as at 1st January 2018 and at the end of 31st December have been classified at amortised cost and there are no financial instruments measured at FVTPL.

The following table set out financial instruments that are not measured at fair value and analyses them by the level in the fair value hierarchy into which fair value measurement is categorise.

31 December 2018	**Carrying**	**Fair**	**Level 1**	**Level 2**	**Level 3**
Assets	**Value**	**Value**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	992	992	-	992	-
Loans and advances to banks	136,517	136,517	-	136,517	-
Loans and advances to customers	12,708	12,708	-	-	12,708
Investment securities	4,642	4,613	-	4,613	-
Total	**154,859**	**154,830**	**-**	**142,122**	**12,708**
Liabilities					
Deposits by Banks	138,890	138,890	-	138,890	-
Customer accounts	5,367	5,367	-	5,367	-
Total	**144,257**	**144,257**	**-**	**144,257**	**-**

31 December 2017	**Carrying**	**Fair**	**Level 1**	**Level 2**	**Level 3**
Assets	**Value**	**Value**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	1,142	1,142	-	1,142	-
Loans and advances to banks	75,978	75,978	-	75,978	-
Loans and advances to customers	13,502	13,502	-	-	13,502
Investment securities	5,434	5,558	-	5,558	-
Total	**96,056**	**96,180**	**-**	**82,678**	**13,502**
Liabilities					
Deposits by Banks	80,834	80,834	-	80,834	-
Customer accounts	4,714	4,714	-	4,714	-
Total	**85,548**	**85,548**	**-**	**85,548**	**-**

29) 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 13,394,000 at 31 December 2018 after deducting the book value of intangible assets from shareholder's funds and adjusting for transitional relief under IFRS9. GBP 13,263,736 at 31 December 2017).

30) Adoption of IFRS 9 and IFRS 15

The following table summarises the adjustments arising on the adoption of IFRS 9 and IFRS 15 to the Bank's balance sheet as at 1 January 2018.

	31 December 2017 GBP 000	Classification and measurement GBP 000	Impairment GBP 000	Adjusted as at 1 January 2018 GBP 000
Assets				
Cash at bank and in hand	1,142	-	-	1,142
Loans and advances to banks	75,978	-	(10)	75,968
Loans and advances to customers	13,502	-	(3)	13,499
Investments	5,434	-	(22)	5,412
Property and equipment	2,929	-	-	2,929
Intangible assets	76	-	-	76
Other assets	263	-	-	263
Total assets	99,324	-	(35)	99,289
Liabilities				
Deposits by banks	80,834	-	-	80,834
Customer accounts	4,714	-	-	4,714
Other liabilities	437	-	-	437
Total liabilities	**85,985**	**-**	**-**	**85,985**
Equity				
Share capital	15,000	-	-	15,000
Revaluation reserve	426	-	-	426
Retained earnings	(2,087)	-	(35)	(2,122)
Equity shareholders' funds	**13,339**	**-**	**(35)**	**13,304**
Total liabilities and equity	**99,324**	**-**	**(35)**	**99,289**

Classification and measurement

The following table shows the original measurement categories in accordance with IAS 39 and the new measurement categories under IFRS 9. The Bank's financial assets and financial liabilities as at 1 January 2018 are after adjusting for opening ECL provision.

	Original classification under IAS 39 GBP 000	New classification under IFRS 9 GBP 000	Original carrying amount under IAS 39 GBP 000	New carrying amount under IFRS 9 GBP 000
Financial Assets				
Cash at bank and in hand	Loans and receivables	Amortised cost	1,142	1,142
Loans and advances to banks	Loans and receivables	Amortised cost	75,978	75,968
Loans and advances to customers	Loans and receivables	Amortised cost	13,502	13,499
Investments	Held-to-maturity investments	Amortised cost	5,434	5,412
Financial Liabilities				
Deposits by banks	Amortised cost	Amortised cost	80,834	80,834
Customer accounts	Amortised cost	Amortised cost	4,714	4,714

Impairment

The Bank adopted IFRS 9 from 1 January 2018. In accordance with the transition requirements comparative information for 2017 has not been restated and the transitional adjustments have been accounted for through retained earnings as at 1 January 2018, the date of initial application; and as a result shareholders' equity reduced by £35,000, driven by the effects of additional impairment provisions following the implementation of the expected credit loss methodology.

Loans and advances to customers includes an opening provision of £23,000 being the full provision in respect of a single loan under IAS 39. This loan has since been categorised as stage 3 under IFRS 9.

With the exception of the above loan, all other assets have been individually assessed for any increase in the credit risk and have accordingly been categorised under stage 1.

	IAS 39 loss allowance 31 December 2017 GBP 000	Transitional adjustment to loss allowance GBP 000	IFRS 9 loss allowance 1 January 2018 GBP 000
Loans and advances to banks	-	(10)	(10)
Loans and advances to customers	(23)	(3)	(26)
Investments	-	(22)	(22)
Total	**(23)**	**(35)**	**(58)**

IFRS 15 Revenue from Contracts with Customers

The Bank adopted IFRS 15 on the 1st of January. The timing or amount of fees and commission from customers was not impacted by the adoption of IFRS 15.

Accounting policies applied for comparative periods

The Bank accounting policy under IAS 18 was substantially aligned with the requirements of IFRS 15 and is not reproduced here; the principal policies applied by the Bank under IAS 39 are set out below:

a) 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.

b) Cash and cash equivalents

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

c) 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.

d) 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.

e) 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.

31) Subsequent events

There were no subsequent events.

BANK OF CEYLON (UK) LTD COUNTRY-BY-COUNTRY REPORT AS AT 31 DECEMBER 2018

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	2,768	85	**0**	**0**	25
Global	**2,768**	**85**	**0**	**0**	**25**

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 2018.

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 2018.

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.