Bank of Ceylon (UK) Limited

Financial Statements

For the year ended 31 December 2019

Company registration no. 06736473

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BOARD OF DIRECTORS

Mr E.R.C Perera, PC Re-appointed on the 28th of June 2019 Resigned on 12th December 2019	Chairman
Mr W.D.R. Swanney	Independent Non-Executive Director and Acting Chairman
Mr C N Meneripitiyage Don	Executive Director and Chief Executive Officer
Mr S. Sabesan Resigned on 1st March 2020	Executive Director and Chief Operating Officer
Mr R. England	Independent Non-Executive Director
Mr K B S Bandara	Non- Executive Director
Mr D P K Gunasekera Appointed on 21st April 2020	Non- Executive Director
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	MHA MacIntyre Hudson 6th Floor 2 London Wall Place, London EC2Y 5AU

CHAIRMAN'S REPORT

The results for 2019 continued to build on recent profitability, notwithstanding the backdrop of ongoing economic and political uncertainty in Sri Lanka and the UK. In a continuing competitive environment, the Bank maintained its focus on its strategic priorities of improving the financial position of the business, ensuring continued customer satisfaction, and making best use of its resources to maintain a balanced credit portfolio.

I am delighted to report the Bank's success in delivering a pre-tax profit for 2019 of £108,000, building on the positive result of the last two years, and continuing to make good some of the accumulated losses of the past, becoming a business that is delivering positive results for the Bank of Ceylon Group.

We have continued to build a balanced credit portfolio across our retail and corporate franchises. Net loans to customers grew 38% from 2018, accounting for a growth in net interest income of 4.5%. The Bank maintained its good credit quality standards, with overall risk remaining low through continued discipline in underwriting standards and risk appetite. The Bank continues to offer facilities to new and developing businesses in the SME sector. 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 meet the needs of our banking clients with speed and efficiency. Towards the end of the year, and into early 2020, we upgraded our IT systems, to improve our operating capability, internally and with customers. This has introduced more user-friendly systems, which are greatly appreciated by staff.

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 outlook for 2020 will, however, be challenging, in the midst of continued economic and political uncertainty, the risk of sterling pressure, ongoing regulatory changes and the Covid-19 pandemic. As we look ahead, we see significant challenges in both our key markets, Sri Lanka and the UK. Changes in the external environment, customer behaviours and expectations will create opportunities and challenges for a bank of our size. As previously however, the Bank enters 2020 with a clear strategy, a strong foundation and a motivated team, which will serve us well in handling the uncertainties that lie ahead.

Ronald Perera stepped down from his board position of Chairman towards the end of 2019. I would like to place on record the Board's appreciation for his invaluable input and guidance since his first appointment in 2015. 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
24th April 2020

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 2019.

Operating environment

2019 has been another successful year for cross border trade with Sri Lanka, benefiting both trade finance and treasury services. The growth from both these areas has more than offset the reduction in income from bills discounting, which was impacted by a change in Sri Lankan regulation early in the year. Treasury services benefited from high average money market volumes from Sri Lankan banks throughout the year. Net lending was strong despite the uncertain market conditions with loans secured against buy to let and mixed-use commercial properties reaching £4.8 million.

The UK's economic uncertainty has reduced demand for borrowing in the commercial sector with a gradual slowing down in the other sectors. Competition in the buy to let market intensified during the year resulting in a competitive pricing environment being created. In response to this challenge, the Bank introduced new lending products which are gradually starting to attract new customers. There is still significant uncertainty as to the outcome of the UK's negotiation with the EU. Whilst the Bank does not engage in trade finance or lending services with EU markets, the impact of a "no -deal" could pose a number of unknown consequences and the situation is being closely monitored. Stress testing of financial assets under IFRS 9 assumes a no deal scenario, where house prices could decline by up-to 40%. Even under such extreme conditions, the impact is considered to be manageable.

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 head room for further growth and expansion during 2020.

The 2019 results delivered a profit in excess of budget through furthering our strategic objectives. As a consequence, the reported profit for the year is a GBP108,000 before taxation (2018: profit of GBP85,000).

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 the unprecedented measures taken to limit the impact of the Covid-19 pandemic which have resulted in significant economic and social disruption.

    - The Bank has forecast that this will translate into a significant short-term financial impact on the Bank.
    - While the anticipated reduction in economic activity associated with Covid-19 could be sharp and large it could rebound sharply when measures are lifted.
    - The UK and other governments and central banks have put in place substantial measures to support businesses and households.
    - The approach to the assessment of the Bank's regulatory capital and liquidity takes into account the extraordinary circumstances and the potential for an early recovery.
    - It is considered that the Bank has sufficient capital and funding resources to withstand the short-term impact of the Covid-19 disruption and to continue with its medium-term business strategy.
- It has considered its operational resilience and its ability to respond to circumstances which could result in operational disruption.
    - The UK Government has introduced measures to control the spread of Covid-19 by reducing individuals' day-to-day contact with other people. One of the requirements is for people to stay at home except in very limited circumstances. This includes a restriction on travelling to work where it is not possible to work from home.
    - The Bank's main considerations are for the safety and wellbeing of its employees and the delivery of critical services to its customers.
    - The Bank has in place comprehensive plans for dealing with disruptions such as those caused by the Government's Covid-19 measures.
    - In order to meet the Government's measures the Bank's offices have been closed to the public and all members of Bank staff are working remotely using secure communications channels that were in place for such an eventuality.
    - Individuals who work in financial services and are needed for the provision of essential financial services are classified by the Government as "key workers". The Chief Executive Officer of the Bank has identified those key workers within the organisation and these staff are permitted to travel to the office from time-to-time to ensure the delivery essential services.
    - It is considered that the arrangements in place for remote working allow the Bank to continue its business and to deliver services to its customers with minimum disruption during the Covid-19 travel restrictions.
- The Bank has no business dealing with the EU markets and as such a no deal exit is not expected to have a significant direct impact on the Bank's current business strategy. However, no deal with the EU could potentially influence UK growth levels, causing demand for lending in the property segment to soften further.

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.

Disclosure of information to the auditor

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

Charitable donations

The company did not make any political or charitable contributions during the year. (2018: Nil)

Auditor

Pursuant to section 494ZA of the Companies Act 2006, the Bank re-tendered the 2019 audit, KPMG LLP having completed ten years as auditors. Following the tender process, MHA MacIntyre Hudson were selected and appointed as auditors for the year 2019.

By order of the Board:

C.N. Meneripitiyage,

Chief Executive Officer
24th April 2020

STRATEGIC REPORT

The Directors present the Strategic Report of the company for the year ended 31 December 2019 in accordance with Companies Act 2006, Chapter 4A.

This report includes information to 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.

Performance 2019

The results for 2019 are encouraging, despite the numerous challenges the bank faced from the external environment. In terms of strategic progress and delivering the financial results, 2019 was an excellent year with growth being achieved in all of the three focus areas: lending, treasury services and trade finance. This outcome is starting to deliver our strategic imperative of "building a balanced portfolio" of products and services that will create a stable platform capable to delivering sustained profits.

Our commitment to improving customer services on an ongoing basis by establishing stronger relationships with our business partners, is starting to deliver encouraging results. During the year we commenced recruitment of better skilled staff who were provided with in-house training and encouraged to take on greater responsibility. This, together with the internal promotion of staff to take on greater responsibility has improved the overall working environment and maintained a motivated and diligent work force.

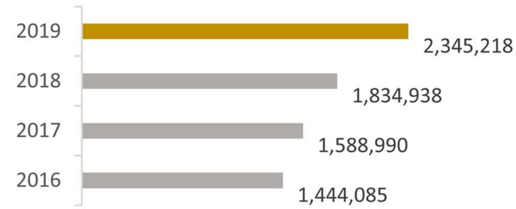
During the year the Bank initiated a project to replace its existing core banking solution with a more efficient solution that is expected to streamline the business process management at the Bank. The timing of this decision was critical in view of the impending SWIFT changes and software version upgrade that are due to take effect from early 2020. We are pleased to report that the implementation of Phase I of the project is now in its final stages, with a relatively smooth changeover. It is heartening to note that business users have embraced the new system with greater vigour and ownership, enabling a smooth, full implementation of the system during 2020. We shall continue to use this platform to transform the ways in which we work, by using its in-built standard features to deliver improved efficiency and effectiveness across the organisation.

Another strategic concern, during 2019 and beyond, is a continued focus on maintaining a reputation for high standards of business conduct, which will include ongoing training of staff in enhancing awareness and delivery of the FCA's code of conduct and customer treatment. This is a high priority area for the front-line staff managing our retail, commercial and correspondent banking relationships clients. In delivering this objective the Bank will continue to organise internal and external training sessions and track staff compliance on an ongoing basis.

Key performance Indicators

Interest Income

2,348,218

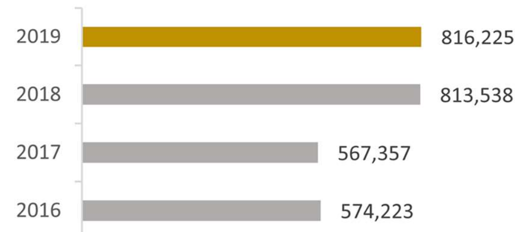


Net Interest Income

1,429,867

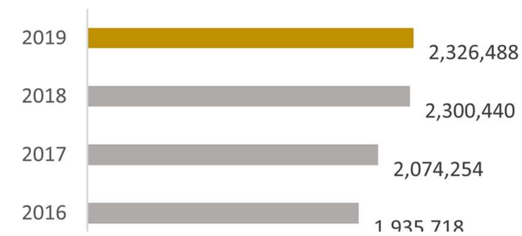
Fee Income

816,225



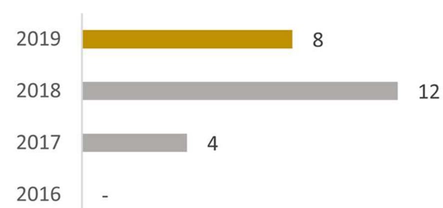
Total Net Income

2,326,488



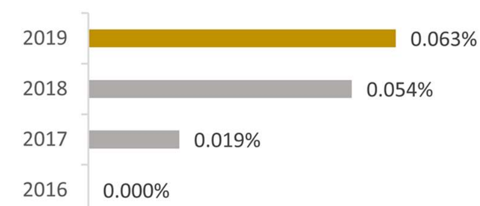
Customer Complaints

8



Return on Assets

0.063%



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 taking into consideration the likely consequences of any decisions in the long run 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).

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 2019 GBP 000	As at 31 December 2018 GBP 000
Loans and advances to banks	143,924	136,517
Loans and advances to customers	17,577	12,708
Investments	4,798	4,642
Other assets	217	538
Maximum credit risk exposure	**166,516**	**154,405**
Investment grade assets	141,664	134,211
Other assets	24,852	20,194
	166,516	**154,405**

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 expected credit loss ("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.

<u>Liquidity risk</u>

"Liquidity risk" is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent in the Bank's operations and investments. The maturity of all assets and liabilities are shown in note 25. The Bank did not have any unmatched derivative exposures at the year end and hence no further liquidity exposure.

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 the 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.

<u>Market risk</u>

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

Interest Rate Risk is assessed in note 24 and Foreign Exchange Risk is assessed in note 26. The Bank's holdings of debt securities comprise Government of Sri Lanka bonds and Government of Maldives bonds. These assets were valued at GBP 4,840,000 as at 31 December 2019 (investments at 31 December 2018 were GBP 4,613,000).

Management of market risk

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.

Capital adequacy

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 ("Pillar 2A") to meet the overall financial adequacy requirements for credit risk, market risk, counterparty credit risk, interest rate risk, pension obligation risk and group risk. It also provides its view of the amount of capital buffer the Bank should hold in addition to its total capital requirement to cover losses that may arise under a severe stress scenario but avoiding duplication with CRD IV buffers (Pillar 2B). The Bank has utilised the transitional relief arrangements granted under IFRS 9 and has set- off 85% of the 2019 ECL provision, in arriving at the regulatory capital as set out in note 28.

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.

Regulatory risk

In the post-financial crisis environment, the regulatory landscape has changed and has become more complex with increased supervision and enforcement. Regulators are increasingly evaluating the robustness of regulated firms' business models, 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.

Financial risks arising from climate change.

Climate risk is one of the defining issues of our time. It presents far-reaching financial risks from both physical factors, such as extreme weather events, and transition risks that can arise from the process of adjustment to a carbon neutral economy.

Management of financial risks arising from climate change

The bank has assigned responsibility for the risks arising from climate change to a member of senior management. Consideration of financial risks from climate change will be embedded into the Bank's governance frame works and incorporated into existing financial risk management practices. Furthermore, in response to this climate emergency we are developing a strategy and implementing process to assess the materiality of climate risk across our business; evaluate the business impacts and identify potential responses to manage the risk and opportunities.

By order of the Board:

C.N. Meneripitiyage

Chief Executive Officer
24th April 2020

AUDIT AND RISK COMMITTEE REPORT FOR THE YEAR ENDED 31 DECEMBER 2019

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 2019
The Committee met five times during the year, and focused on the following matters:

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

- the quality and acceptability of accounting policies and practices;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements including advising the Board on whether the Report and Financial Statements (the "Annual Report"), when taken as a whole are fair, balanced and understandable and provide information sufficient for Members to assess the Bank's performance, business model and strategy; and
- the material areas in which significant judgements have been applied.
- Provisions in line with IFRS9

The primary areas of judgement considered by the Committee in relation to the 2019 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 2019 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 2019 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 reviews 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 2019 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 2019 thre 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 assigned to a senior manager.

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, risk management, credit and lending, treasury, anti-money laundering and “know your customer”, compliance and trade finance.

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 2019 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.

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

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 24th April 2020 and signed on its behalf by

W D R Swanney
Chair of the Audit, Risk and Compliance Committee
24th April 2020

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
24th April 2020

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

1. Our Opinion

We have audited the financial statements of Bank of Ceylon (UK) Limited.

The financial statements that we have audited comprise:
- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Changes in Equity
- Statement of Cash Flows
- Notes 2 to 28 of the financial statements, including the accounting policies.

The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- The financial statements give a true and fair view of the state of the Bank's affairs as at 31 December 2019 and the Bank's profit for the year then ended;
- The financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union; and
- The financial statements 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 under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.
Our audit opinion is consistent with our report to the Audit and Risk Committee.

Overview

Materiality	£811K	0.5% Gross Assets Where appropriate, we have applied a lower level of materiality to test specific areas such as interest, fees & commission income, administration expenses, manual journal entries and related party transactions.
Key audit matters		
Recurring	• Valuation of derivative financial instruments • Determination of ECL Provision on financial instruments held at amortised cost • Related Party transactions	

2. Key audit matters

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

Valuation of derivative financial instruments	
The Risk	**Our response**
The entity enters currency swaps in order to protect the Bank from significant currency fluctuations. There is a risk that the valuation of the derivatives at the yearend is not held at fair value.	Our audit work included to perform procedures to assess the completeness and valuation of these positions at the year end. Work performed included obtaining confirmations from external third parties to agree the year end valuation. We also verified the existence of the positions to underlying agreements. In addition, we reviewed the disclosures of these instruments in the financial statements to be reasonable.
Result of our procedures We concluded that the derivative financial instruments had been recorded appropriately.	

Determination of ECL Provision on financial instruments held at amortised cost	
The Risk	**Our response**
IFRS 9 requires the bank to recognise and remeasure an allowance in respect of expected credit losses for all financial assets not carried at fair value. There is a risk that the significant assumptions used in making these estimates may not be appropriate or may not adequately capture the probability of default and the expected loss in the event of default.	The methodology used by management to determine the ECL was considered and evaluated. We confirmed the appropriateness of the inputs used by management to make this assessment. We considered and challenged managements classification of balances into stage1, stage 2 and stage 3 as appropriate. For balances included in stages 2 and 3 collateral was assessed for quality, validity, liquidity and coverage over the amounts at risk. We also performed a review of the loan files including post year end receipts for indication of impairments.
Result of our procedures Loans were identified to be classified as stage 2 assets; however, this did not result in any additional provision as these loans had sufficient collateral in place. Our work around the collateral did not identify any further risks and we found the resulting estimate of the impairment of loans and advances to be reasonable.	
Related party transactions	
The Risk	**Our response**
The entity transacts a significant amount of business with entities that are related through common ownership. Related party transactions are often not conducted on an arm's length basis and many regulations require these transactions to be clearly disclosed so that the financial effect of them can be clearly ascertained by users of the financial statements. There is a risk that these transactions may not be	We have made appropriate enquiries of management to identify known related parties We reviewed the documentation for significant transactions with a view to identify transactions not otherwise at arms-length and other transactions with related parties. We have conducted appropriate searches to identify related parties.

correctly identified and disclosed.	
The main transactions with related parties are placing funds on behalf of the parent company based in Sri Lanka. The loans are at arm's length and an annual interest is charged. We also identified sovereign bonds issued by ultimate controlling party, and requested this to be disclosed separately in the financial statements as a related party transaction No other issues were identified.	

3. Our application of materiality

Our definition of materiality considers the value of error or omission on the financial statements that would change or influence the economic decision of a reasonably knowledgeable person. Materiality is used in planning the scope of our work, executing that work and evaluating the results.
Materiality in respect of the bank was set at £811k which was determined on the basis of 0.5% of Gross Assets.
In addition, we applied the following materiality to the audit of specific financial statement components:

Interest income	£255k
Fees and commissions	£255k
Administrative and interest expenditure	£255k

We agreed to report any corrected or uncorrected adjustments exceeding £42k.

We did not identify any material misstatement during our audit work.

4. Capability of the audit in detecting irregularities, including fraud

As part of our audit we identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to both reduce costs and inflate operating profit, and management bias in accounting estimates.

Audit procedures performed by the engagement team included, but were not limited to:

- Obtaining an understanding of the legal and regulatory frameworks that the bank operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included UK Companies Act, the Financial Services and Markets Act 2000 and applicable tax legislation. In addition, we considered compliance with the UK Bribery Act and employee legislation, as fundamental to the bank's operations;
- Discussing among the engagement team and involving relevant internal specialists, including tax, valuations, pensions, IT, forensic and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud;
- Discussions with local management, internal audit and the Bank's legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Enquiring of the audit and risk committee concerning actual and potential litigation and claims;
- Evaluation of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Assessment of matters reported on the Bank's whistleblowing helpline and the results of management's investigation of such matters;
- Reading key correspondence with regulatory authorities such as the Financial Conduct Authority, Prudential Regulatory Authority, and Financial Reporting Council
- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular with respect to provisions for claims incurred but not reported

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

We did not identify any key audit matters relating to irregularities, including fraud.

5. We have nothing to report on going concern

As explained in note 2 section a, the directors have prepared the financial statements on the going concern basis. In doing so they have concluded that there are no material uncertainties that would cast significant doubt on over their ability to continue as a going concern for the foreseeable future. The foreseeable future is usually defined as a period of up to one year from the date of approval of these financial statements.

It is our responsibility to obtain sufficient and appropriate evidence regarding and to conclude on:

- whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern and
- the appropriateness of the directors' use of the going concern basis of accounting in the preparation of the financial statements.

Our work on going concern involved:

i. the consideration of inherent risks to the Bank's operations and specifically its business model
ii. the evaluation of how those risks might impact on the Bank's available financial resources.
iii. where additional resources may be required the reasonableness and practicality of the assumptions made by the directors when assessing the probability and likelihood of those resources becoming available.

Our work has concluded that those inherent risks were not so significant as to require us to perform any additional audit procedures.

6. We have nothing to report on the other information in the Annual Report

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts, other than the financial statements and our auditor's report thereon. Our opinion of the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

Strategic report and directors report

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

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

Directors remuneration report
Those aspects of the director's remuneration report which are required to be audited have been prepared in accordance with applicable legal requirements.

7. Matters on which we are required to report by exception

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

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

8. Responsibilities of directors

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

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

9. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs (UK), we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and reasonableness of accounting estimates and related disclosures made by the directors.

- As noted in Section 5 it is our responsibility to conclude on whether a material uncertainty exists and on the appropriateness of the directors' use of the going concern basis of accounting. and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Bank to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Bank audit. We remain solely responsible for our audit opinion.

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

10. Use of our report

This report is made solely to the Company'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 Company'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 Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

RShaunak

Rakesh Shaunak CTA, FCA, FRSA
(Senior Statutory Auditor)
for and on behalf of MHA MacIntyre Hudson
Chartered Accountants and Statutory Auditor
6th Floor
2 London Wall Place
London
EC2Y 5AU
24th April 2020

BANK OF CEYLON (UK) LTD STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 GBP 000	Year ended 31 December 2018 GBP 000
Interest income		2,348	1,835
Interest expense	4	(918)	(467)
Net interest income		**1,430**	**1,368**
Fees and commissions	5	816	814
Net gains from Forex transactions		81	119
Operating income		**2,327**	**2,301**
Administration expenses	6	(2,065)	(2,103)
Depreciation	10	(57)	(56)
Amortisation	11	(15)	(44)
ECL provisioning	12	(82)	(13)
Profit / (Loss) from ordinary activities before tax		**108**	**85**
Tax credit /(charge) on loss from ordinary Activities	13	(3)	-
Profit /(Loss) from ordinary activities after tax		**105**	**85**
Other comprehensive income			
Net change in fair value		-	-
Other comprehensive income/(loss) for the year		**-**	-
Total comprehensive income/(loss) for the year		**105**	**85**

-

The notes on pages 32 to 51 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	31 December 2019 GBP 000	31 December 2018 GBP 000
Assets			
Cash at bank and in hand		770	992
Loans and advances to banks	14	143,924	136,517
Loans and advances to customers	15	17,577	12,708
Investments	16	4,798	4,642
Property and equipment	10	2,981	2,885
Intangible assets	11	18	33
Other assets	22	217	538
Total assets		**170,285**	**158,315**
Liabilities			
Deposits by banks	17	149,400	138,890
Customer accounts deposits	18	6,545	5,367
Other liabilities	19	864	678
Total liabilities		156,809	144,935
Equity			
Share capital	20	15,000	15,000
Revaluation reserve		408	417
Retained earnings		(1,932)	(2,037)
Equity shareholders' funds		13,476	13,380
Total liabilities and equity		**170,285**	**158,315**

These financial statements were approved by the Board of Directors on 24th April 2020 and were signed on its behalf by:

C.N Meneripitiyage,

Chief Executive Officer

The notes on pages 32 to 51 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2019

	Share Capital GBP 000	Retained Earnings GBP 000	Revaluation Reserve GBP 000	Total Equity GBP 000
Equity shareholders' funds 1 January 2019	**15,000**	**(2,037)**	**417**	**13,380**
Total Comprehensive Income	-	105	-	**105**
Revaluation reserve movement	-	-	**(9)**	**(9)**
Equity shareholders' funds 31 December 2019	**15,000**	**(1,932)**	**408**	**13,476**

For the Year ended 31 December 2018	Share Capital GBP 000	Retained earnings GBP 000	Revaluation Reserve GBP 000	Total equity GBP 000
Equity shareholders' funds 31 December 2017	**15,000**	**(2,087)**	**426**	**13,339**
Adjustment on adoption of IFRS 9	-	(35)	-	**(35)**
Equity shareholders' funds 1 January 2018	**15,000**	**(2,122)**	**426**	**13,304**
Total Comprehensive Income	-	85	-	**85**
Revaluation reserve movement	-	-	**(9)**	**(9)**
Equity shareholders' funds 31 December 2018	**15,000**	**(2,037)**	**417**	**13,380**

The revaluation reserve movement is the annual depreciation charge following the revaluation of the building back in 2014. This reserve is being depreciated over 50 years by charging the revaluation reserve account and the freehold property account.

The notes on pages 32 to 51 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Note	Year ended 31 December 2019 GBP 000	Year ended 31 December 2018 GBP 000
Cash flow from operating activities:			
Profit before tax		108	85
Adjusted for:			
Depreciation	10	57	56
Amortisation	11	15	44
Other non-cash items - net change in fair value of Investment and ECL provisions	12	82	13
		262	198
Changes in:			
Loans and advances to banks	14	(7,409)	(60,541)
Loans and advances to customers	15	(4,869)	784
Investments	16	(156)	755
Other assets	22	322	(275)
Deposits by banks	17	10,510	58,056
Customer accounts	18	1,178	653
Other liabilities	19	102	241
		(322)	(327)
Net cash flow used in operating activities		**(60)**	**(129)**
Cash flow from investing activities			
Acquisition of fixed assets	10 &11	(162)	(21)
Net cash flow used in investing activities		**(162)**	**(21)**
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		(222)	(150)
Cash and cash equivalents at 1 January		**992**	**1,142**
Cash and cash equivalents at 31 December		**770**	**992**

The notes on pages 32 to 51 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 24th of April 2020.

a) Going concern basis of accounting

The financial statements have been prepared on a going concern basis. The Directors have considered relevant information, including the annual budget, future cash flows, strong capital position and liquidity positions, and the impact of subsequent events in making their assessment. The Directors have also considered the impact the COVID-19 pandemic on its operations, particularly the ability of staff to perform key functions and the Bank's ability to meet its financial obligations in a timely manner. This analysis also considers the effectiveness of available measures to assist in mitigating the impact. Further information is provided in the Report of the Board of Directors on page 5.

Based on these assessments and having regard to the resources available to the entity, the Directors have concluded that there is no material uncertainty and that they can continue to adopt the going concern basis in preparing the annual report and accounts.

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. There have been no significant changes in the basis upon which critical estimates and judgements have been determined compared to those applied as of 31st December 2018.

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

3) Significant accounting policies

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

a) Interest income and expense

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

The effective interest method is a method of calculating the amortised cost of a financial asset or liability (or group of assets and liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the expected future cash payments or receipts through the expected life of the financial instrument, or when appropriate, a shorter period, to the net carrying amount of the instrument. The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment.

b) Foreign currency

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

c) Fees and commissions

Fees and commission that are not an integral part of the effective interest rate are recognised as and when the services are performed in accordance with IFRS15. Fee and commission income include the provision of retail and corporate products and services, comprising of trade finance, E-cash remittances and treasury payments.

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 2019).

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

Stage 3 - are exposures where there is objective evidence that the credit risk is impaired. For Stage 3 assets, lifetime ECL is recognized and interest 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.

4) Interest expense

	Year ended 31 December 2019 GBP 000	Year ended 31 December 2018 GBP 000
Interest paid to related entities	774	398
Other interest paid on deposits	144	69
	918	**467**

5) Fees and commissions

	Year ended 31 December 2019 GBP 000	Year ended 31 December 2018 GBP 000
International commission	534	569
Domestic commission	282	245
	816	**814**

6) Administration Expenses

	Note	Year ended 31 December 2019 GBP 000	Year ended 31 December 2018 GBP 000
Wages and salaries including directors		1,015	1,062
Social security costs		138	147
Other pension costs	8	38	39
Total staff costs	7	1,191	1,248
Fees payable to Bank's auditors for the audit of the Bank's financial statements		88	62
Other administration expenses		786	793
Total administration expenses		**2,065**	**2,103**

7) Staff Costs

	Note	Year ended 31 December 2019 GBP 000	Year ended 31 December 2018 GBP 000
Staff			
Salary and allowances		775	825
Social security costs		99	119
Pension costs	8	38	39
		912	983
Directors			
Salary and allowances	10	240	237
Social security costs	10	39	28

	279	265
Total staff costs	**1,191**	**1,248**

The average number of persons employed by the Bank during the period was made up as follows:	**Year ended 31 December 2019**	**Year ended 31 December 2018**
Executive directors	2	2
Non-executive directors	2	2
Executive management	3	3
Clerical and other grades	21	17
	28	**24**

8) Pension costs

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

9) Directors' Emoluments

The total emoluments of the directors were GBP 239,868 (2018 – GBP 237,027). The highest paid director received emoluments of GBP 94,508 in 2019. The highest paid director in 2018 received GBP 95,426.

10) Property and Equipment

	Freehold Property GBP 000	**Computer Equipment GBP 000**	**Furniture & Equipment GBP 000**	**Land GBP 000**	**Capital WIP GBP 000**	**Total GBP 000**
Cost						
Cost at 1 January 2019	1,500	80	197	1,450	-	3,227
Additions in the year	-	1	-	-	162	163
Revaluation	-	-	-	-	-	-
Transfers	-	-	(1)	-	-	(1)
Cost at 31 December 2019	1,500	81	196	1,450	162	3,389
Accumulated depreciation						
Depreciation at 1 January 2019	(196)	(60)	(86)	-	-	(342)
Depreciation charged for the year	(30)	(7)	(20)	-	-	(57)
Revaluation	(9)	-	-	-	-	(9)
Depreciation at 31 December 2019	(235)	(67)	(106)	-	-	(408)
Net book value at 31 December 2019	**1,265**	**14**	**90**	**1,450**	**162**	**2,981**

Cost	Freehold Property GBP 000	Computer Equipment GBP 000	Furniture & Equipment GBP 000	Land GBP 000	Total GBP 000
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**

11) Intangible assets

	Total GBP 000
Cost	
Cost at 1 January 2019	707
Additions in the year	-
Revaluation	-
Cost at 31 December 2019	707
Accumulated Amortisation	
Depreciation at 1 January 2019	(674)
Depreciation charged for the year	(15)
Depreciation at 31 December 2019	(689)
Net book value at 31 December 2019	**18**

	Computer software GBP 000	Total GBP 000
Cost		
Cost at 1 January 2018	707	707
Additions in the year	-	-
Revaluation	-	-
Transfers	-	-
Cost at 31 December 2018	707	707
Accumulated Amortisation		
Depreciation at 1 January 2018	(630)	(630)
Depreciation charged for the year	(44)	(44)
Depreciation at 31 December 2018	(674)	(674)
Net book value at 31 December 2018	**33**	**33**

12) ECL provisioning

Loans and advances to banks	**Stage 1**	**Stage 2**	**Stage 3**	**2019 Total GBP 000**
Balance at 1 January	**(2)**	**-**	**-**	**(2)**
Net re-measurement of loss allowance	(20)	-	-	(20)
Balance at 31 December	**(22)**	**-**	**-**	**(22)**

Loans and advances to customers	**Stage 1**	**Stage 2**	**Stage 3**	**2019 Total GBP 000**
Balance at 1 January	**(9)**	**-**	**(23)**	**(32)**
Net re-measurement of loss allowance	(7)	-	-	(7)
Balance at 31 December	**(16)**	**-**	**(23)**	**(39)**

Investments	**Stage 1**	**Stage 2**	**Stage 3**	**2019 Total GBP 000**
Balance at 1 January	**(37)**	**-**	**-**	**(37)**
Net re-measurement of loss allowance	(56)	-	-	(56)
Balance at 31 December	**(93)**	**-**	**-**	**(93)**

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

Investments	Stage 1	Stage 2	Stage 3	2018 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 GBP23,000 which is categorised under stage 3 of IFRS 9.

During the year one of the commercial loans assessed, was re-classified under stage 2 following an agreement to defer capital repayments by one year. This loan is secured against a high-quality property with a loan to value of 37%. The ECL provisioning is unchanged and has been computed on a life time basis.

A further two loans in the buy-to-let category have been reclassified under stage 2 as payments have exceeded 30 days past due at the accounting date. Both these loans are secured against high-quality properties which have loan to values of 58% and 35%. In view of the adequate security coverage and asset quality, the ECL provisions remains unchanged and have been computed on a life time basis.

With the exception of these loan all other assets have been assessed for credit risk with no evidence of a significant increase in the individual credit risks.

13) Analysis of the tax charge

	Year ended 31 December 2019 GBP 000	Year ended 31 December 2018 GBP 000
(Loss)/profit from ordinary activities before tax	108	85
Tax at 19% (2018 – 19 %)	21	16
Tax in relation to prior year	-	-
Effect of expenses not deductible for tax purposes	-	7
Effect of tax rate changes	(2)	-
Temporary differences not recognised	(16)	(23)
(Credit) / Charge for the year	3	-

No deferred tax asset has been recognised. Management has decided not to recognise a deferred tax asset of GBP 217,101 arising out of GBP 1, 277,066 of timing differences, until the Bank establishes a consistent record of profitability.

14) Loans and advances to banks

	As at 31 December 2019 GBP 000	As at 31 December 2018 GBP 000
Repayable within one month	143,785	133,963
Repayable within three months but greater than 1 month	87	56
Repayable with agreed maturity within 1 year but greater than 3 months	74	2,500
	143,946	**136,519**
Less impairment loss allowance	**(22)**	**(2)**
Net Loans	143,924	136,517

The ECL provision assessed at the end of the year is GBP 22,000. Loans and advances to banks included GBP 0 in relation to bills discounted which were issued by BOC Group companies (2018 GBP 0).

15) Loans and advances to customers

	As at 31 December 2019		
	Gross amount GBP 000	Impairment allowances GBP 000	Carrying amount GBP 000
Personal loans and advances	8,874	(16)	8,858
Commercial loans and advances	8,742	(23)	8,719
	17,616	**(39)**	**17,577**

	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**

The IFRS 9 provision against all loans granted has been assessed at GBP 39,000 at the end of 2019. (2018 GBP 32,000 of which GBP23,000 is under IAS39). Loans and advances to staff were GBP 93,435 (2018 GBP 44,664)

16) Investments

	As at 31 December 2019 GBP 000	**As at 31 December 2018 GBP 000**
Investment securities measured at amortised cost	**4,891**	**4,679**
Less impairment loss allowance	**(93)**	**(37)**
	4,798	**4,642**

The above assets have been classified as being held to collect and so have been recognised at amortised cost. Investment securities are investments in US dollar denominated Sri Lanka Government and Maldives Sovereign bonds. The IFRS 9 provision at the end of the year has been assessed at GBP93,000 and reflects the increase in new acquisitions.

17) Deposits by banks

	As at 31 December 2019 GBP 000	**As at 31 December 2018 GBP 000**
Repayable on demand or at short notice	3,881	3,790
Repayable with agreed maturity within three months	128,071	117,200
Repayable with agreed maturity within 3 months & 1yr	-	-
Repayable with agreed maturity of over 1 year.	17,448	17,900
	149,400	**138,890**

Amounts include the following Parent deposits:		
Repayable on demand or at short notice	1,769	1,489
Repayable with agreed maturity within three months	118,300	117,200
Repayable with agreed maturity over 3 months & 1yr	-	-
Repayable with agreed maturity of over 1 year.	17,448	17,900
	137,517	**136,589**

18) Customer account deposits

	As at 31 December 2019 GBP 000	As at 31 December 2018 GBP 000
Repayable on demand or at short notice	6,143	4,968
Repayable with agreed maturity within three months	39	38
Repayable with agreed maturity over 3 months & 1yr	363	361
	6,545	**5,367**

19) Other Liabilities

	As at 31 December 2019 GBP 000	As at 31 December 2018 GBP 000
Accrued expenses	195	126
Trade payables	669	552
	864	**678**

20) Share Capital

	As at 31 December 2019 GBP 000	As at 31 December 2018 GBP 000
15,000,000 (2018: 15,000,000) Authorised, issued and fully paid shares of GBP 1 each	15,000	15,000

21) Related Parties and Ultimate Controlling 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 GBP17.9 million matures during 2025.

Interest payments to the Bank of Ceylon in respect of deposits held during 2019 amounted to GBP774,000 (2018 GBP398,000). As at the 31 December 2019, Bank of Ceylon (UK) Limited held deposits of GBP135,748,444 (2018 GBP135,100,113) excluding Vostro balances on behalf of the Bank of Ceylon.

22) Other assets

	As at 31 December 2019 GBP 000	As at 31 December 2018 GBP 000
Accrued Interest	116	188
Variation margin	-	280
Prepayments	67	57
Others	34	13
	217	**538**

23) Contingent Liabilities

	As at 31 December 2019 GBP 000	As at 31 December 2018 GBP 000
Guarantees issued	160	160
Documentary credits	222	391
	382	**551**

Documentary credits relate to several confirmations of letters of credit received from correspondent banks on behalf of UK export customers.

Guarantees issued relates to a single guarantee provided against a guarantee from the parent on behalf of the customer.

24) Interest rate risk

31 December 2019	Carrying Value GBP 000	0-3 Months GBP 000	3-12 Months GBP 000	Over 1 Year GBP 000	Non-Interest Bearing GBP 000
Assets					
Cash at bank and in hand	770	-	-	-	770
Loans and advances to banks	143,924	143,815	109	-	-
Loans and advances to customers	17,577	17,577	-	-	-
Debt securities	4,798	-	1,648	3,204	(54)
Property and equipment	2,981	-	-	-	2,981
Intangible assets	18	-	-	-	18
Other assets	217	-	-	-	217
Total assets	**170,285**	**161,392**	**1,757**	**3,204**	**3,932**
Liabilities					
Deposits by Banks	149,400	128,071	17,448	-	3,881
Customer accounts	6,545	1,713	363	-	4,469
Other liabilities	864	-	-	-	864
	156,809	129,784	17,811	-	9,214
Share capital	15,000	-	-	-	15,000
Revaluation Reserve	408	-	-	-	408
Retained earnings	(1,932)	-	-	-	(1,932)
Total liabilities and equity	**170,285**	**129,784**	**17,811**	**-**	**22,690**
Net interest gap		31,608	**(16,054)**	**3,204**	**(18,758)**
Cumulative interest gap		31,608	**15,554**	**18,758**	

31 December 2018	Carrying Value GBP 000	0-3 Months GBP 000	3-12 Months GBP 000	Over 1 Year GBP 000	Non-Interest Bearing GBP 000
Assets					
Cash at bank and in hand	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	-	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**	**-**	**21,085**
Net interest gap		29,307	**(13,400)**	**775**	**(16,682)**
Cumulative interest gap		29,307	**15,907**	**16,682**	

Interest rate risk arises from the possibility that changes in interest rates could adversely affect the value of a financial instrument which include loans, deposits and debt securities. An increase in interest rates by 1.00% would contribute additional interest income of GBP 187,580 (2018 - GBP 166,864) and vice-versa will produce a reverse effect.

25) Maturity Analysis

31 December 2019	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	770	-	-	-	770
Loans and advances to banks	143,924	143,815	109	-	-
Loans and advances to customers	17,577	5	532	17,040	-
Debt securities	4,798	-	1,649	3,149	-
Property and equipment	2,981	-	-	-	2,981
Intangible assets	18	-	-	-	18
Other assets	217	217	-	-	-
Total assets	**170,285**	**144,037**	**2,290**	**20,189**	**3,769**
Liabilities					
Deposits by Banks	149,400	131,952	-	17,448	-
Customer accounts	6,545	6,182	363	-	-
Other liabilities	864	-	-	-	864
	156,809	138,134	363	17,448	864
Share capital	15,000	-	-	-	15,000
Revaluation Reserve	408	-	-	-	408
Retained earnings	(1,932)	-	-	-	(1,932)
Total liabilities and equity	**170,285**	**138,134**	**363**	**17,448**	**14,340**
Net maturity gap		5,903	1,927	2,741	(10,571)
Cumulative maturity gap		5,903	7,830	10,571	

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

26) Foreign exchange exposure

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

31 December 2019	**Total**	**GBP**	**Euro**	**LKR**	**USD**
Assets	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	770	112	514	-	144
Loans and advances to banks	143,924	131,782	-	-	12,142
Loans and advances to customers	17,577	17,205	372	-	-
Debt securities	4,798	-	-	-	4,798
Property and equipment	2,981	2,981	-	-	-
Intangible assets	18	18	-	-	-
Other assets	217	149	1	-	67
Total assets	**170,285**	**152,247**	**887**	**-**	**17,151**
Liabilities					
Deposits by Banks	149,400	131,689	940	-	16,771
Customer accounts	6,545	6,478	32	-	35
Other liabilities	864	857	14	-	(7)
	156,809	139,024	986	-	16,799
Share capital	15,000	15,000	-	-	-
Revaluation reserve	408	408	-	-	-
Retained earnings	(1,932)	(1,932)	-	-	-
Total liabilities and equity	**170,285**	**152,500**	**986**	**-**	**16,799**
Gross exposure (liability)		(253)	(99)	-	352
Foreign exchange contracts			-	-	-
Net exposure (liability)		**(253)**	**(99)**	**-**	**352**

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**

Foreign exchange risk is the sensitivity to potential movements in exchange rates of a position's value that is denominated in a different currency from the base currency. Hence, a long or open position in a foreign currency may produce a loss if that currency depreciates against the base currency. As at 31 December 2019 a 5% strengthening of Sterling against the US Dollar would have reduced profits by GBP 17,700 and vice-versa of a reverse effect**.**

27) 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 2019 and at the end of 31st December have been classified at amortised cost and there are no financial instruments measured at fair value through the profit and loss (FVTP).

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 their which fair value measurement would be categorised.

31 December 2019 Assets	Carrying Value	Fair Value	Level 1 GBP 000	Level 2 GBP 000	Level 3 GBP 000
Cash at bank and in hand	770	770		770	-
Loans and advances to banks	143,924	-	-	143,924	-
Loans and advances to customers	17,577	-	-	-	17,577
Investment securities	4,798	4,840	-	4,840	-
Total	**167,069**	**5,610**	**-**	**149,534**	**17,577**
Liabilities					
Deposits by Banks	149,400	-	-	149,400	-
Customer accounts	6,545	-	-	6,545	-
Total	**155,945**	**-**	**-**	**155,945**	**-**

31 December 2018 Assets	Carrying Value	Fair Value	Level 1 GBP 000	Level 2 GBP 000	Level 3 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	-
Customer accounts	5,367	-	-	5,367	-
Total	**144,257**	-	-	**144,257**	-

The cash carrying value approximates to the fair value and therefore no fair value measurement has been identified in the above table.

Information on how fair values are calculated for financial assets and liabilities in the table are explained below.

Loans and Advances to Banks
The fair values approximate the carrying amounts, as their maturities are generally short dated

Investment securities
The fair value of the investment securities has been based on observed market prices for those securities that have an active trading market (fair value level 1 assets), or using observable inputs (in the case of fair value level 2 assets).

28) Capital Management

The Bank's approach to capital management is set out in the Strategic Report. The regulatory capital of the Bank was GBP13,463,000 at 31 December 2019 after deducting the book value of intangible assets from shareholder's funds and adjusting for transitional relief under IFRS9. (GBP13,394,000 at 31 December 2018).

29) Subsequent events

On 30 January 2020 the World Health Organisation declared the Coronavirus (Covid-19) outbreak to be a public health emergency of international concern. Governments worldwide have taken unprecedented steps to combat the spread of Covid-19. This has resulted in significant social and economic disruption to the areas of operation of the Bank. The directors have considered the potential impact on the Bank which is discussed in the Report of the Board of Directors at page 5 and the statement of going concern at Note 2a.

UNAUDITED FINANCIAL INFORMATION

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	3,245	108	-	-	28
Global	**3,245**	**108**	**-**	**-**	**28**

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 the United Kingdom

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

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

Profit/ (loss) before tax: As with turnover, the definition of profit and loss before tax is consistent with that in the 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 2019.

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 2019.

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 as applied in accordance with the provisions of the Companies Act 2006.