Bank of Ceylon (UK) Ltd

Financial Statements

For the year ended 31 December 2020

Company registration no. 06736473

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COMPANY INFORMATION

Mr Kanchana Ratwatte **Appointed on the 3rd July 2020**	Chairman
Mr W.D.R. Swanney	Independent Non-Executive Director
Mr C N Meneripitiyage Don	Executive Director and Chief Executive Officer
Mr S. Sabesan **Resigned on the 1st March 2020**	Executive Director and Chief Operating Officer
Mr R. England	Independent Non-Executive Director
Mr D P K Gunasekera **Appointed on the 21st April 2020.**	Non- Executive Director and General Manager, BOC
Mr K B S Bandara **Resigned on the 28th April 2020**	Non- Executive Director, BOC
Mr P L Balasuriya **Appointed on the 8th January 2021**	Executive Director
Mr Colin Finlayson **Resigned on the 7th May 2020**	Company Secretary
Mr Shim Rahman **Appointed on the 7th May 2020**	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 201, Silbury Boulevard Milton Keynes, MK9 1LZ

CHAIRMAN'S REPORT

The year under review may be classified as the most challenging one for the global community! Despite the challenges, we managed to keep our services open for our true valued customers. The impact of the pandemic, by the immediate lockdown in the UK and Sri Lanka and the resultant slowdown of economic activity was to a great extent mitigated by adopting novel methods at each evolving situation.

The Bank faced the challenges successfully and managed to maintain its profitability at its trading level and made a trading profit of £170,000 (2019: £190,000). The downgrading by the ratings agencies of Sri Lankan and Maldives debt, however, necessitated a large, temporary IFRS9 provision against our bond portfolio, which results in the Bank's reported results for 2020 being a loss of £23,000. These negative factors in challenging times, have not deterred the bank from showing its resilience to overcome factors outside our influence and minimizing the impact on the Bank of Ceylon Group. The Bank stood up to the challenges and ensured its usual customer centric approach, managed and maintained on-line and physical banking activities, to the best of its ability during these challenging times.

Net loans to customers grew 15% from 2019. 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, albeit that 2020 was challenging in this regard. 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.

At the beginning of 2020, our IT upgrade was completed, improving – as heralded in last year's report - our operating capability, internally and with customers. This improvement, principally aimed at our customers, has benefited staff through introducing more user-friendly systems.

The outlook for 2021 as we look ahead, we see the speed of recovery in both jurisdictions presenting potentially significant challenges. Continuing changes in the external environment, customer behaviors and expectations will create opportunities and challenges for a bank of our size. Nevertheless, the Bank enters 2021 with a clear recovery strategy, a strong and supportive parent bank, and a motivated team, which will serve us well in handling the uncertainties that lie ahead.

Appreciation ought to be extended to the Acting Chairman during the interim period, the fellow Board Members, the staff and also to our parent bank, for their contribution to everything we achieved together in this exceptional year.

Kanchana Ratwatte
Chairman
7th May 2021

STRATEGIC REPORT

OPERATIONS

The Directors present the Strategic Report of the company for the year ended 31 December 2020 in accordance with Companies Act 2006, Chapter 4A.

The Chairman's statement forms an integral part of this report.

Section 172 (1) of the Companies Act 2006 requires Directors of an entity to act in the way they consider, in good faith, would be most likely to promote the success of the entity for the benefit of its members as a whole. As part of their deliberations and decision-making processes the directors have taken into account the following:

i. Likely consequences of any decision in the long term;
ii. the interest of the Company's employees;
iii. the need to foster the Company's business relationship with suppliers, customer and others;
iv. the impact of the Company's operations on the community and the environment; and
v. the desirability of the entity maintaining a reputation for high standards of business conduct

Management's strategy is in line with its long-term values and is committed to effective engagement with the Bank's stakeholders. Accordingly, the Directors require management to ensure that all stakeholder interests are considered in the Company's day to day management.

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.

PRINCIPAL ACTIVITIES

We are a specialist bank focusing on lending to customers in the domestic market, typically, in the segments underserved by larger high street banks. This approach requires us to be experts in the areas we operate in by providing excellent customer services, through knowledge and speed of delivery. We see specialisation as what differentiates us from our competition. In addition to domestic lending, we also provide trade finance services to a large number of the Sri Lankan banks and UK exporters.

Bank of Ceylon (UK) Limited (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 2006 to set out in this report a fair review of the business of the Bank.

BUSINESS REVIEW 2020

2020 has been a challenging year for us all. The year started well at an operating level, with strong new business volumes and momentum. The rapid spread of the pandemic meant our priorities had to change dramatically. The focus quickly shifted to ensuring the health and wellbeing of our customers and staff, whilst safeguarding our future business. It is gratifying to note that the commitment of our staff in ensuring uninterrupted services to both domestic and overseas customers.

On the domestic front, supporting our customer through the pandemic has been a high priority, with the Bank offering payment holidays to customers in need of support. All of the customers availing themselves of this facility have since returned to regular payments. Domestic lending volumes during the first quarter was strong, before being disrupted by the closure of the housing market in the second quarter. The economic uncertainty and the interest rate cuts imposed by the Bank of England impacted lending income in the second and third quarters. Buy to Let demand rebounded in September, as the stamp duty holiday was extended and the opening of the housing market helped volumes to recover, delivering a robust year on year lending growth of 17% (2019 38%). Interest income during the year declined by £559,777 following the base rate cuts introduced from March 2020. Despite the decline interest income, the performance at net interest income only declined by £23,545 as increased investment income and lower interest expenses help soften the impact, refer to key performance table page 7.

Trade finance business at the commencement of the year was strong, before declining to lower levels, following the lock down measures introduced by Sri Lankan authorities, early in the year. Exports to Sri Lanka has shifted from the traditional vehicle exports to essential goods and services during the rest of the year. Despite the volumes decline, the demand for bills discounting remained buoyant throughout most of the year. The impact of declining exports volumes has been the main contributor for the reduction in fee income by £181,737 refer key performance table on page 7.

On the technology front, the implementation of the core banking platform ICBS has been well accepted by business users. The new system has contributed to improved productivity and efficiency levels as users have acquired high levels of knowledge and competence in being able to operate the system. The overall cost of the project has come in below budget and the implementation was completed as planned without any delays.
Overhead costs during the year have been tightly controlled to deliver savings across the organisation. Headcount reductions through natural wastage, consolidation of roles and improved efficiencies have yielded payroll savings. In addition to these savings, office overheads have declined as some of the planned activities during the year have either being deferred or cancelled altogether. The overall reduction in overhead cost was £187,000.

Trading profit before the expected credit loss provision for the year was £170,000 (2019 £190,000) which is an encouraging result in a challenging business environment.

IMPAIRMENT PROVISIONS

The expected credit loss (ECL) provision for the year is £196,700 a significant increase over the 2019 provision of £82,000. The main driver for the provision increase follows the downgrading of sovereign risk from 'B-' to 'CCC' for both countries Sri Lanka and Maldives by the rating agencies. The main concern highlighted by the agencies is the impact of Covid-19 on tourism which is seen as a major contributor to their respective GDPs and foreign exchange reserves. We see this provision as a temporary increase and expect it to reverse as the economies start to pick up and the bonds mature over the next two years, refer note 12.

The statutory loss for the year is £23,000 (2019 £105,000) post the impairment provision.

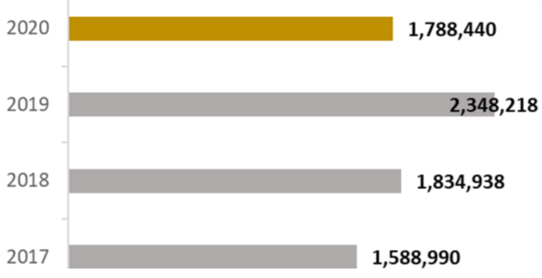
CAPITAL

The Bank's capital position continues to comfortably exceed regulatory requirements with adequate head room capacity to continue lending activities, refer note 25.

KEY PERFORMANCE INDICATORS

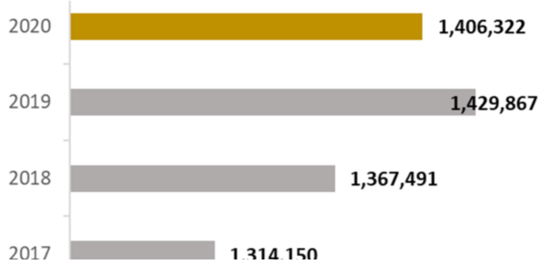
Interest Income

1,788,440



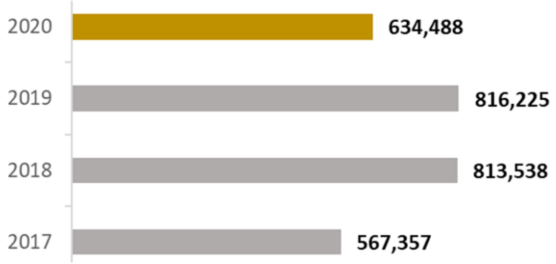
Net Interest Income

1,406,322



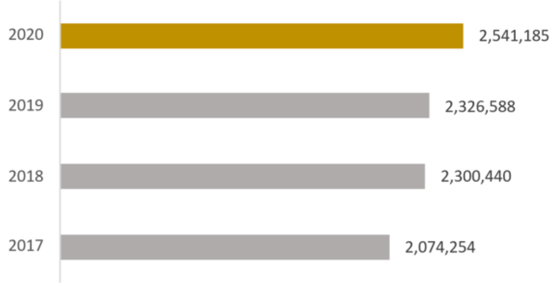
Fee Income

634,488



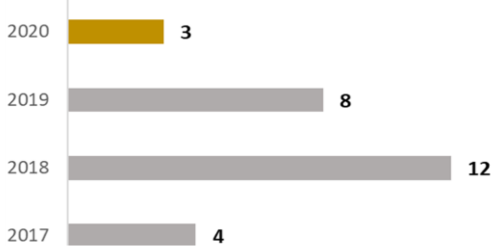
Total Income

2,541,185



Customer Complaints

3



STRATEGIC REPORT (CONTINUED)

CORPORATE GOVERNANCE

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

The Board meets quarterly and has defined responsibilities for the overall direction, supervision and control of the Bank. This includes assessment of the Bank's competitive position, approval of strategic and financial plans taking into consideration the likely consequences of any decisions in the long run and review of the performance and financial status. The Board 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 identified risks given below.

Please also see the Audit and Risk Committee report for the year ended 31st December 2020.

FINANCIAL RISK MANAGEMENT

INTRODUCTION AND OVERVIEW

RISK MANAGEMENT FRAMEWORK

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

- credit risk;
- liquidity risk;
- market risk; and
- operational risk.

CREDIT RISK

"Credit risk" is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and 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 2020 GBP 000	**As at 31 December 2019 GBP 000**
Loans and advances to banks	113,717	143,991
Loans and advances to customers	20,364	17,626
Investments	3,139	4,798
Other assets	321	101
Maximum credit risk exposure	**137,541**	**166,516**
Investment grade assets	106,220	141,664
Other assets	31,321	24,852
	137,541	**166,516**

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.

FINANCIAL CRIME RISK

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

MANAGEMENT OF FINANCIAL RISK

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

- A clearly defined financial crime risk policy approved by the board.
- Ongoing development, maintenance, and reporting of risk appetite measures on financial crime and fraud risk to the Audit and Risk committee.
- Consideration of financial crime and fraud risk in the context of product and propositions.
- Ongoing assessment of evolving regulatory policy requirements and ensuring the Bank meets the requirements of the UK Money Laundering Regulations requirements.
- Regular oversights, review of systems, controls and higher risk activities and customers.

Financial crime risk is managed by the front office team responsible for customer phasing. The control frame work, strategy, governance, standard setting, oversight and training are managed by the MLRO team.

LIQUIDITY RISK

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

MANAGEMENT OF LIQUIDITY RISK

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

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

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

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

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

MARKET RISK

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

Interest Rate Risk is assessed in Note 22 and Foreign Exchange Risk is assessed in Note 24.

The Bank's holdings of debt securities comprise Government of Sri Lanka bonds and Government of Maldives bonds. These assets were valued at GBP 2,535,924 as at 31 December 2020 (investments at 31 December 2019 were GBP 4,840,000).

MANAGEMENT OF MARKET RISK

The Bank does not maintain a trading portfolio and market risk arises from its day-to-day banking operations. Overall authority for market risk is 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. The LIBOR transition to SONIA was completed at the end of 2020, with all existing contracts being replaced with EURIBOR and all future contracts will be in SONIA.

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 Capital Requirements Directive (CRD) issued by the PRA 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 applies the transitional relief arrangements for the capital impact of IFRS 9 ECL provisioning. In June 2020, the Capital Requirements Regulation was amended in response to the COVID 19 pandemic. These amendments apply directly to PRA-regulated firms and the Bank has adopted the new CET1 addback percentage of 100% for relevant provisions raised from 1 January 2020 in arriving at the regulatory capital, as set out in note 25.

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

The Bank has completed a preliminary review of the business impacts and is in the process of finalising changes to its processes, procedures and practices to measure and reduce the impact the financial risks arising from climate change. The Bank will be taking the following approaches in respect of:

- Its business activities – The Bank has three strands of business with these being property finance, trade finance and treasury and it will look to reduce climate change risk through such activities.
- Its business operations – The Bank will review its operations with a view to reducing the environmental impact of the business. This will include activities such as reviewing the energy efficiency of its premises and energy providers to ensure that these have robust climate change management policies in place.
- Embedding climate change risk within established risk types such as operational risk and credit risk to ensure a consistent approach is taken across the business

Authorised and approved on behalf of the Board

C.N. Meneripitiyage
Chief Executive Officer
7th May 2021

REPORT OF THE BOARD OF DIRECTORS

The Board of Directors present their Report, together with the audited financial statements for the year ended 31 December 2020.

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

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

DIRECTORS

- Kanchana Ratwatte
- W.D.R Swanney
- R. England
- C.N. Meneripitiyage Don *
- D. P. K Gunasekera (appointed on 21st April 2020)
- K. B. S Bandara (resigned on 28th April 2020)
- S. Sabesan (resigned on 1st March 2020) *
- P. L. Balasuriya (appointed on 8th January 2021) *

* Executive Directors.

GOING CONCERN

The directors have made an assessment of going concern, having taking in to account the Bank's capital and liquidity positions over the next twelve months, including consideration of reasonably plausible stress scenarios.

The directors have considered the Bank of Ceylon's business activities, together with the factors likely to affect its future development, performance and position as set out in the Chairman's Report and Strategic Report on pages 4 to 13.

The financial position of the Bank, its cash flow and capital position are as described on pages 39 to 54. In addition, Bank of Ceylon's business objectives, capital structure, policies and financial risk management objectives are as stated in the Strategic and Chairman's Reports. Details of its financial instruments and its exposures to credit risks are in note 10 of the financial statements.

The Bank switched to a remote working arrangement since mid-March 2020 and has further strengthened management and governance structures for remote working, to ensure effective management of the heightened risk environment. The Bank continues to provide uninterrupted services to our customers while ensuring the safety and wellbeing of our staff.

The Bank estimated the potential impact on expected credit losses under various stress scenarios, on the bank's asset portfolio to account for stress on macroeconomic variables and its impact on credit and counterparty risk. Action has also been initiated to reduce some of our investments in Maldives bonds under the stress scenarios assessment. An increase in the credit loss provisions has been considered in the assessing going concern.

When assessing going concern, in the base to mid case stress scenarios, no regulatory capital ratios were breached. In the most severe scenario, the Bank is able to restore its capital by taking appropriate management action to reduce balance sheet growth, by reducing lending, which in turn reduces capital requirement. The current conditions are less severe than the stress scenario being considered. From a liquidity perspective, the Bank has sufficient liquidity to deliver its lending targets as set out in its three-year plans.

The Directors believe that the Bank has sufficient resources to continue its activities for the foreseeable future and that there is sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

DISCLOSURE IN RESPECT OF FINANCIAL INSTRUMENTS

In the course of its normal business activities, the financial instruments transacted by the Bank include: investments in sovereign bonds refer note 14, lending to customers refer note 13, counterparties refer note 12. Please also see strategic report for additional disclosures.

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.

QUALIFYING INDEMNITY INSURANCE

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

RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank did not undertake any formal research and development activities, although it did invest in a new core banking platform during the year, in the ordinary course of business. See the Strategic Report for more information.

CHARITABLE DONATIONS

The company did not make any political or charitable contributions during the year (2019: Nil).

AUDITOR

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

Approval on behalf of the Board.

C.N. Meneripitiyage,
Chief Executive Officer
7th May 2021

AUDIT AND RISK COMMITTEE REPORT FOR THE YEAR ENDED 31 DECEMBER 2020

This report forms an integral part of the Strategic report.

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 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 2020

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

INFORMATION TECHNOLOGY -CORE BANKING SYSTEM IMPLEMENTATION

The committee reviewed the implementation plans for the new core banking system, the system gaps between the proposed and existing system, UAT acceptance signoff and the post implementation review.

FINANCIAL REPORTING

The primary role of the Committee in relation to financial reporting is to review and assess with the Senior Management Team (comprising the Chief Executive Officer, the Chief Operating Officer, the Head of Finance and Treasury and the Head of Risk and Compliance) and the external auditor the integrity and appropriateness of the annual financial statements 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.
- IFRS9 the judgements used in arriving at the basis for the ECL provisioning.

The primary areas of judgement considered by the Committee in relation to the 2020 accounts were:

- Evaluation of the external auditor's response to the assessed risks of material misstatement presented by the Bank's Executive Committee; and.
- Revenue recognition: Review of the design, implementation and effectiveness of controls around the IFRS9 calculation of interest income and charges, including the timing of fees and commission recognition under effective interest rate methodologies.

The Committee considered whether the 2020 Annual Report was fair, balanced and understandable. The Committee did this by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency. The Committee fully discharged its responsibilities in relation to financial reporting in the 2020 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 matters which were reviewed by the Committee in 2020 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 2020 there were no material breaches of control or regulatory standards and that; overall, the Bank maintained an adequate internal control framework.

WHISTLEBLOWING, FRAUD AND BRIBERY, AND FINANCIAL CRIME

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. The Bank continues to protect itself and customers against the risks of financial crime through continued due diligence activities and staff training.

INTERNAL AUDIT, RISK AND COMPLIANCE

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 compliance.

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 2020 after a review of the level and nature of the work to be performed and being satisfied that the fees were appropriate for the scope of the work required. The Committee considers the reappointment of the external auditor, including rotation of the Senior Statutory Auditor, each year and also assesses their independence on an ongoing basis.

The Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) were implemented in the UK on 17 June 2016. This legislation requires all EU public interest entities (including the Bank) to rotate their statutory auditors after a maximum period of tenure. The maximum period has been set at twenty years in the UK, with a mandatory tender at the ten-year midpoint.

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

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 19th April 2021 and signed on its behalf by

W D R Swanney
Chair of the Audit, Risk and Compliance Committee
7th May 2021

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 in conformity with the requirements of the Companies Act 2006.

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

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

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

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

By order of the Board:

C.N. Meneripitiyage,
Chief Executive Officer
7th May 2021

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

For the purpose of this report, the terms "we" and "our" denote MHA MacIntyre Hudson in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of Bank of Ceylon (UK) Ltd. For the purposes of the table on page 23 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA MacIntyre Hudson. The relevant legislation governing the Bank is the United Kingdom Companies Act 2006 ("Companies Act 2006").

Opinion

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

The financial statements that we have audited comprise:

- Statement of Comprehensive Income
- Statement of Financial Position
- Statement of Change to Equity
- Statement of Cash Flows
- Notes 1 to 29 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) in conformity with the requirements of the Companies Act 2006.

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2020 and the Bank's loss for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006.
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor'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 Public interest entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter – prior period adjustment

We draw attention to note 29 of the financial statements, which describes the impact of prior year restatements identified during the course of the preparation of these financial statements and the risk that adjustments identified and recognised in the year-ended 31 December 2019 may relate to prior period or vice versa. Our opinion is not modified in this respect.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included:

- the consideration of inherent risks to the bank's operations and specifically its business model;

- the evaluation of how those risks might impact on the bank's available financial resources;
- where additional resources may be required the reasonableness and practicality of the assumptions made by the Directors when assessing the probability and likelihood of those resources becoming available;
- liquidity considerations including examination of cash flow projections up to 2023;
- sensitivity analysis, taking into account the possibility of the base rate moving to zero, non-materialisation of letters of credit and unfavourable foreign exchange movements;
- the impact of Covid-19 creating economic difficulties in Sri Lanka as well as the UK;
- solvency considerations including examination of budgets and forecasts and their basis of preparation; and
- viability assessment including consideration of reserve levels and business plans.

Overview of our audit approach

Materiality	2020	2019	
	£271k	£811k	2% Net Assets (2019: 0.5% Gross Assets)
	£13.5k	£42.6k	Threshold for reporting to those charged with governance

Key audit matters	
Recurring	• Valuation of derivative financial instruments • Determination of ECL Provision on financial instruments held at amortised cost • Related party transactions

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

Key audit matter description	The Bank enters into currency swaps as part of its business operations. There is a risk that the valuation of the derivatives at the year-end may not accurately reflect the fair value of those instruments. There is also a risk that the instrument may not be appropriately presented as assets or liabilities in the financial statements.
How the scope of our audit responded to the key audit matter	Our audit work included: • We performed an overview of the approach taken by the directors to account for derivative financial instruments and determined the risk of material misstatement. • We considered the reasonableness of management's assessment of the existence of any right to settle outstanding positions through set-off or netting. • We agreed the key details of the instruments to original deal documentation. • We challenged management's determination of fair value for individual instruments by performing an independent recomputation of fair value for a sample of instruments and investigating any differences. • We reviewed the disclosures addressing the risk associated with these financial instruments and considered whether they met the requirements of IFRS 7.
Key Observations	Our work identified that contrary to management's initial position, there was no right of set-off that would allow these instruments to be presented in the financial statements on a net basis. Accordingly, the directors have agreed that these amounts should now be presented gross in the financial statements. Our work also identified issues with the valuation of the derivatives and we have proposed adjustments to correct the initial measurement. Those adjustments have been reflected in these financial statements. Having regard for the work performed in this area and the adjustments arising from this work, we can conclude that the derivative financial instruments are now appropriately measured and presented and disclosed in the financial statements and the accompanying notes.

Determination of ECL Provision on financial instruments held at amortised cost

Key audit matter description	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.
How the scope of our audit responded to the key audit matter	An IFRS 9 expert was engaged to review the ECL model and produce a report which was reviewed by us. 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 stage 1 and stage 2. There were no assets classified as stage 3. For balances included in stages 2, collateral was assessed for quality, validity, liquidity and coverage over amounts at risk. We also performed a review of the loan files including post year end receipts for indication of impairments.

Key Observations	Based on audit procedures above, nothing has come to our attention that causes us to believe that any material misstatement is present in respect of the ECL Provision of financial instruments held at amortised cost.

Related party transactions

Key audit matter description	The Bank 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 correctly identified and disclosed.
How the scope of our audit responded to the key audit matter	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.
Key Observations	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. No other issues were identified.

Our application of materiality

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

Materiality in respect of the Bank was set at £271k (2019: £811k) which was determined on the basis of 2% of Net Assets (2019: 0.5% Gross Assets). We have considered different parameters for materiality, concluding that Interest Income and Profit Before Tax are not reasonable or relevant benchmarks, as the Bank embarks on establishing a strong loan portfolio in the UK. This is primarily what the parent company in Sri Lanka is interested in. The parent company is providing financial support to the Bank and aims to achieve return in the form of increased loans and mortgages being won in the UK market. Therefore, we have concluded that Net Assets are the most appropriate driver for materiality.

Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole.

Performance materiality for the Bank was set at £189k (2019: £512k) which represents 70% (2019 – 60%) of the above materiality levels.

The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls, the impact of there being a number of components and locations and the level of misstatements arising in previous audits.

In addition, we applied the following materiality to the audit of specific financial statement areas:

Interest income	£50k
Administrative expenses	£50k
Related party transactions	£60k
Manual Journal entries	£60k

We agreed to report any corrected or uncorrected adjustments exceeding £13.5k to the audit committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The scope of our audit

Our audit was scoped by obtaining an understanding of the Bank and its environment, including the Bank's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.

The Bank manages its operations from the UK and has common financial systems, processes and controls covering all significant components.

Reporting on other information

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 Report of the Board of Directors

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

- the information given in the Strategic Report and the Report of the Board of Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Board of Directors have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Board of Directors.

Director's 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.

Matters on which we are required to report by exception

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

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

Responsibilities of directors

As explained more fully in the 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.

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

The specific procedures for this engagement and the extent to which these are capable of detecting irregularities, including fraud is detailed below:

- Obtaining an understanding of the legal and regulatory frameworks that the group 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 2006, 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.

- Reviewing key correspondence with regulatory authorities such as the Financial Conduct Authority, Prudential Regulatory Authority, and Financial Reporting Council.

- Discussing among the engagement team and involving relevant internal specialists, including tax, valuations, IT and industry specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud;

- Reviewing internal audit reports, including consideration of known or suspected instances of non-compliance with laws and regulations and fraud;
- Reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations.
- Enquiry of management around actual and potential litigation and claims.
- Enquiry of the audit and risk committee concerning actual and potential litigation and claims.
- Enquiry of management to identify any instances of known or suspected instances of fraud.
- Discussing among the engagement team regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.
- Reviewing the Bank's complaints log and the results of management's investigation of such matters;
- Reviewing minutes of meetings of those charged with governance.
- Evaluation of the operating effectiveness of management's controls designed to prevent and detect irregularities;
- Reading key correspondence with regulatory authorities such as the Financial Conduct Authority, Prudential Regulatory Authority and Financial Reporting Council; and
- Performing audit work over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias.

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

Other requirements

We were appointed by the Directors on 20 December 2019. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 2 years.

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

Use of our report

This report is made solely to the 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.

R Shaunak

Rakesh Shaunak CTA, FCA
(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

7th May 2021

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

	Note	Year ended 31-Dec-20 GBP 000	Year ended 31-Dec-19 GBP 000 As restated
Interest income		1,788	2,348
Interest expense	4	(382)	(918)
Net interest income		**1,406**	**1,430**
Fees and commission income	5	634	816
Net gains from forex transactions		119	81
Net Operating income		**2,159**	**2,327**
Personnel expenses	6	(1,112)	(1,191)
Operational expenses	7	(766)	(874)
Depreciation	8	(97)	(57)
Amortisation	9	(14)	(15)
Impairment losses on credit exposure	10	(196)	(82)
		(2,185)	(2,219)
(Loss)/Profit from ordinary activities before tax		**(26)**	**108**
Tax credit/(charge)on loss from ordinary activities		3	(3)
(Loss)/Profit from ordinary activities after tax		**(23)**	105
Fair value gain on valuation of property		-	685
Deferred tax liability		-	(179)
Other comprehensive income		-	506
Total comprehensive (loss)/income for the year		**(23)**	**611**

The notes on pages 32 to 54 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

	Note	31-Dec-20 GBP 000	31-Dec-19 GBP 000
Assets			**As restated**
Cash at bank and in hand	26	1,939	770
Loans and advances to banks	12	113,717	143,991
Loans and advances to customers	13	20,364	17,626
Derivatives	20a	657	-
Other assets	20b	321	101
Investments	14	3,139	4,798
Property and equipment	8	3,679	3,666
Intangible assets	9	34	18
Total assets		**143,850**	**170,970**
Liabilities			
Deposits by banks	15	124,016	149,400
Customer accounts deposits	16	4,732	6,545
Derivatives	17a	573	-
Other liabilities	17b	401	864
Current liabilities		129,722	156,809
Deferred tax	11	179	179
Total liabilities		129,901	156,988
Equity			
Share capital		15,000	15,000
Revaluation reserve		904	914
Retained earnings		(1,955)	(1,932)
Equity shareholders' funds		13,949	13,982
Total liabilities and equity		**143,850**	**170,970**

These financial statements were approved by the Board of Directors and were authorised for issue on 7th May 2021, and were signed on its behalf by:

C.N Meneripitiyage
Chief Executive Officer

The notes on pages 32 to 54 are an integral part of these financial statements.

STATEMENT OF CHANGE TO EQUITY

	Share Capital	Retained Earnings	Revaluation reserve	Total Equity
Equity shareholder's funds 1 January 2020	GBP 000	GBP 000	GBP 000	GBP 000
Cost at 1 January 2020	**15,000**	**(1,932)**	**914**	**13,982**
Total Comprehensive income		(23)		**(23)**
Revaluation reserve movement			(10)	**(10)**
Equity shareholder's funds 31st Dec 2020	**15,000**	**(1,955)**	**904**	**13,949**

	Share Capital	Retained Earnings	Revaluation reserve	Total Equity
Equity shareholder's funds 1 January 2019	GBP 000	GBP 000	GBP 000	GBP 000
Cost at 1 January 2019	**15,000**	**(2,037)**	**417**	**13,380**
Revaluation reserve movement			(9)	**(9)**
	15,000	(2,037)	408	**13,371**
Total Comprehensive income (as restated)		105	506	**611**
Equity shareholder's funds 31st Dec 2019	**15,000**	**(1,932)**	**914**	**13,982**

Prior year restatement incorporates the revaluation surplus of the Bank's office building. The valuation was carried out during February 2020, using an independent firm of valuers. The amount shown under revaluation reserves in 2019 is the value net of deferred tax liability.

The notes on pages 32 to 54 are an integral part of these financial statements.

STATEMENT OF CASH FLOW

For the year ended 31 December 2020	Note	Year ended 31-Dec 2020 GBP 000	As restated Year ended 31-Dec 2019 GBP 000
Cash flow from operating activities:			
Profit before tax		(26)	108
Adjusted for :			
Depreciation	8	97	57
Amortisation	9	14	15
Other non -cash items impairment provision	10	196	82
		281	262
Changes in:			
Loans and advances to banks	12	30,286	(7476)
Loans and advances to customers	13	(2,725)	(4,918)
Investments	14	1,440	(156)
Other assets and derivatives	20a & 20b	(304)	438
Deposits by bank	15	(25,384)	10,510
Customer accounts	16	(1,813)	1,178
Other liabilities and derivatives	17a & 17b	(463)	102
		1,037	(322)
Net cash flow from operating activities		1,318	(60)
Cash flow from investing activities			
Acquistion of fixed assets	8 &9	(149)	(162)
Net cash flow from financing activities		(149)	(162)
Net increase/(decrease) in cash and cash equivalents		1,169	(222)
Cash and cash equivalents at 1st January		770	992
Cash and cash equivalents at 31st December	26	1,939	770

The notes on pages 32 to 54 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1) Reporting entity

Bank of Ceylon (UK) Limited (the "Bank") is a company incorporated in England and Wales under the Companies Act 2006. 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 (IFRS) in conformity with the requirements of the companies Act 2006. They were authorised for issue by the Bank's Board of Directors on the 19th of April 2021.

a) New standards and amended standards

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

Amendments to References to the Conceptual Framework in IFRS standards

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

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

Recent Amendments to IFRS9 and IFRS7 relate to hedge accounting. These amendments are not expected to produce any changes to the financial statement.

In August 2020, the IASB issued 'Interest Rate Benchmark Reform – Phase 2 amendments to IFRS9, IFRS7, IFRS4 and IFRS16. These amendments apply only to changes required by LIBOR reform to financial instruments and hedging relationships.

The amendments are effective from 1st January 2021 and must be applied retrospectively without restating comparative information. These amendments are not expected to have any impact on the financial statements.

b) Going concern basis of accounting

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

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

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

c) Functional and presentational currency

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

d) Basis of measurement

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

e) Critical accounting estimates

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. There have been no significant changes in the basis upon which critical estimates and judgements have been determined compared to those applied as of 31st December 2020.

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

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

b) Foreign currency

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

c) Fees and commissions

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

The revaluation reserve is released against future depreciation and impairment charges. Subsequent depreciation and impairment is charged to profit and loss.

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

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

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

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

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.

f) 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

g) Financial assets and financial liabilities (applicable policies from 1st January 2020).

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.

Derivatives are measured at fair value through profit or loss. They are presented as current assets or current liabilities to the extent that they are expected to be settled within 12 months after the end of the reporting period.

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

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

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 is recognised either on 12-month losses or lifetime expected losses.

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

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

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

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

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

Stage 2- exposures are where an account has exceeded 30 days past due or where a there has been a significant increase in credit risk since initial recognition. An exposure will be considered to have deteriorated, where there are delays in payments or where external information reflects a weakening in credit risk. In the case of investments, a rating decline could cause the staging to be downgraded. The Bank also takes into consideration the impact of macroeconomic factors on an institutional counterparty. Where there has been a subsequent improvement in credit risk such that a Stage 2 asset is considered to have same or better credit risk as it had at inception the asset shall be re-classified as Stage1. For Stage 2 assets lifetime ECL is recognized, but interest revenue is still calculated on the gross carrying amount of the asset.

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

viii) Financial guarantees

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

h) Confirmation of documentary credits

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

i) Cash and cash equivalents

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

j) Loans and advances

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

k) Pension liabilities

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

l) Taxation

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

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

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

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

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

m) VAT

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

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

4) Interest expense

	Year ended 31 December 2020 GBP 000	**Year ended 31 December 2019 GBP 000**
Interest payable to related entities	342	774
Other interest payable on deposits	40	144
	382	**918**

5) Fees and commissions

	Year ended 31 December 2020 GBP 000	**Year ended 31 December 2019 GBP 000**
International commission	224	534
Domestic commission	253	282
Other Income	157	-
	634	**816**

6) Personnel expenses

	Year ended 31 December 2020 GBP 000	**Year ended 31 December 2019** GBP 000
Staff		
Salary and allowances	772	775
Social security costs	105	99
Pension costs	33	38
	910	912
Directors		
Salary and allowances	174	240
Social security costs	28	39
	202	279
Total staff costs	**1,112**	**1,191**

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

	Year ended 31 December 2020	**Year ended 31 December 2019**
Executive directors	2	2
Non-executive directors	2	2
Executive management	3	3
Clerical and other grades	17	21
	24	**28**

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

DIRECTORS' EMOLUMENTS

The total emoluments of the directors were GBP 173,720 (2019 – GBP 239,868). The highest paid director received emoluments of GBP 94,490 in 2020. The highest paid director in 2019 received GBP 94,508.

7) Operational expenses

	Year ended 31 December 2020	**Year ended 31 December 2019**
	GBP 000	GBP 000
Fees payable to auditors	88	88
Other administrative expenses	678	786
Total costs	**766**	**874**

8) Property and Equipment

	Land GBP 000	Freehold property GBP 000	Computer equipment GBP 000	Furniture equipment GBP 000	Capital WIP GBP 000	Total GBP 000
Cost or valuation						
Cost at 1 January 2020	**2,135**	**1,500**	**81**	**196**	**162**	**4,074**
Additions in the year	-	-	115	4	-	119
Revaluation	-	-	-	-	-	-
Transfers	-	-	162	-	(162)	-
Cost at 31 December 2020	**2,135**	**1,500**	**358**	**200**	**-**	**4,193**
Accumulated depreciation						
Depreciation at 1 January 2020	**-**	**(235)**	**(67)**	**(106)**	**-**	**(408)**
Depreciation charged for the year	-	(30)	(48)	(19)	-	(97)
Revaluation	-	(9)	-	-	-	(9)
Depreciation at 31 December 2020	**-**	**(274)**	**(115)**	**(125)**	**-**	**(514)**
Net book value at 31 December 2020	**2,135**	**1,226**	**243**	**75**	**-**	**3,679**

	Land GBP 000	Freehold property GBP 000	Computer equipment GBP 000	Furniture equipment GBP 000	Capital WIP GBP 000	As restated Total GBP 000
Cost at 1 January 2019	**1,450**	**1,500**	**80**	**197**	**-**	**3,227**
Fair value adjustments (see note 29)	**685**					**685**
Cost/valuation 1st January 2019 (as restated)	**2,135**	**1,500**	**80**	**197**	**-**	**3,912**
Additions in the year	-	-	1	-	162	163
Revaluation	-	-	-	-	-	-
Transfers	-	-	-	(1)	-	(1)
Cost at 31 December 2019	**2,135**	**1,500**	**81**	**196**	**162**	**4,074**
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	**2,135**	**1,265**	**14**	**90**	**162**	**3,666**

The property value has been restated post 31 December 2019, to reflect the fair value of the office building. The valuation was carried out by an independent firm of valuers, on the 10th of February 2020. The valuation model used to determine the property value is the rental value for office space as defined by the Royal Institution of Chartered Surveyors. Had the land and building been held at cost, the net book value as at 31st December 2020 would have been £2,216,000 The Bank did not hold any leased assets at the balance sheet date 2020.

9) Intangible assets – computer software

Cost	**2020 Computer software GBP 000**	**2019 Computer software GBP 000**
Cost at 1st january	707	707
Additions in the year	30	-
Cost at 31 December	737	707
Accumulated Amortisation		
Depreciation at 1st January	(689)	(674)
Depreciation charge for the year	(14)	(15)
Depreciation at 31st December	(703)	(689)
Net Book value at 31st December	34	18

10) Expected credit loss provisioning

Loans and advances to banks	Stage1	Stage2	Stage3	Total
Balance at 1st January 2020	(22)	0	0	(22)
Net re-measurement of loss allowance	10	0	0	10
Balance at 31st December 2020	(12)	0	0	(12)

Loans and advances to customers	Stage1	Stage2	Stage3	Total
Balance at 1st January 2020	(16)	0	(23)	(39)
Net re-measurement of loss allowance	13	0	23	36
Balance at 31st December 2020	(3)	-	-	(3)

Investments	Stage1	Stage2	Stage3	Total
Balance at 1st January 2020	(93)	0	0	(93)
Net re-measurement of loss allowance	93	(312)	0	(219)
Balance at 31st December 2020	-	(312)	-	(312)

Total ECL provision	Stage1	Stage2	Stage3	Total
Balance at 1st January 2020	(131)	-	(23)	(154)
Net re-measurement of loss allowance	116	(312)		(196)
Write off provisions			23	23
Balance at 31st December 2020	(15)	(312)	-	(327)

Loans and advances to banks	Stage1	Stage2	Stage3	Total
Balance at 1st January 2019	(2)	-	-	(2)
Net re-measurement of loss allowance	(20)	-	-	(20)
Balance at 31st December 2019	(22)	-	-	(22)

Loans and advances to customers	Stage1	Stage2	Stage3	Total
Balance at 1st January 2019	(9)	-	(23)	(32)
Net re-measurement of loss allowance	(7)	-	-	(7)
Balance at 31st December 2019	(16)	-	(23)	(39)

Investments	Stage1	Stage2	Stage3	Total
Balance at 1st January 2019	(37)	-	-	(37)
Net re-measurement of loss allowance	(56)		-	(56)
Balance at 31st December 2019	(93)	-	-	(93)

Total ECL provision	Stage1	Stage2	Stage3	Total
Balance at 1st January 2019	(48)	-	(23)	(71)
Net re-measurement of loss allowance	(82)	-	-	(82)
Balance at 31st December 2019	(131)	-	(23)	(154)

Financial Instruments held by the Bank comprise of: loans to banks, loans and advances to customers, investments in sovereign bonds, bills discounting, guarantees and confirmation of letters of credit.

Loans and advances to customer's included an opening provision of GBP 23,000 under IAS39 stage 3 of IFRS 9 schedule. This loan was fully written off against the provision.

Under the category of loans and advances to customers: a commercial loan categorised under stage 2 during 2019 was reassessed during the year and continues to be included under stage 2. This follows a request from the company to extend the capital repayment period caused by a disruption to the business following COVID. The loan is secured against a high-quality property, where the loan to value is 37%. The ECL provision in on the loan has been computed using the life time provision.

Two personal loans held by a single individual was categorised under stage 2, following a review of the customers' financial standing. Both of these loans have been fully settled in during 2021.

Sri Lankan and Maldives sovereign bond investments were moved to stage 2 during the year. This follows a down grading of the sovereign risk by rating agencies, from 'B-' to 'CCC' during the year.

With the exception of these loans and investments, all other assets have been assessed for credit risk, with no evidence of any significant increase in the individual credit risks.

The credit loss provision for 2020 totalling GBP 196,000 (2019 £83,000).

11) Analysis of the tax charge

	As at 31 December 2020 GBP 000	**As at 31 December 2019 GBP 000**
(Loss)/profit from ordinary activities before tax	(26)	108
Tax at 19% (2019 – 19 %)	(5)	21
Fixed assets differences	17	-
Tax in relation to prior year	(3)	
Effect of expenses not deductible for tax purposes	1	-
Effect of tax rate changes		(2)
Temporary differences not recognised	(13)	(16)
(Credit) / Charge for the year	(3)	3

Deferred tax (assets) and liabilities

	As at 31-Dec-20 GBP 000	**As at 31-Dec-19 GBP 000**
Accelerated capital allowances	37	15
Chargeable gain	187	187
Trading losses	(45)	(23)
Net deferred tax liability	179	179

Recognised (deductible) and taxable temporary differences

	Year ended 31-Dec-20 GBP 000	Year ended 31-Dec-19 GBP 000
Accelerated capital allowances	197	82
Chargeable gain	982	982
Trading losses	(237)	(122)
	942	942

Management has decided not to recognise a deferred tax asset of GBP 207,673 arising out of GBP 1,093,015 of timing differences, until the Bank establishes a consistent record of profitability.

12) Loans and advances to banks

	As at 31-Dec-20 GBP 000	As at 31-Dec-19 GBP 000
Repayable within one month	112,684	143,852
Repayable within three months but greater than 1 month	455	87
Repayable with agreed maturity within 1 year but greater than 3 months	590	74
	113,729	**144,013**
Less impairment loss allowance	**(12)**	**(22)**
Net Loans	**113,717**	**143,991**

The ECL provision assessed at the end of the year is GBP 12,000. Loans and advances to banks included GBP Nil in relation to bills discounted which were issued by BOC Group companies (2019 GBP Nil).

13) Loans and advances to customers

	As at 31 December 2020		
	Gross amount	Impairment allowances	Carrying amount
	GBP 000	GBP 000	GBP 000
Personal loans and advances	10,899	(2)	10,897
Commercial loans and advances	9,467	0	9,467
	20,366	**(2)**	**20,364**

	As at 31 December 2019		
	Gross amount	Impairment allowances	Carrying amount
	GBP 000	GBP 000	GBP 000
Personal loans and advances	8,895	(16)	8,879
Commercial loans and advances	8,770	(23)	8,747
	17,665	**(39)**	**17,626**

The IFRS 9 provision against all loans granted have been assessed at GBP 2,000 after writing off a loan for GBP 23,000 during 2020 (2019 GBP 39,000). Loans and advances to staff were GBP 14,900 (2019 GBP 44,402).

14) Investments

	As at 31-Dec-20 GBP 000	As at 31-Dec-19 GBP 000
Investment securities measdured at amortised cost	3,451	4,891
Less impairment loss allowance	(312)	(93)
	3,139	**4,798**

These assets above 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 GBP 311,962 and reflects an increase in the credit risk, following a down grading of both countries sovereign rating following the COVID outbreak.

15) Deposits by banks

	As at 31 December 2020 GBP 000	As at 31 December 2019 GBP 000
Repayable on demand or at short notice	3,550	3,881
Repayable with agreed maturity within three months	103,183	128,071
Repayable with agreed maturity within 3 months & 1yr	-	-
Repayable with agreed maturity of over 1 year.	17,283	17,448
	124,016	**149,400**

Amounts include the following Parent deposits:		
Repayable on demand or at short notice	1,491	1,769
Repayable with agreed maturity within three months	103,000	118,300
Repayable with agreed maturity over 3 months & 1yr	-	-
Repayable with agreed maturity of over 1 year.	17,283	17,448
	121,774	**137,517**

16) Customer account deposits

	As at 31 December 2020 GBP 000	As at 31 December 2019 GBP 000
Repayable on demand or at short notice	4,243	6,143
Repayable with agreed maturity within three months	39	39
Repayable with agreed maturity over 3 months > 1yr	450	363
	4,732	**6,545**

17a) Derivatives	As at 31 December 2020 GBP 000	As at 31 December 2019 GBP 000
Currency swaps	573	-
	573	**-**

The derivatives relate to currency swaps. The swaps are short term and the duration to maturity is less than 60 days. All the outstanding swaps were settled post year-end.

17b) Other Liabilities

	As at 31 December 2020 GBP 000	As at 31 December 2019 GBP 000
Accrued expenses	154	195
Trade payables	247	669
	401	**864**

18) Share Capital

	As at 31 December 2020	As at 31 December 2019
	GBP 000	**GBP 000**
15,000,000 (2019: 15,000,000) Authorised, issued and fully paid shares of GBP 1 each	15,000	15,000

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

19) 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. Two ten-year deposits of GBP17.9 million and USD 8 million are currently rolled over annually for a further ten-year period.

Interest payable to the Bank of Ceylon in respect of deposits held during 2020 amounted to GBP 341,980 (2019 GBP 774,000). As at the 31 December 2020, Bank of Ceylon (UK) Limited held deposits of GBP 120,283,143 (2019 GBP 135,748,444) excluding Vostro balances on behalf of the Bank of Ceylon.

20a) Derivatives	As at 31 December 2020	As at 31 December 2019
	GBP 000	**GBP 000**
Currency swaps	657	-
	657	**-**

The derivatives relate to currency swaps. The swaps are short term and the duration to maturity is less than 60 days. All the outstanding swaps were settled post year-end.

20b) Other assets

	As at 31 December 2020 GBP 000	As at 31 December 2019 GBP 000
Prepayments	59	67
Cheque clearing	243	-
Others	19	34
	321	**101**

21) Contingent Liabilities

	As at 31 December 2020 GBP 000	As at 31 December 2019 GBP 000
Guarantees Issued	**-**	160
Documentary credits	265	222
	265	**382**

Documentary credits consist of confirmed letters of credit, received from correspondent banks, on behalf of UK export customers. Guarantees issued relate to a single guarantee provided to an overseas customer in 2019, against a guarantee received from the parent on behalf of the customer. These financial instruments have been included in assessing expected credit loss provisioning under IFRS9.

22) Interest rate risk

31-Dec-20	Carrying Value	0-3 Months	3-12 Months	Over 1 Year	Non-Interest Bearing
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Assets					
Cash at bank and in hand	1,939	-	-	-	1,939
Loans and advances to banks	113,717	113,129	588	-	-
Loans and advances to customers	20,364	20,364		-	-
Debt securities	3,139	-	354	2,847	(62)
Property and equipment	3,679	-	-	-	3,679
Intangible assets	34	-	-	-	34
Derivatives	657				657
Other assets	321	-	-	-	321
Total assets	**143,850**	**133,493**	**942**	**2,847**	**6,568**
Liabilities					
Deposits by Banks	124,016	103,183		17,283	3,550
Customer accounts	4,732	1,891	450	-	2,391
Derivatives	573				573
Other liabilities	401				401
Deferred tax	179	-	-	-	179
	129,901	105,074	450	17,283	7,094
Share capital	15,000	-	-	-	15,000
Reserve	904	-	-	-	904
Retained earnings	(1,955)	-	-	-	(1,955)
Total liabilities and equity	**143,850**	**105,074**	**450**	**17,283**	**21,043**
Net interest gap		28,419	**492**	**(14,436)**	**(14,475)**
Cumulative interest gap		28,419	**28,911**	**14,475**	

31-Dec-19	Carrying Value GBP 000	0-3 Months GBP 000	3-12 Months GBP 000	Over 1 Year GBP 000	Restated Non-Interest Bearing GBP 000
Assets					
Cash at bank and in hand	770	-	-	-	770
Loans and advances to banks	143,991	143,882	109	-	-
Loans and advances to customers	17,626	17,626		-	-
Debt securities	4,798	-	1,648	3,204	(54)
Property and equipment	3,666	-	-	-	3,666
Intangible assets	18	-	-	-	18
Other assets	101	-	-	-	101
Total assets	170,970	161,508	1,757	3,204	4,501
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
Deferred tax	179	-	-	-	179
	156,988	129,784	17,811	-	9,393
Share capital	15,000	-	-	-	15,000
Revaluation Reserve	914	-	-	-	914
Retained earnings	(1,932)	-	-	-	(1,932)
Total liabilities and equity	170,970	129,784	17,811	-	23,375
Net interest gap		31,724	(16,054)	3,204	(18,874)
Cumulative interest gap		31,724	15,670	18,874	

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 143,490 (2019 - GBP 187,580) and vice-versa will produce a reverse effect. The 2019 numbers have been restated to reflect the prior year adjustments.

23) Maturity Analysis

31-Dec-20	Total	0-3 Months	3-12 Months	Over 1 Year	Undated
Assets	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	1,939	-	-	-	1,939
Loans and advances to banks	113,717	113,129	588	-	-
Loans and advances to customers	20,364	57	1,156	19,151	-
Debt securities	3,139	-	326	2,813	-
Property and equipment	3,679	-	-	-	3,679
Intangible assets	34	-	-	-	34
Derivatives	657	657	-	-	-
Other assets	321	321	-	-	-
Total assets	**143,850**	**114,164**	**2,070**	**21,964**	**5,652**
Liabilities					
Deposits by Banks	124,016	106,733	-	17,283	-
Customer accounts	4,732	4,282	450	-	-
Derivatives	573	573	-	-	-
Other liabilities	401	-	-	-	401
Deferred tax	179	-	-	-	179
	129,901	111,588	450	17,283	580
Share capital	15,000	-	-	-	15,000
Reserve	904	-	-	-	904
Retained earnings	(1,955)	-	-	-	(1,955)
Total liabilities and equity	**143,850**	**111,588**	**450**	**17,283**	**14,529**
Net maturity gap		2,576	1,620	4,681	(8,877)
Cumulative maturity gap		2,576	4,196	8,877	

31-Dec-19	Total	0-3 Months	3-12 Months	Over 1 Year	Restated Undated
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cash at bank and in hand	770	-	-	-	770
Loans and advances to banks	143,991	143,882	109	-	-
Loans and advances to customers	17,626	54	532	17,040	-
Debt securities	4,798	-	1,649	3,149	-
Property and equipment	3,666	-	-	-	3,666
Intangible assets	18	-	-	-	18
Other assets	101	101	-	-	-
Total assets	**170,970**	**144,037**	**2,290**	**20,189**	**4,454**
Liabilities					
Deposits by Banks	149,400	131,952	-	17,448	-
Customer accounts	6,545	6,182	363	-	-
Other liabilities	864	170	-	-	694
Deferred tax	179	-	-	-	179
	156,988	138,304	363	17,448	873
Share capital	15,000	-	-	-	15,000
Revaluation Reserve	914	-	-	-	914
Retained earnings	(1,932)	-	-	-	(1,932)
Total liabilities and equity	**170,970**	**138,304**	**363**	**17,448**	**14,855**
Net maturity gap		5,733	1,927	2,741	(10,401)
Cumulative maturity gap		5,733	7,660	10,401	

24) Foreign exchange exposure

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

31-Dec-20	Total	GBP	Euro	Other	USD
Assets	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	1,939	234	556	13	1,136
Loans and advances to banks	113,717	106,786	0	-	6,931
Loans and advances to customers	20,364	20,164	200	-	-
Debt securities	3,139	-	-	-	3,139
Property and equipment	3,679	3,679	-	-	-
Intangible assets	34	34	-	-	-
Derivatives	657	376	261	20	-
Other assets	321	321	-	-	-
Total assets	**143,850**	**131,594**	**1,017**	**33**	**11,206**
Liabilities					
Deposits by Banks	124,016	116,318	711	-	6987
Customer accounts	4,732	4,663	36	-	33
Derivatives	573	295	260	18	-
Other liabilities	401	334	10	1	56
Deferred tax	179	179	-	-	-
	129,901	**121,789**	**1,017**	**19**	**7,076**
Share capital	15,000	15,000	-	-	
Reserve	904	904	-	-	
Retained earnings	(1,955)	(1,955)	-	-	
Total liabilities and equity	**143,850**	**135,738**	**1,017**	**19**	**7,076**
Net maturity gap		(4,144)	0	14	4,130
Foreign exchange contracts		4,528			(4,445)
Cumulative maturity gap		384	0	14	(315)

31-Dec-19	Total	GBP	Euro	LKR	Restated USD
	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	143,991	131,849	-	-	12,142
Loans and advances to customers	17,626	17,254	372	-	-
Debt securities	4,798	-	-	-	4,798
Property and equipment	3,666	3,666	-	-	-
Intangible assets	18	18	-	-	-
Other assets	101	33	1	-	67
Total assets	**170,970**	**152,932**	**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)
Deferred tax	179	179	-	-	-
	156,988	139,203	986	-	16,799
Share capital	15,000	15,000	-	-	-
Revaluation Reserve	914	914	-	-	-
Retained earnings	(1,932)	(1,932)	-	-	-
Total liabilities and equity	**170,970**	**153,185**	**986**	-	**16,799**
Net maturity gap		(253)	(99)	-	352

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 2020 a 5% strengthening of Sterling against the US Dollar would have reduced profits by GBP 15,750 (2019: GBP 17,700) and vice-versa of a reverse effect.

25) Capital Management

The Bank's approach to capital management is set out on page 12 in the Strategic Report. The regulatory capital of the Bank was GBP 13,334,054 at 31 December 2020 after deducting the book value of intangible assets from shareholder's funds and adjusting for transitional relief under IFRS9. (GBP 13,394,000 at 31 December 2019).

26) Cash and cash equivalents

Cash in hand as at the 31st December 2020 was GBP 57,262 and current account balances were GBP 1,881,866 (GBP 51,603 and GBP 717,912 as at 31 December 2019).

27) Fair value

Land and building occupied by the Bank as its main office, was revalued during February 2020, using an independent firm of valuers. The valuation of £3,400,000 was arrived at by using rental values for office space in the area. This fair value has been included in the 2019 accounts, as a prior year adjustment and is incorporated in the opening balance for 2020. The Directors are of the opinion that the valuation has not increased since that date, as the market for commercial property remains subdued, following the pandemic remote working was introduced.

28) Subsequent events

There were no subsequent events.

29) Prior year restatement

Land and building occupied by the Bank's main office, was revalued during February 2020. The valuation of the property was carried out by an independent firm of valuers. The valuation placed on the Banks office was £3,400,000. This valuation was not included in the 2019 accounts and has been recognised as a prior period restatement of the 2019 comparative numbers. The fair value of the land and property is measured using IFRS 13 'Level 3' inputs and was assessed in February 2020 by a firm of surveyors on the instructions of the company. The assessment was based on a blend of market information, using rental incomes from existing comparable office space in and around the area and proximity to the building. The rents charged by these comparable offices ranges between £42.50 /sq. ft and £68.50 /sq. ft. These values were suitably adjusted to arrive at a square foot rate should the building be refurbishment to a Cat A standard. Prior to any renovation works given a suitable adjustment the property is expected to attract a rate of £30/ sq. ft. The fair value measurement is sensitive to changes in commercial rental values for similar properties, which could significantly increase or decrease the value. As the valuation has been based at £30 / sq. ft the level of sensitivity is expected to be medium in a negative market. The impact of this restatement on the comparative figures is £506,000 impacting Freehold Property and the brought forward Revaluation Reserve.

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	2,541	(26)	**(3)**	**-**	24
Global	**2,541**	**(26)**	**(3)**	**-**	**24**

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 2020.

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 2020.

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") in conformity with the requirements of the provisions of the companies Act 2006.