Bank of Ceylon (UK) Ltd

Financial Statements

For the year ended 31 December 2021

Company Registration No. 06736473

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COMPANY INFORMATION

Mr Kanchana Ratwatte	Chairman
Mr W.D.R. Swanney	Independent Non-Executive Director
Mr C N Meneripitiyage Don *Resigned on the 6th September 2021*	Executive Director and Chief Executive Officer
Mr Aruna Kumara *Appointed 17th December 2021*	Executive Director and Chief Executive Officer
Mr R. England	Independent Non-Executive Director
Mr P L Balasuriya	Executive Director
Mr D P K Gunesekera *Resigned on the 21st April 2021*	Non- Executive Director and General Manager, BOC
Mr K E D Sumanasiri *Appointed on the 13th September 2021*	Non- Executive Director and General Manager, BOC
Company Secretary	Shim Rahman
Registered office	1 Devonshire Square, London, EC2M 4WD
Solicitor	Field Fisher Riverbank House, 2 Swan Lane, London EC4R 3TT
Independent Auditor	MHA MacIntyre Hudson 201, Silbury Boulevard Milton Keynes, MK9 1LZ

STRATEGIC REPORT

CHAIRMAN'S REPORT

When I reported last year, I said the outlook for 2021 depended on the speed of recovery in the UK and Sri Lanka, with each jurisdiction being presented with potentially significant challenges. The year under review, was more challenging than initially anticipated, as the pandemic has had much longer impact on business than might have reasonably been expected this time last year. Despite the challenges, we stood up to true potential and kept our services open for our valued customers, and delivered an outturn that has been pleasing in the difficult circumstances.

The Bank maintained profitability at trading level with a profit of £173,316, the same level as in 2020. The movements in ratings agencies grading of Sri Lankan and Maldives debt, along with the repayment of some bonds during the year, collectively caused a smaller increase in the IFRS9 provision than last year, which results in the Bank's reported result for 2021 being a profit before tax of £114,081, compared to a deficit in 2020 of £26,288. The negative factors and pressures in these unusual times have not held back the bank from showing its resilience in meeting challenges outside our influence and minimizing the impact on the Bank of Ceylon Group. The Bank has 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.

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 2021 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. Overall net loans to customers declined slightly from 2020. The level of money market funds placed with the bank from Sri Lankan banks fell away substantially over the year, although in the first few months of 2022 they have recovered somewhat.

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 2022 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.

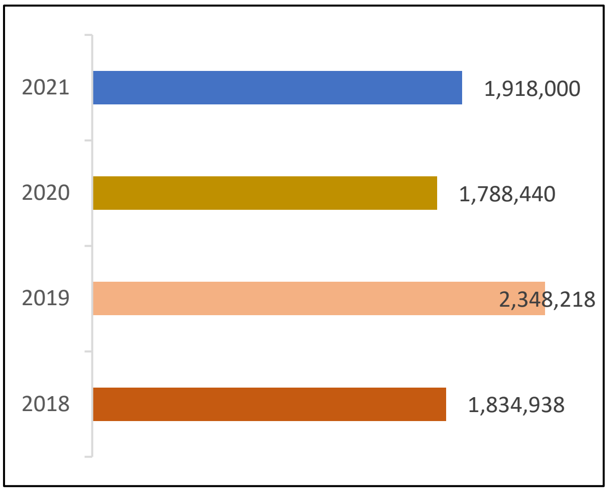
Appreciation is extended to my fellow Board Members, the staff and also to our parent bank, for their contribution to everything we achieved together in another exceptional year.

Kanchana Ratwatte
Chairman
21st April 2022

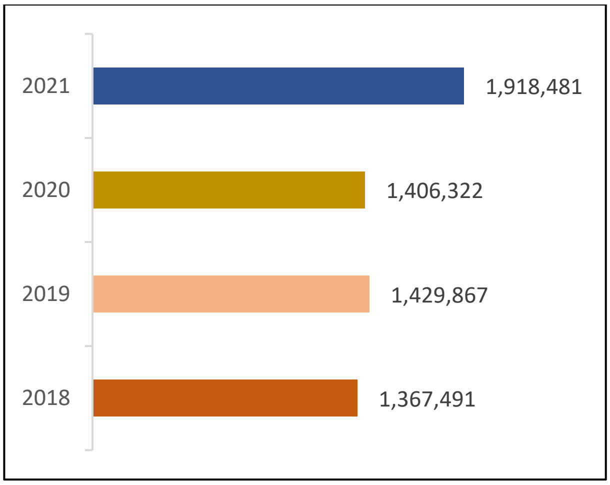
BUSINESS AND PERFORMANCE OVERVIEW

KEY PERFORMANCE INDICATORS

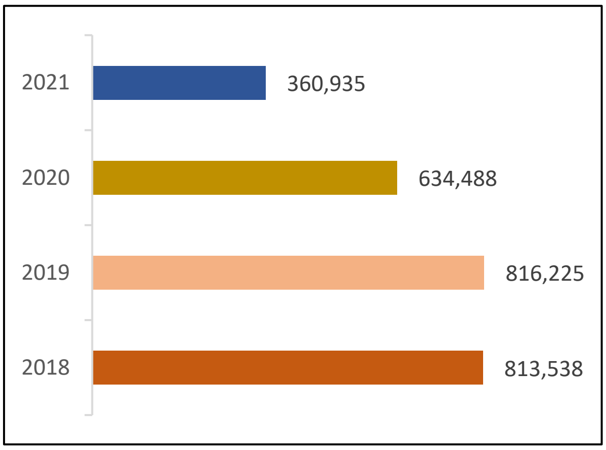
Interest Income



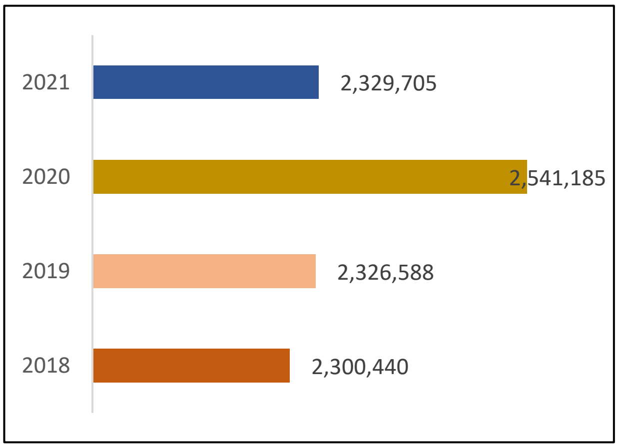
Net Interest Income



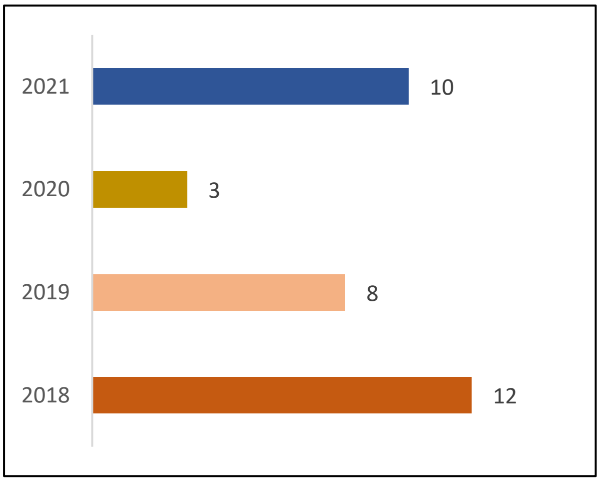
Fee Income



Total Income



Customer Complaints



OPERATIONS

The Directors present the Strategic Report of the company for the year ended 31 December 2021 in accordance with Companies Act 2006, Chapter 4A.

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

The Board considers the requirements of s172 of the Companies Act 2006 through a combination of:

- standing agenda items on people matters, business strategy and stakeholder matters;
- receiving periodic updates against the business plan from Executive Management;
- continuance of the Bank's people strategy through 2021, with the aim of building a collaborative culture to enhance employee engagement. The Bank encourages staff engagement all levels through regular discussions and presentations at management meetings;
- its commitment to sustainability of the environment, through our policy of selective lending;
- ensuring the Bank has an experienced client-facing team who look after our clients and are knowledgeable about their business. The Board receives periodic updates on the customer complaints and any other issues;
- the major shareholder having representation on the Board via a nominated director.

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 UK and non-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 and remittance 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 2021

Like most businesses, 2021 has presented the Bank with some challenging times, following the outbreak of COVID in 2020. Periods of lockdown restrictions imposed at the beginning of 2021, led to a slowing down, with the government offering financial support in different formats. One of the relief packages offered was the extension of the stamp duty relief scheme, which provided sustained investor interest in residential mortgages. As restrictions were lifted in July and August, business confidence begun to return and consumer spending started to increase. The UK’s vaccination programme has been very successful allowing most restrictions to be phased out in stages. Domestic mortgage lending, which remained strong during the first nine months, declined in the last quarter as the stamp duty relief scheme ended.

The Sri Lanka economy suffered significantly in 2021, as prolonged travel restrictions continued to impact the tourism industry throughout most of the year. In addition, the impact of the third wave of infections early in the year led to tighter restrictions on people movement, disrupting the country’s export industries. Both of these sectors are significant contributors to the country’s hard currency reserves, which declined to low levels by mid-year. The consequent restrictions on the import of non-essential goods had a serious impact on the Bank’s fee income during the year.

Net Interest margin (NIM) remained flat as the domestic demand for new mortgages slowed in the fourth quarter and as treasury money market deposits from Sri Lanka declined in the second half.

Trade finance business volumes, which were impacted early in the year, saw a gradual recovery in the last quarter as new initiatives to enter unexplored markets and segments helped to generate new business. The results are encouraging, as bills discounting volumes have steadily recovered in the last quarter, yielding improved interest income and fee income.

The Bank has continued to focus on better utilisation of the core banking system, which has contributed towards improving efficiency, enhancing productivity whilst reducing overhead costs across the estate.

The outlook for 2022 is positive following UK’s successful vaccination programme and the lifting of restrictions. However, it remains to be seen just how the recovery will progress during the year, as inflation levels continue to rise. This, together with the impact of the conflict between Russia and the Ukraine on business confidence, could potentially have negative consequences for the UK economy. Sri Lankan tourism has resumed in the new year, and export volumes are recovering. We are however, cautiously optimistic of the future growth in the UK domestic market, along with a gradual recovery of the Sri Lankan economy during 2022.

The Bank will continue to drive balance sheet optimisation in 2022, through improved capital efficiency and improved returns.

Trading profit for the year of £173,316 (2020 £173,470) is satisfactory result in a rapidly changing environment.

IMPAIRMENT PROVISIONS

The expected credit loss (ECL) provision for the year is £59,235, lower than the prior year provision of £196,339. The reduction follows a sovereign re-rating of the Maldives bonds, which moved from ‘CCC’’ to “B- “, together with the impact of some maturing bonds.

The statutory profit before tax is £114,081 (2020 loss of £26,288) post the impairment provision.

CAPITAL

The Bank's capital position continues to comfortably exceed regulatory requirements, with adequate capacity to continue lending activities. We continue to apply the IFRS 9 regulatory transitional arrangements, allowing us to add back a proportion of the impairment charges during the transitional period. Our capital ratios are presented on a transitional basis after application of this arrangement, refer note 28.

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 financial performance and position. The Board reviews and approves significant changes in the Bank's structure and organisation, establishes the risk management 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 2021.

PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT FRAMEWORK

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

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

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

The Bank has exposure to the following risks:

- 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 2021 GBP 000	**As at 31 December 2020 GBP 000**
Loans and advances to banks	21,104	113,647
Loans and advances to customers	19,359	20,308
Investments	1,499	3,139
Other assets	129	447
Maximum credit risk exposure	**42,091**	**137,541**
Investment grade assets	17,849	106,220
Other assets	24,242	31,321
	42,091	**137,541**

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, geography and by product.
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by the Credit Committee.
- Developing and maintaining the Bank's processes for measuring 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 CRIME 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.
- ❖ Regular oversight, review of systems, controls and higher risk activities and customers.

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

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 22. 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; 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 maintains a portfolio of short-term liquid assets, largely made up of short-term placements with central banks and loans and advances to other banks, to ensure that sufficient liquidity is maintained within the Bank.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and severe market conditions. The scenarios are developed 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 25 and Foreign Exchange Risk is assessed in Note 27.

The Bank's holdings of debt securities comprise Government of Sri Lanka bonds and Government of Maldives bonds. These assets were valued at GBP 1,644,752 as at 31 December 2021 (investments at 31 December 2020 were GBP 2,535,924).

MANAGEMENT OF MARKET RISK

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

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

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

OPERATIONAL RISK

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

MANAGEMENT OF OPERATIONAL RISK

The Bank's objective is to manage operational risk 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 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 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) 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. The Bank has adopted the CET1 addback percentage of 75% for relevant provisions raised from 1 January 2021 in arriving at the regulatory capital, as set out in note 28.

MANAGEMENT OF CAPITAL ADEQUACY

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

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

REGULATORY RISK

The regulatory landscape continues to change and 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 impact, 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, 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

Aruna Kumara
Chief Executive Officer
21st April 2022

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 2021.

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
- A. Kumara* (appointed on 17th December 2021)
- K E D. Sumanasiri (appointed on 13th September 2021)
- P. L. Balasuriya *

* Executive Directors.

GOING CONCERN

The Directors have made an assessment of going concern, having taken 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 also had regard to the announcement by the government of Sri Lanka on the 12th of April 2022 regarding the suspension of principal and interest on the international sovereign bonds see note 30.

The Directors have considered the BOCUK 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 29 to 56. In addition, BOCUK 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 estimated the potential impact of 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. An increase in the credit loss provisions has been considered in 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 (note 17), lending to customers (note 14), counterparties note 13. 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 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 (2020: Nil).

INDEPENDENT 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.

Aruna Kumara
Chief Executive Officer
21st *April 2022*

REPORT OF THE AUDIT AND RISK COMMITTEE REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

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

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

- risk management
- compliance
- whistleblowing, fraud and bribery and financial crime

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

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

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

The composition of the Committee is as follows:

- W D R Swanney (Chair)
- R England

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

KEY AREAS REVIEWED DURING 2021

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

FINANCIAL REPORTING

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

- the appropriateness and consistency of accounting policies and practices;

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

The primary areas of judgement considered by the Committee in relation to the 2021 accounts were:

- Loan loss provision: review of the judgements used in arriving at the basis for the ECL provisioning, in line with FRS 102.
- Evaluation of the external auditor's response to the assessed risks of material misstatement presented by the Bank's Executive Committee;
- Revenue recognition: Review of the design, implementation and effectiveness of controls around the IFRS9 calculation of interest income and charges, including the timing of fees and commission recognition under effective interest rate methodologies; and
- Going concern: review of three-year business forecast and stress sensibilities.

The Committee considered whether the 2021 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 2021 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 their objectives. Staff training and induction is designed to ensure that they are clear on their accountabilities in this area and are competent to operate and monitor the internal control framework.

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

The Committee reviews the internal controls and risk management systems through regular reporting from the Senior Management Team, internal and external auditors. The main matters which were reviewed by the Committee in 2021 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 2021 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 included Compliance, Operations, Settlements, Payments, and Regulatory reporting.

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 between the Committee and the Auditor without the Executive Directors being present. Matters typically discussed include the Auditor's assessment of financial reporting risks and key financial reporting judgements, the transparency and openness of interactions with the Senior Management Team, confirmation that there has been no restriction in scope placed on them and the independence of their audit.

The Committee approved the fees for audit services for 2021 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.

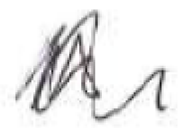
The Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) requires the Bank to rotate its statutory auditors after a maximum period of tenure. The maximum period has been set at twenty years in the UK, with a mandatory tender at the ten-year midpoint.

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 the 21st April 2022 and signed on its behalf by



W D R Swanney
Chair of the Audit, Risk and Compliance Committee
21st April 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

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

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

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

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

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

By order of the Board:

Aruna Kumara
Chief Executive Officer
21st April 2022

INDEPENDENT AUDITOR'S REPORT

Opinion

We have audited the financial statements of Bank of Ceylon (UK) Limited.
The financial statements that we have audited comprise:

- Statement of Comprehensive Income for the year ended.
- Statement of Financial Position at 31 December 2021.
- Statement of Changes in Equity for the year then ended.
- Statement of Cash Flows for the year then ended.
- Notes 1 to 30 of the financial statements, including the accounting policies.

The financial reporting framework that has been applied in their preparation is the Companies Act 2006 and UK adopted international accounting standards.
In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2021 and the Bank's profit for the year then ended;
- have been properly prepared in accordance with the Companies Act 2006 and the UK adopted international accounting standards

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.

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:

- Liquidity of the Bank and its ability to settle its outstanding liabilities as they fall due.
- Financial forecasts for the Bank covering a minimum of 12 months from the date of signing the financial statements and consideration of the period beyond.
- The availability of support from the parent and the parent's ability to provide such support, in particular the financial guarantee provided by the parent.
- The impact of COVID-19 on the Bank's operations and the risk of further credit losses in the loan portfolio.
- The impact of past and future actions by the regulatory authorities in the form of fines or restrictions to the Bank's operations in the UK.
- Our tests also included a review of the client's evaluation of any scenario modelling on the impact of Covid-19 on the Bank's operations and financial performance.

Overview of our audit approach

Materiality	2021	2020	
Materiality	£280k	£271k	2% of net assets
	£14k	£13.5k	The threshold for reporting to those charged with governance
Key audit matters			
Recurring			• **Valuation of the expected credit loss allowance**

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 the expected credit loss allowance

Key audit matter description	The valuation of Expected Credit Loss (ECL) provisions is inherently judgmental. This is particularly evident for credit impaired loans which are individually assessed. Management use expert judgement to adjust modelled outcomes where workout scenarios are complex, and models do not incorporate all information. There is therefore significant judgement and estimation involved, possible material misstatement of the financial statements.
How the scope of our audit responded to the key audit matter	Our work in this area included the following procedures to challenge the valuation of the Bank's ECL provisions: • We evaluated the design and implementation of the relevant controls related to the Bank's impairment assessment process and provisioning calculation. This included an assessment of the credit sanctioning, credit monitoring and credit provisioning of loans and receivables. • We engaged our IFRS 9 specialists to assess the appropriateness of the IFRS 9 methodology developed by management and challenged management on the appropriateness in accordance with the accounting standard. • We engaged our IT specialists to review the IT General controls in the credit control processes for determining the expected credit losses. This included a review of specific application controls. • Consider the appropriateness of the approach taken to staging the elements of the loan portfolio • We selected a sample of credit impaired loans, covering all material stage 3 loans at the balance sheet date, and challenged the valuation of ECL provisions.
Key Observations	We found the approach taken in respect of the expected credit loss provisions to be reasonable and judgements and disclosures made were reasonable and compliant with the requirements of IFRS.

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 £280k (2020: £271k) which was determined on the basis of 2% of the bank's net assets.

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 £196k (2020: £189k) which represents 70% (2020 – 70%) 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.

We agreed to report any corrected or uncorrected adjustments exceeding £14k 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.

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 Directors' Report

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

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

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

Directors' remuneration report

Those aspects of the Directors' 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 the 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 the 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 Bank operates in, focusing on those laws and regulations that had a direct effect on the financial statements. The key laws and regulations we considered in this context included the Companies Act 2006, Consumer Credit Act 1974, Banking Reform Act 2013 and 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.

- Enquiry of management to identify any instances of non-compliance with laws and regulations.

- 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 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 minutes of meetings of those charged with governance.

- Reviewing internal audit reports.

- Reviewing the control systems in place and testing the effectiveness of the controls.

- 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; and

- Challenging assumptions and judgements made by management in their significant accounting estimates, in particular with respect to provisions for impairment of loans and amounts advanced to customers.

  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.

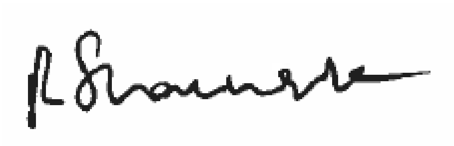
Other requirements

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



Rakesh Shaunak FCA, CTA
(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

21st April 2022

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
		GBP 000	**GBP 000**
Interest income		1,918	1,788
Interest expense	4	(229)	(382)
Net interest income		**1,689**	**1,406**
Fees and commission income	5	361	634
Net gains from Forex transactions		50	119
Net Operating income		**2,100**	**2,159**
Personal expenses	6	(1,085)	(1,112)
Operational expenses	7	(723)	(766)
Depreciation	8	(107)	(97)
Amortisation	9	(12)	(14)
Impairment losses on credit exposure	10	(59)	(196)
		(1,986)	(2,185)
Profit/(Loss) from ordinary activities before tax		**114**	**(26)**
Tax credit/(charge)on loss from ordinary activities	11	(2)	3
Profit/(Loss) from ordinary activities after tax		**112**	(23)
Fair value gain on valuation of property		-	-
Deferred tax liability		-	-
Other comprehensive income		**112**	-
Total comprehensive income/(loss) for the year		**112**	**(23)**

The accompanying notes on pages 33 to 53 forms an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
Assets		GBP 000	GBP 000
Cash at bank and in hand	12	2,866	1,939
Loans and advances to banks	13	21,104	113,717
Loans and advances to customers	14	19,359	20,364
Derivatives	15	88	657
Other assets	16	129	321
Investments	17	1,499	3,139
Property and equipment	8	3,563	3,679
Intangible assets	9	22	34
Total assets		**48,630**	**143,850**
Liabilities			
Deposits by banks	18	28,123	124,016
Customer accounts deposits	19	5,811	4,732
Derivatives	20	86	573
Other liabilities	21	377	401
Current Liabilities		34,397	129,722
Deferred tax	11	331	179
Total liabilities		34,728	129,901
Equity			
Share capital		15,000	15,000
Revaluation reserve		745	904
Retained earnings		(1,843)	(1,955)
Equity shareholders' funds		13,902	13,949
Total liabilities and equity		**48,630**	**143,850**

These financial statements were approved by the Board of Directors and were authorised for issue on the 21st April 2022, and were signed on its behalf by:

Aruna Kumara

Chief Executive Officer

The accompanying notes on pages 33 to 53 form an integral part of these financial statements.

STATEMENT OF CHANGES TO EQUITY

	Share Capital	Retained Earnings	Revaluation Reserve	Total Equity
Equity shareholder's funds 1 January 2021	GBP 000	GBP 000	GBP 000	GBP 000
Cost at 1 January 2021	**15,000**	**(1,955)**	**904**	**13,949**
Total Comprehensive income		112		**112**
Revaluation reserve movement			(159)	**(159)**
Equity shareholder's funds 31st Dec 2021	**15,000**	**(1,843)**	**745**	**13,902**

	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**
	15,000	(1,932)	914	**13,982**
Total Comprehensive income (as restated)		(23)		**(23)**
Revaluation reserve movement			(10)	**(10)**
Equity shareholder's funds 31st Dec 2020	**15,000**	**(1,955)**	**904**	**13,949**

The accompanying notes on pages 33 to 53 form an integral part of these financial statements

STATEMENT OF CASHFLOW

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	2021	2020
		GBP 000	GBP 000
Cash flow from operating activities			
Profit before taxation		114	(26)
Adjustments for :			
Depreciation	8	107	97
Amortisation	9	12	14
Other non -cash items impairment provision	10	59	196
Non -cash items included in net profit		**292**	**281**
Changes in:			
Loans and advances to banks	13	92,438	30,286
Loans and advances to customers	14	1,001	(2,725)
Investments	17	1,760	1,440
Other assets and derivatives	15 & 16	761	(304)
Deposits by bank	18	(95,893)	(25,384)
Customer accounts	19	1,079	(1,813)
Other liabilities and derivatives	20 & 21	(511)	(463)
		635	1,037
Net cash flow from operating activities		927	1,318
Cash flow from investing activities			
Acquistion of fixed assets	8 & 9	0	-149
Net cash flow from financing activities			-149
Net increase/(decrease) in cash and cash equivalents		927	1,169
Cash and cash equivalents at 1st January		1,939	770
Cash and cash equivalents at 31st December	12	2,866	1,939

The accompanying notes on pages 33 to 53 forms 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 and remittance services.

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

2) Basis of accounting

These financial statements of the Bank have been prepared in accordance with International Accounting Standards adopted in the United Kingdom ("UK adopted IFRS") and those parts of the Companies Act 2006 applicable to companies applying UK adopted IFRS. They were authorised for issue by the Bank's Board of Directors on the 21st of April 2022.

a) New standards and amended standards

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

Amendments to References to the Conceptual Framework in IFRS standards

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

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

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

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

b) Going concern basis of accounting

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

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

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

c) Functional and presentational currency

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

d) Basis of measurement

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

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.

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 expenses

	Year ended 31st December 2021 GBP 000	Year ended 31st December 2020 GBP 000
Interest payable to related entities	219	342
Other interest payable on deposits	10	40
	229	382

5) Fees and commision

	Year ended 31st December 2021 GBP 000	Year ended 31st December 2020 GBP 000
International commision	82	224
Domestic commision	242	253
Other income	37	157
	361	634

6) Personnel expenses

	Year ended 31st December 2021 GBP 000	Year ended 31st December 2020 GBP 000
Staff		
Salary and allowances	714	772
Social security costs	88	105
Pension costs	32	33
	834	910
Directors		
Salary and allowances	216	174
Social security costs	35	28
	251	202
Total staff cost	**1,085**	**1,112**
Average number of employees during the year		
Executive directors	2	2
Non-executive directors	2	2
Executive management	2	3
Clerical and other grades	17	17
	23	24

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

DIRECTORS' EMOLUMENTS

The total emoluments of the directors were GBP 215,893 (2020 – GBP 173,720). The highest paid director received emoluments of GBP 81,135 in 2021. The highest paid director in 2020 received GBP 94,508.

7) Operational expenses

	Year ended 31st December 2021 GBP 000	Year ended 31st December 2020 GBP 000
Fees payable to auditors	88	88
Other administrative expenses	635	678
	723	766

8) Property and Equipment

	Land GBP 000	**Freehold property GBP 000**	**Computer equipment GBP 000**	**Furtuniture equipment GBP 000**	**Total GBP 000**
Cost or valuation					
Cost at 1 January 2021	**2,135**	**1,500**	**358**	**200**	**4,193**
Additions in the year	-	-	-	-	-
Revaluation	-	-	-	-	-
Transfers	-	-	-	-	-
Cost at 31 December 2021	**2,135**	**1,500**	**358**	**200**	**4,193**
Accumulated depreciation					
Depreciation at 1 January 2021	**-**	**(275)**	**(114)**	**(125)**	**(514)**
Depreciation charged for the year	-	(30)	(61)	(16)	**(107)**
Revaluation	-	(9)	-	-	**(9)**
Depreciation at 31 December 2021	**-**	**(314)**	**(175)**	**(141)**	**(630)**
Net book value at 31 December 2021	**2,135**	**1,186**	**183**	**59**	**3,563**

	Land GBP 000	Freehold property GBP 000	Computer equipment GBP 000	Furtuniture equipment GBP 000	Capital WIP GBP 000	Total GBP 000
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 and building occupied by the Bank as its main office, was valued on 10th February 2021 using the same independent firm of valuers who carried out the previous valuation in 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. The valuation has not materially changed from the valuation carried in the books.

9) Intangible assets – computer software

Cost	**2021 Computer software GBP 000**	**2020 Computer software GBP 000**
Cost at 1st january	737	707
Additions in the year	0	30
Cost at 31 December	737	737
Accumulated Amortisation		
Depreciation at 1st January	(703)	(689)
Depreciation charge for the year	(12)	(14)
Depreciation at 31st December	(715)	(703)
Net Book value at 31st December	22	34

10) Expected credit loss provisioning

Loans and advances to banks	Stage1	Stage2	Stage3	Total
Balance at 1st January 2021	(12)	-	-	(12)
Net re-meassurement of loss allowance	(175)	-	-	(175)
Balance at 31st December 2021	(187)	-	-	(187)

Loans and advances to customers	Stage1	Stage2	Stage3	Total
Balance at 1st January 2021	(2)	-	-	(2)
Net re-meassurement of loss allowance	(4)	-	-	(4)
Balance at 31st December 2021	(6)	-	-	(6)

Investments	Stage1	Stage2	Stage3	Total
Balance at 1st January 2021	-	(312)	0	(312)
Transfer to stage 1	(206)	206	-	-
Net re-meassurement of loss allowance	187	(67)	0	120
Balance at 31st December 2021	(19)	(173)	-	(192)

Total ECL provision	Stage1	Stage2	Stage3	Total
Balance at 1st January 2021	(14)	(312)	-	(326)
Transfers	(206)	206	-	-
Net re-measurement of loss allowance	8	(67)	-	(59)
Balance at 31st December 2021	(212)	(173)	-	(385)

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

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

Investments	Stage1	Stage2	Stage3	Total
Balance at 1st January 2020	(93)	0	0	(93)
Transfers				
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)	0	(196)
Write off provisions			23	23
Balance at 31st December 2020	(15)	(312)	-	(327)

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

The Maldives sovereign bond investments were reclassified moved to stage 1 during the year following a revised rating for sovereign risk by rating agencies, from 'CCC' to B- 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 2021 totals GBP 385,000 (2020 £327,000).

11) Analysis of the tax charge

	As at 31st December 2021	As at 31st December 2020
UK corporation tax at 19.00% (PY:19.00%)	2	-
Adjustments in respect of prior periods	-	(3)
Total tax charge /(credit)	2	(3)
Origination and reversal of timing differeences	94	-
Effect of tax rate change on opening balance	57	-
Total deferred tax charge /(credit)	151	-
Tax on profit on ordinary activities	153	(3)

	As at 31st December 2021	As at 31st December 2020
Profit/loss from ordinary actuivities before tax	114	(26)
Tax at 19% (2019-19%)	22	(5)
Fixed assets differences	18	17
Tax in relation to prior year	-	(3)
Effect of expenses not deductible for tax purposes	-	1
Effect of tax rate change	(1)	-
Temporary differences not recognised	114	(13)
	153	(3)

Management has decided not to recognise a deferred tax asset of GBP333,940 arising out of GBP1,335,762 tax losses and short term temporarary differences untill the Bank establishes a consistent record of profitability

On 10th June 2021, Finance Act 2021 enacted an increase of corporation tax from 19% to 25% with effect from 1st April 2023. Deferred tax assets and liabilities at 31st December 2021 have been valued using 25% rate

12) Cash and cash equivalents

Cash in hand as at the 31st December 2021 was GBP 49,333 and current account balances were GBP 2,817,052 (GBP 57,262 and GBP 1,881,866 as at 31 December 2020).

13) Loans and advances to banks

	Year ended 31st December 2021 GBP 000	Year ended 31st December 2020 GBP 000
Repayable within one month	19,285	112,684
Repayable within three months but > than 1 month	1,399	455
Repayable with agreed maturity within 1 year but > than 3 months	607	590
	21,291	113,729
Less impairment loss allowance	(187)	(12)
Net Loans	21,104	113,717

Loans to banks repayable within the one-month category, declined during the year as overnight money market deposits from counterparty banks reduced to low levels. The ECL provision assessed at the end of the year is GBP 187,831. Loans and advances to banks included GBP Nil in relation to bills discounted which were issued by BOC Group companies (2020 GBP Nil).

14) Loans and advances to customers

	As at 31st December 2021		
	Gross amount GBP 000	**Impairment allowances GBP 000**	**Carrying amount GBP 000**
Personal loans and advances	11,277	(6)	11,271
Commercial loans and advances	8,088	-	8,088
	19,365	(6)	19,359

The IFRS 9 provision against all loans granted have been assessed at GBP 5,841 during 2021 (2020 GBP 2,000). Loans and advances to staff were GBP 12,462 (2020 GBP 14,900).

	As at 31st December 2020		
	Gross amount GBP 000	**Impairment allowances GBP 000**	**Carrying amount 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

15) Derivatives

	As at 31st December 2021 GBP 000	As at 31st December 2020 GBP 000
Currency swaps	88	573
	88	573

16) Other assets

	Year ended 31st December 2021 GBP 000	Year ended 31st December 2020 GBP 000
Prepayments	92	59
Cheque clearing	22	243
Others	15	19
	129	321

17) Investments

	Year ended 31st December 2021 GBP 000	Year ended 31st December 2020 GBP 000
Investments securities meassured at amortised cost	1691	3,451
Less impairment loss allowance	(192)	(312)
	1,499	3,139

These assets above have been classified as being held to collect and so have been recognised at amortised cost. Investment securities are US dollar denominated Sri Lankan Government and Maldives Sovereign bonds. The IFRS 9 provision at the end of the year has been assessed at GBP 191,903 and reflects a reduction in the Maldives credit risk, following a revised rating of the Maldives sovereign risk, together with a reduction in the level of investments during the year following the maturity of some bonds.

18) Deposits by banks

	As at 31st December 2021 GBP 000	As at 31st December 2020 GBP 000
Repayable on demand or at short notice	3,415	3,550
Repayable with agreed maturity within three months	7,171	103,183
Repayable with agreed maturity within 3 months & 1Yr		-
Repayable with agreed maturity of over 1 year	17,537	17,283
	28,123	124,016

Amounts include the following Preant deposits:	1,411	1,491
Repayable on demand or at short notice	6,797	103,000
Repayable with agreed maturity within three months		
Repayable with agreed maturity within 3 months & 1Yr		
Repayable with agreed maturity of over 1 year	17,537	17,283
	25,745	121,774

19) Customer account deposits

	As at 31st December 2021 GBP 000	As at 31st December 2020 GBP 000
Repayable on demand or at short notice	5328	4243
Repayable with agreed maturity within three months	40	39
Repayable with agreed maturity over 3 months > 1 yr	443	450
	5,811	4,732

20) Derivatives - Liabilities

	As at 31st December 2021 GBP 000	As at 31st December 2020 GBP 000
Currency swaps	86	657
	86	657

21) Other Liabilities

	As at 31st December 2021 GBP 000	As at 31st December 2020 GBP 000
Accrued expenses	193	154
Trade payables	184	247
	377	401

22) Share Capital

	As at 31 December 2021 GBP 000	As at 31 December 2020 GBP 000
15,000,000 (2018: 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.

23) 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 GBP 10.7 million and USD 8 million which are currently rolled over annually for a further ten-year period. In addition, we have a three-year deposit of GBP 900K.

Interest payable to the Bank of Ceylon in respect of deposits held during 2021 amounted to GBP 218,732 (2021 GBP 341,980). As at the 31 December 2021, Bank of Ceylon (UK) Limited held deposits of GBP 24,334 (2020 GBP 120,283) excluding Vostro balances on behalf of the Bank of Ceylon.

24) Contingent Liabilities

	As at 31st December 2021 GBP 000	As at 31st December 2020 GBP 000
Documentry credits	1,877	265
	1,877	265

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

25) Interest rate risk

31-Dec-21	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	2,866	-	-	-	2,866
Loans and advances to banks	21,104	20,497	607	-	-
Loans and advances to custom	19,359	19,359	-	-	-
Debt securities	1,499	-	934	577	(12)
Property and equipment	3,563	-	-	-	3,563
Intangible assets	22	-	-	-	22
Derivatives	88	0			88
Other assets	129	-	-	-	129
Total assets	**48,630**	**39,856**	**1,541**	**577**	**6,656**
Liabilities					
Deposits by Banks	28,123	7,821	16,887	-	3,415
Customer accounts	5,811	2,908	387	56	2,460
Derivatives	86	-	-	-	86
Other liabilities	377	-	-	-	377
Deferred tax	331	-	-	-	179
	34,728	10,729	17,274	56	6,517
Share capital	15,000	-	-	-	15,000
Reserve	745	-	-	-	895
Retained earnings	(1,843)	-	-	-	(1,841)
Total liabilities and equity	**48,630**	**10,729**	**17,274**	**56**	**20,571**
Net interest gap		29,127	(15,733)	521	(13,915)
Cumulative interest gap		29,127	13,394	**13,915**	

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 custom	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
Revaluation 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**	

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 39,856 (2020 - GBP 133,493) and vice-versa will produce a reverse effect.

26) Maturity Analysis

31-Dec-21	**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	2,866	2,866	-	-	-
Loans and advances to banks	21,104	20,497	607	-	0
Loans and advances to customers	19,359	39	1,031	18,289	-
Debt securities	1,499	-	934	577	-12
Property and equipment	3,563	-	-	-	3,563
Intangible assets	22	-	-	-	22
Derivaties	88	88			
Other assets	129	-	-	-	129
Total assets	**48,630**	**23,490**	**2,572**	**18,866**	**3,702**
Liabilities					
Deposits by Banks	28,123	11,236	0	16,887	
Customer accounts	5,811	5,368	387	56	-
Derivaties	86	86			
Other liabilities	377	-	-	-	377
Deferred tax	331				179
	34,728	16,690	387	16,943	556
Share capital	15,000	-	-	-	15,000
Reserve	745	-	-	-	895
Retained earnings	- 1,843	-	-	-	- 1,841
Total liabilities and equity	**48,630**	**16,690**	**387**	**16,943**	**14,610**
Net maturity gap		6,800	2,185	1,923	(10,908)
Cumulative maturity gap		6,800	8,985	10,908	

31-Dec-20	Total	0-3 Months	3-12 Months	Over 1 Year	Undated
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cash at bank and in hand	1939	- -		-	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
Derivaties	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	-	-
Derivaties	573	573			
Other liabilities	401	-	-	-	401
Deferred tax	179				179
	129,901	111,588	450	17,283	580
Share capital	15,000	-	-	-	15,000
Revaluation 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	

27) Foreign exchange exposure

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

31-Dec-20	Total	GBP	Euro	LKR	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	-	-	6,931
Loans and advances to customers	20,364	20164	200	-	-
Debt securities	3,139	-	-	-	3,139
Property and equipment	3,679	3679	-	-	-
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	-	6,987
Customer accounts	4,732	4,663	36	-	33
Derivatives	573	295	260	18	
Other liabilities	401	334	10	1	56
Defered 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)

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 5,400 and vice-versa of a reverse effect.

28) Capital Management

The Bank's approach to capital management is set out on page 13 in the Strategic Report. The regulatory capital of the Bank was GBP 13,425,750 at 31 December 2021 after deducting the book value of intangible assets from shareholder's funds and adjusting for transitional relief under IFRS9. (GBP 13,334,054 at 31 December2020).

29) Fair value.

IFRS 13 Fair value requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below with judgement applied in determining the boundary between Level 2 and 3 classifications.

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

- Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments. These financial instruments consist primarily of liquid listed equity shares and certain exchange-traded derivatives.
- Level 2 financial instruments are those valued using techniques based primarily on observable market data. Instruments in this category are valued using quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or valuation techniques where all the inputs that have a significant effect on the valuation are directly or indirectly based on observable market data. Financial instruments included are other government agency securities, investment-grade corporate bonds, less liquid listed equities, state and municipal obligations, certain money market securities and most OTC derivatives.
- Level 3 financial instruments are those valued using techniques that incorporate information other than observable market data. Instruments in this category have been valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data. Financial instruments included are primarily unlisted equity shares.

31 December 2021 **Assets**	**Carrying Value**	**Fair Value**	**Level 1 GBP**	**Level 2 GBP 000**	**Level 3 GBP 000**
Cash at bank and in hand	2,866	2,866		2,866	
Loans and advances to banks	21,104			21,104	
Loans and advances to customers	19,359				19,359
Investment	1,499	1,362		1,362	
Total	44,828	4,228	-	25,332	19,359
Liabilities					
Deposit by banks	28,123			28,123	
Customer accounts	5,811			5,811	
Total	33,934			33,934	

31 December 2020 **Assets**	**Carrying Value**	**Fair Value**	**Level 1 GBP**	**Level 2 GBP 000**	**Level 3 GBP 000**
Cash at bank and in hand	1,939	1,939		1,939	
Loans and advances to banks	113,717			113,717	
Loans and advances to customers	20,364				20,364
Investment	3,139	2,536		2,536	
Total	139,159	4,475	-	118,192	20,364
Liabilities					
Deposit by banks	124,016			124,016	
Customer accounts	4,732			4,732	
Total	128,748			128,748	

30) Events after the reporting period.

On 12th April 2022 the government of Sri Lanka formally announced the suspension of payments on its international sovereign bonds (ISB) with immediate effect. The announcement stated that a comprehensive restructuring of the country's obligations was needed, adding that it will commence discussions with the IMF during April to seek assistance in making a recovery plan and receiving financial support. Sri Lanka has never previously defaulted on its debts, and has advised bondholders to capitalize any amounts of interest falling due during this interim period at the contractual rate. Having carefully considered the terms of the government of Sri Lanka's announcement, the directors do not believe that the impact of this suspension of interest and capital payments will materially affect the company's financial position as at 31 December 2021.

The bank has no dealing with Russian or Ukrainian clients and consequently no exposures.

UNAUDITED FINANCIAL INFORMATION

COUNTRY BY COUNTRY REPORTING

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	2,329	114	**(2)**	**-**	24
Global	**2,329**	**114**	**(2)**	**-**	**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 2021.

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 2021.

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

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