BANK OF CEYLON (UK) LTD

BOC

Gateway to Sri Lanka

Financial Statements for the year ended 31 December 2010

Company Registration no. 06736473

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Directors and advisors

Directors

The directors who served throughout the year were as follows:

Dr Gamini Wickramasinghe	Non-Executive Chairman and Chairman of Bank of Ceylon
Mr B A C Fernando	Non-Executive Director and General Manager of Bank of Ceylon
Mr I G C Madadeniya	Chief Executive Officer
Mrs S K Jayasinghe	Chief Operating Officer
Mr W D R Swanney	Independent Non-Executive Director
Mr R England	Independent Non-Executive Director

Mrs S K Jayasinghe	Secretary
Registered office	1 Devonshire Square, London, EC2M 4WD

Advisors

Solicitors	Field Fisher Waterhouse 35 Vine Street London EC3N 2PX
Auditors	KPMG Audit Plc 15 Canada Square, London, E14 5GL

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Chairman's Statement

This year saw the commencement of business by Bank of Ceylon (UK) Ltd (the Bank), a wholly owned subsidiary of Bank of Ceylon, Sri Lanka. The Bank received authorisation from the UK Financial Services Authority in April 2010 and started trading on 1st May 2010. The Bank assumed the business of Bank of Ceylon, London Branch, which had been operating in London since 1949.

A primary focus in the first eight months of operations was to ensure a smooth transition from branch to subsidiary status. At the same time, the Bank has been establishing a solid platform for its strategic goal of helping Bank of Ceylon to become a global banker.

Conveniently located for its customers, the Bank operates from premises in the heart of the City of London, one of the most important financial centres in the world.

Economic environment in the United Kingdom and Europe

The economic environment in the United Kingdom remained challenging in 2010. A general election in May 2010 did not return a single party majority and the first coalition government in decades was formed between the Conservative and the Liberal Democratic parties. The new government was tasked with addressing a high debt burden and a significant budget deficit, the fallout from the banking crisis and the worst recession since World War II. Economic recovery in 2010 proved to be extremely fragile and any prospects of future growth may be tempered by the government's spending cuts aimed at addressing the deficit. Interest rates remained at historic lows throughout 2010 with the Bank of England Official Bank Rate unchanged at 0.5%. At the same time UK inflation rates consistently exceeded both analysts' expectations and the Bank of England's target inflation rate of 2%. In December 2010 the Consumer Price Index annual inflation indicator had risen to 3.7% due mainly to increases in fuel and food prices. There is therefore growing pressure on the Bank of England to address inflation and consider an increase in interest rates.

The Eurozone has seen a growing split in the performance of individual economies. Greece and Ireland have required bail-out packages, with Portugal, Spain, Italy and Belgium showing signs of economic strain. However other countries, in particular Germany and the Scandinavian economies have recovered strongly from the European recession.

Economy of Sri Lanka

The Sri Lankan economy has fared well since the global financial crisis of 2008/09. The economy grew by 8% in 2010 and is expected to grow by a further 8.5% in 2011. The Colombo All-share Index has more than tripled following the restoration of peace in May 2009. It was the second best performing market among the member exchanges of the World Federation of Exchanges. Low inflation and a benign inflation outlook have enabled the Central Bank to relax its monetary policy resulting in lower interest rates. The fiscal situation also improved considerably reflecting the increase in government revenue supported by an expansion in domestic economic activity and the recovery of international trade. Both exports and imports grew rapidly widening the trade deficit which was partially offset by increased inward remittances. Higher foreign inflows led to a balance of payments surplus raising external reserves to the highest level ever recorded. At the same time the exchange rate remained largely stable over the year.

Performance

In a very difficult economic environment the Bank's financial performance has been creditable in its first period of operations. The profit of £10,000 for the eight months, struck after absorbing the costs associated with the authorisation of the Bank and the transfer of business from the Bank of Ceylon, London

Branch, was a satisfactory outcome in the circumstances. The Bank enjoyed a significant level of fee revenue from handling letters of credit related to crude oil imports to Sri Lanka: a business stream that is no longer available.

The future

The Bank is committed to continuing improvement in the quality of its services and the range of its products. To this end it is developing a much broader product base to include loans, deposits, treasury products, trade finance and tailored services. These will be supported both by new technology and a strong mix of staff with in-depth experience of both the Sri Lankan and UK banking environments. A project to implement a new banking system is expected to go live in 2011. The Bank will continue to focus on its core businesses of trade finance services to customers and counterparties involved in the worldwide trade with Sri Lanka, which continues to grow on the back of the country’s strong economic performance, and providing banking services to the Sri Lankan diaspora in the UK and Europe. The Bank will also continue to provide correspondent banking and trade finance services to the other commercial banks in Sri Lanka and aims to become the correspondent of choice for these banks.

Thanks

I would like to take the opportunity to recognise the support and loyalty of our customers during this period of transition.

I would also like to thank my Board colleagues and the staff of the Bank for their hard work during the year and the Bank’s shareholder for its continuing strong support.

I am confident that the Bank is well placed to play a leading role in the international growth of the Bank of Ceylon group.

Dr Gamini Wickramasinghe

Chairman

22 March 2011

Directors' Report

Principal Activities

Bank of Ceylon (UK) Ltd (the Bank) was incorporated in England and Wales in 2008 as a wholly owned subsidiary of Bank of Ceylon (BoC).

The Bank is authorised by the UK Financial Services Authority (FSA) pursuant to Part IV of the Financial Services and Markets Act 2000 (FSMA 2000) to carry on regulated financial services activities including deposit-taking and dealing in investments as principal. The Bank offers retail services, corporate and correspondent banking facilities in addition to trade finance services.

The Bank commenced operations on the 1st May 2010.

The directors are required by the Companies Act to set out in this report a fair review of the business of the Bank during the year ended 31 December 2010 and a description of the principal risks and uncertainties facing the Bank within their business review. The information that fulfils this requirement can be found within the Chairman's Report on page 4.

Going Concern Basis of Accounting

Having due regard to all aspects of the Bank's operations the directors are satisfied that the Bank has sufficient resources to continue in business for the foreseeable future.

Disclosure of information to the auditors

The directors who held office at the date of approval of this Directors' Report confirm that, as far as they are each aware, there is no relevant audit information of which the Bank's auditors are 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 auditors are aware of that information.

Auditors

KPMG Audit Plc has indicated its willingness to continue in office and a resolution concerning their re-appointment will be proposed at the forthcoming Annual General Meeting.

Corporate Governance

The Board of Directors of the Bank comprises two executive directors, two non-independent non-executive directors appointed by Bank of Ceylon, one of whom is the chairman of both the Board and the Board of Directors of Bank of Ceylon, and two independent non-executive directors. The Board meets at least quarterly and has defined responsibilities for the overall direction, supervision and control of the Bank. This includes assessment of the Bank's competitive position, approval of strategic and financial plans and review of the performance and financial status. It reviews and approves significant changes in the Bank's structure and organisation and establishes the risk framework, overall risk appetite and key policies in relation to credit, large exposures, impairment, liquidity and operational risk. The Board also approves and monitors the Bank's policies, procedures and processes in connection with the fight against financial crime.

Audit Committee

The Audit Committee comprises the two independent non-executive directors and is chaired by a financially qualified individual. Meetings are attended by the Bank's executive directors and occur three or four times each year. The primary function of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by monitoring and assessing the integrity of financial statements, the qualifications, independence and performance of internal and external auditors, compliance with legal and regulatory requirements and the adequacy and of systems of internal accounting and financial controls.

Financial risk management

The Bank has exposure to the following risks:

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

Risk management framework

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

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls and to report on the effectiveness of those controls to the Board of Directors.

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

Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Bank's loans and advances to customers and other banks and investment debt securities. For risk management reporting purposes the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Board of Directors has delegated responsibility for the oversight of credit risk to the Bank's Credit Committee. The Credit Committee is responsible for the effective management of credit risk by agreeing and recommending to the Board, credit and concentration risk policies, underwriting guidelines and standard proposals within the Board's overall risk appetite and by approving individual credits and lending decisions in line with responsibility delegated by the Board. The credit process is reviewed on a regular basis by Internal Audit.

Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. 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 due under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Liquidity is managed centrally by the Treasury function according to the liquidity policy approved by the Board. The Bank's liquidity risk appetite is documented in its Individual Liquidity Adequacy Assessment (ILAA). The Bank's ILAA is prepared annually and reviewed by the FSA as part its Supervisory Liquidity Review Process (SLRP) when setting the Bank's Individual Liquidity Guidance (ILG).

The Bank conducts regular stress tests on its liquidity position and the results of the tests are reviewed by the Bank's Asset and Liability Committee (ALCO) and presented to the Board.

Market risk

Market risk is the risk that changes in market prices, such as interest rates and credit spreads will affect the Bank's income or the value of the Bank's holdings of financial instruments. The Bank's exposure to market risk is primarily due to interest rate and foreign exchange exposure.

The Bank manages foreign exchange risk by means of currency exposure limits placed on intraday and overnight positions. Interest rate risk is actively managed by the Treasury area principally through monitoring interest rate gaps. The pricing of new products is considered by the Bank's Product Development Committee.

Operational risk

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

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

Capital management

The Bank's lead regulator (the FSA) sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Basel II framework in respect of regulatory capital. The Bank's regulatory capital comprises ordinary share capital and retained earnings.

Management uses the regulatory capital ratios in monitoring the Bank's capital base. The lead regulator's approach to capital measurement is based upon the Capital Requirements Directive (CRD) and monitors the relationship of the Capital Resources Requirement (measured as 8 percent of risk-weighted assets) to available capital resources. The lead regulator provides individual capital guidance (ICG) to each bank and banking group that sets capital requirements in excess of the minimum Capital Resource Requirement. A key input to the ICG setting process is a bank's Internal Capital Adequacy Assessment Process (ICAAP). The Bank submitted its ICAAP to the lead regulator in 2010 and the ICG was agreed in April 2010. The agreed ICG remains confidential between each bank and the lead regulator in accordance with accepted practice.

By order of the Board:

Mr I G C Madadeniya, Chief Executive Officer

22 March 2011

Statement of Directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union.

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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

Independent Auditor's Report to the Members of Bank of Ceylon (UK) Limited

We have audited the financial statements of Bank of Ceylon (UK) Limited for the year ended 31 December 2010 set out on pages 15 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU.

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.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 9, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2010 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the EU; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where 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 from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Samer Hijazi (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15, Canada Square
London, E14 5GL

22 March 2011

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Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 GBP 000
Interest income		689
Interest expense	4	(471)
Net interest income		**218**
Fees and commissions	5	1,538
Dealing and exchange profit		57
Operating income		**1,813**
Administration expenses	6	(1,768)
Depreciation	10	(35)
Profit from ordinary activities before tax		**10**
Tax credit on profit on ordinary activities	11	4
Profit from ordinary activities after tax		**14**

The Bank received authorisation from the UK Financial Services Authority in April 2010 and started trading on 1st May 2010.

The notes on pages 19 to 31 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2010

	Note	31 December 2010 GBP 000
Assets		
Cash at bank and in hand		13,546
Loans and advances to banks	12	112,903
Loans and advances to customers	13	1,094
Debt securities	14	1,918
Property and equipment	10	2,911
Deferred tax	11	7
Other assets		150
Total assets		**132,529**
Liabilities		
Deposits by Banks	15	106,343
Customer accounts	16	13,869
Other liabilities	17	183
Total liabilities		120,395
Equity		
Share capital	18	12,120
Retained earnings		14
Equity shareholders' funds		12,134
Total liabilities and equity		**132,529**

The Bank received authorisation from the UK Financial Services Authority in April 2010 and started trading on 1st May 2010. The share capital at 31 December 2009 was £100.

These financial statements were approved by the Board of Directors on 22 March 2011 and were signed on its behalf by:

Mr I G C Madadeniya, Chief Executive Officer

The notes on pages 19 to 31 are an integral part of these financial statements.

Statement of Changes in Equity

For the Year ended 31 December 2010

	Share capital GBP 000	Retained earnings GBP 000	Total equity GBP 000
Equity shareholder's funds 31 December 2009 (see note below)	**-**	**-**	**-**
Profit for the year	-	14	14
Transactions with owners, recorded directly in equity - Issue of ordinary shares	12,120	-	12,120
Equity shareholder's funds 31 December 2010	**12,120**	**14**	**12,134**

The total equity at 31 December 2009 comprised share capital of £100.

The notes on pages 19 to 31 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2010

	Note	Year ended 31 December 2010 GBP 000
Profit before tax		10
Adjusted for:		
Depreciation	10	35
Other non-cash items included in profit before tax		(7)
		38
Net decrease /(increase) in assets relating to operating activities		
Loans and advances to banks	12	(112,903)
Loans and advances to customers	13	(1,094)
Debt securities	14	(1,918)
Other assets		(146)
		(116,061)
Net (decrease) /increase in liabilities relating to operating activities		
Due to banks	15	106,343
Due to customers	16	13,869
Other liabilities	17	183
		120,395
Net cash flow from operating activities		**4,372**
Acquisition of fixed assets		(2,946)
Proceeds from the issue of share capital		12,120
Net cash flow from operating, investment and financing activities		**13,546**
Cash at bank and in hand at 31 December 2010		**13,546**

The notes on pages 19 to 31 are an integral part of these financial statements.

Notes to the Financial Statements

1) Reporting entity

Bank of Ceylon (UK) Ltd (the “Bank”) is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the Bank’s registered office is 1 Devonshire Square, London, EC2M 4WD.

The business of the London Branch of Bank of Ceylon was transferred to the Bank under a Part VII transfer of the Financial Services and Markets Act 2000 on 1 May 2010. The statement of comprehensive income therefore includes only eight months trading results.

Bank of Ceylon had maintained a branch presence in London since 1949 to provide retail and remittance facilities to the Sri Lankan diaspora in the U.K.

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

2) Basis of Preparation

a) Statement of compliance

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

The International Accounting Standards Board (IASB) has issued a number of new standards, amendments to standards and interpretations that are not yet effective and have not been applied in the preparation of the financial statements for the year ended 31 December 2010. The impacts of the relevant new standards, IFRS9 – Financial Instruments and IAS 24 Related Party Transactions, are being evaluated but are not expected to have any material effect.

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.

In forming this opinion the directors have had due regard to the guidance issued by the Financial Reporting Council in October 2009 entitled ‘Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009’

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.

d) Basis of measurement

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

e) Comparative information

The statement of comprehensive income for the year includes the trading results for 8 months following the transfer of business from the London Branch. The company Bank of Ceylon (UK) Ltd was dormant in 2009 and the 2009 statement of financial position comprised only £100 share capital.

f) Critical accounting estimates

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. In this regard, management has applied such judgement relating to loan impairments, taxation and credit risk.

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

3) Significant accounting policies

a) Interest income and expense

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

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

b) Foreign currency

For the purposes of translation into the functional currency, 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.

Transactions in foreign currencies are translated into the functional currency at the closing rate.

c) Fees and commissions

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

d) Impairment of financial assets

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

The Bank will regard a loan as impaired when, based on current information and events such as default, non-payment of principal and interest for a period of 90 days and/or bankruptcy and/or liquidation, it is considered that the creditworthiness of the borrower has undergone a deterioration such that it expects that the recoverable amount of the asset is below the then current carrying amount.

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

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

e) Property and equipment

Items of property and 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 period are as follows:

Freehold buildings	50 years
Fixtures fittings and furniture	10 years
IT equipment and software	5 years

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

Software is depreciated when the Bank is able to use the software in a manner that will generate future economic benefits and can reliably measure the costs to complete development.

f) Financial assets and financial liabilities

i) Recognition

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

ii) Derecognition

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

iii) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when and only when the Bank has a legal right to set off the recognised amounts and it intends either to settle on a net basis or to realise the asset and liability simultaneously.

iv) Amortised cost measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount minus any reduction for impairment.

v) Fair value measurement

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

When available the Bank measures the fair value of an instrument using either quoted prices in an active market for that instrument or quoted prices issued by the UK Debt Management Office.

g) Cash and cash equivalents

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

h) Loans and advances

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

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

i) Debt securities – Held-to-maturity

Held to maturity investments are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity and which are not designated as at fair value through profit or loss or as available for sale.

Held-to-maturity investments are initially measured at fair value plus any directly attributable transaction costs and are carried at amortised cost using the effective interest method less any impairment losses.

j) Pension Liabilities

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

k) Taxation

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

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

l) VAT

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

m) Leasing

Rental payments under operating leases are charged to income on a straight line basis over the term of the relevant lease.

n) Segmental Reporting

No segmental analyses have been prepared as all the Bank's income derives from the single activity of commercial banking in the United Kingdom.

o) Dealing and exchange profit

Dealing and exchange profit relates to foreign exchange income derived from currency transactions with both clients and the Bank's parent company and the revaluation of assets and liabilities denominated in currencies other than Sterling.

4) Interest expense

	Year ended 31 December 2010 GBP 000
Interest paid to related entities	374
Other interest paid on deposits	97
	471

5) Fees and commissions

	Year ended 31 December 2010 GBP 000
International commission	1,446
Domestic commission	62
Other income	30
	1,538

6) Administration expenses

	Note	Year ended 31 December 2010 GBP 000
Wages and salaries including directors		768
Social security costs		94
Other pension costs		19
Total staff costs	7	881
Costs relating to the transfer of business from the London Branch of Bank of Ceylon		335
Fees payable to the Bank's auditors for the audit of the Bank's financial statements		20
Fees payable to the Bank's auditors for non audit related services		79
Fees payable to the Bank's auditors for taxation compliance advice		13
Other administration expenses		440
Total administration expenses		**1,768**

7) Staff Costs

	Year ended 31 December 2010 GBP 000
Staff	
Salary and allowances	570
Social security costs	71
Pension costs	19
	660
Directors	
Salary and allowances	197
Social security costs	24
	221
Total staff costs	**881**

The average number of persons employed by the Bank during the period was made up as follows:	Year ended 31 December 2010
Executive directors	2
Non-executive directors	4
Executive management	4
Clerical and other grades	17
	27

8) Pension costs

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

9) Directors' Emoluments

The total emoluments of the directors were £221,000. The highest paid director received emoluments of £58,000.

10) Property and Equipment

	Freehold Property GBP 000	Computer Equipment GBP 000	Furniture & Equipment GBP 000	Work in Progress GBP 000	Total GBP 000
Cost at commencement of activity	2,560	8	4	0	2,572
Additions in the period	0	29	38	307	374
Cost at 31 December 2010	2,560	37	42	307	2,946
Depreciation charged for the period	(34)	(1)	0	0	(35)
At 31 December 2010	(34)	(1)	0	0	(35)
Net book value at 31 December 2010	**2,526**	**36**	**42**	**307**	**2,911**

Work in Progress

During the year the Bank contracted to implement a replacement core banking system. Implementation remains ongoing at the reporting date. The project will bring economic benefits in terms of enhanced product development facilities and cost savings through increased automation. The Board of Directors have approved total project costs of £781,000.

Work in Progress expenditure to 31 December 2010 comprised**:**

	GBP 000
Purchase of application licences	147
External consultancy	123
Equipment	37
	307

11) Taxation

Analysis of tax charge

	Year ended 31 December 2010 GBP 000
Current tax being United Kingdom Corporation Tax for the period at 28%	3
Deferred tax arising from timing differences in recognition	(7)
(Credit) for period	**(4)**

Reconciliation of total tax charge

	Year ended 31 December 2010 GBP 000
Profit from ordinary activities before tax	10
Tax on profit from ordinary activities – being UK Corporation Tax at 28%	3
Effect of expenses not deductible for tax purposes	13
Tax values in excess of asset values	(20)
(Credit) for period	**(4)**

Analysis of deferred tax asset

	Year ended 31 December 2010 GBP 000
Asset values in excess of the tax values of those assets	7

12) Loans and advances to banks

	As at 31 December 2010 GBP 000
Repayable within one month	95,387
Repayable within three months	17,516
	112,903

13) Loans and advances to customers

	As at 31 December 2010		
	Gross amount GBP 000	Impairment allowance GBP 000	Carrying amount GBP 000
Personal loans and advances	827	-	827
Commercial loans and advances	292	25	267
	1,119	**25**	**1,094**

Full provision has been made against loans assessed to be impaired. The carrying value of impaired loans is GBP nil.

14) Debt securities

Debt securities represent UK Government Gilts held for liquidity asset buffer purposes in accordance with BIPRU 12. The securities are classified as held to maturity, hence the Bank does not account for these fixed rate investments at fair value through profit and loss.

	As at 31 December 2010	
	Carrying Amount GBP 000	Fair Value GBP 000
Maturities within one month	851	849
Repayable within two years	1,067	1,066
	1,918	**1,915**

15) Deposits by banks

	As at 31 December 2010 GBP 000
Repayable on demand or at short notice	85,370
Repayable with agreed maturity within three months	5,220
Repayable with agreed maturity within 1 year or less but greater than 3 months	15,753
	106,343
Amounts include the following Group deposits:	
Repayable on demand or at short notice	84,076
Repayable with agreed maturity within three months	15,753
	99,829

16) Deposits by customers

	As at 31 December 2010 GBP 000
Repayable on demand or at short notice	7,089
Repayable with agreed maturity within three months	6,178
1 year or less but greater than 3 months	602
	13,869

Deposits repayable on demand include £150,000 held as collateral against guarantees issued by the Bank.

17) Other Liabilities

	As at 31 December 2010 GBP 000
Accrued expenses	104
Corporation tax payable	3
Trade payables	76
Other Liabilities	183

18) Share Capital

	As at 31 December 2010 GBP 000
12,119,611 Authorised, issued and fully paid shares of £1 each	12,120

19) Related Parties

The Bank of Ceylon (UK) Limited is a wholly owned subsidiary of Bank of Ceylon, a licensed commercial bank established in Sri Lanka under the Banking Act No. 30 of 1988 and owned by the Government of Sri Lanka. The registered office of Bank of Ceylon is situated at No. 04, Bank of Ceylon Mawatha, Colombo 01, Sri Lanka. Copies of the group accounts can be obtained from this address or accessed through the internet at http://www.boc.lk/bochome/aboutus/stat.jsp

The Bank of Ceylon (UK) Limited transacts with its parent group on a commercial basis. During the year £1,446,000 was received in fees for the provision of documentary credit and other business services whilst £375,000 was paid in interest on deposits held. At 31 December 2010 Bank of Ceylon (UK) Limited held £99,829,000 of deposits from Bank of Ceylon.

20) Contingent Liabilities

	As at 31 December 2010 GBP 000
Guarantees Issued	1,050
Documentary credits and short term trade related transactions	128
	1,178

21) Interest rate risk

	Total GBP 000	0-3 Months GBP 000	3-12 Months GBP 000	1-5 Years GBP 000	Non Interest Bearing GBP 000
Assets					
Cash at bank and in hand	13,546	-	-	-	13,546
Loans and advances to banks	112,903	112,903	-	-	-
Loans and advances to customers	1,094	1,094	-	-	-
Debt securities	1,918	851	-	1,058	9
Property and equipment	2,911	-	-	-	2,911
Deferred tax and other assets	157	-	-	-	157
Total assets	**132,529**	**114,848**	**0**	**1,058**	**16,623**
Liabilities					
Deposits by Banks	106,343	72,947	15,753	-	17,643
Customer accounts	13,869	6,178	602	-	7,089
Other liabilities	183	-	-	-	183
	120,395	79,125	16,355	0	24,915
Share capital	12,120	-	-	-	12,120
Retained earnings	14	-	-	-	14
Total liabilities and equity	**132,529**	**79,125**	**16,355**	**0**	**37,049**
Net interest gap		35,723	(16,355)	1,058	(20,426)
Cumulative interest gap		35,723	19,368	20,426	0

A parallel shift increase of 2% in interest rates would bring additional income of GBP640,000 in a full year. A 2% reduction in rates would have a similar but opposite effect.

22) Maturity Analysis

	Total	0-3 Months	3-12 Months	1-5 Years	Undated
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Assets					
Cash at bank and in hand	13,546	13,546	-	-	-
Loans and advances to banks	112,903	112,903	-	-	-
Loans and advances to customers	1,094	968	43	83	-
Debt securities	1,918	851	-	1,067	-
Property and equipment	2,911	-	-	-	2,911
Deferred tax and other assets	157	100	-	17	40
Total assets	**132,529**	**128,368**	**43**	**1,167**	**2,951**
Liabilities					
Deposits by Banks	106,343	90,590	15,753	-	-
Customer accounts	13,869	13,267	602	-	-
Other liabilities	183	-	-	-	183
	120,395	103,857	16,355	0	183
Share capital	12,120	-	-	-	12,120
Retained earnings	14	-	-	-	14
Total liabilities and equity	**132,529**	**103,857**	**16,355**	**0**	**12,317**
Net maturity gap		24,511	(16,312)	1,167	(9,366)
Cumulative maturity gap		24,511	8,199	9,366	0

23) Foreign exchange exposure

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

	Total GBP 000	GBP GBP 000	Euro GBP 000	USD GBP 000
Assets				
Cash at bank and in hand	13,546	193	13,042	311
Loans and advances to banks	112,903	63,321	44,236	5,346
Loans and advances to customers	1,094	1,094	-	-
Debt securities	1,918	1,918	-	-
Property and equipment	2,911	2,911	-	-
Deferred tax and other assets	157	80	-	77
Total assets	**132,529**	**69,517**	**57,278**	**5,734**
Liabilities				
Deposits by Banks	106,343	52,827	49,594	3,922
Customer accounts	13,869	5,799	7,619	451
Other liabilities	183	183	-	-
	120,395	58,809	57,213	4,373
Share capital	12,120	12,120	-	-
Retained earnings	14	14	-	-
Total liabilities and equity	**132,529**	**70,943**	**57,213**	**4,373**
Gross exposure (liability)		(1,426)	65	1,361
Foreign exchange contracts		1,402	-	(1,402)
Net exposure (liability)		**(24)**	**65**	**(41)**

At 31 December 2010 a 5% strengthening of Sterling against the Euro would have reduced profits by GBP3,200 whilst a 5% strengthening of Sterling against the US Dollar would have increased profits by GBP2,000. In each case a weakening of Sterling would have had an equal but opposite effect.

24) Risk management

The Bank has exposure to the following risks:

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

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

As a financial institution, the Bank's maximum exposure to Credit Risk comprises all assets other than cash on hand, property and equipment and certain sundry debtors.

	Total GBP 000
Cash at bank	13,453
Loans and advances to banks	112,903
Loans and advances to customers	1,094
Debt securities	1,918
Other assets	98
Maximum credit risk exposure	129,466
Investment grade assets	126,307
Unrated assets	3,159
	129,466

Exposure to Liquidity Risk arises from the difficulty in meeting obligations settled by delivering cash or another financial asset. The maturity of all assets and liabilities are shown in note 22 above. The Bank did not have any derivative exposures at the year end and hence no further liquidity exposure.

Market risk is considered to comprise three elements, Interest Rate Risk (assessed in Note 21 above), Foreign Exchange Risk (assessed in Note 23 above) and Price Risk. The Bank holdings of debt securities comprise UK Government Gilts held for liquidity asset buffer purposes in accordance with BIPRU 12 that are to be held to maturity. These assets were valued at GBP1,918,000 at 31 December 2010. A 5% movement in the value of held to maturity investments would impact reserves by GBP96,000.

25) Capital Management

The Bank's approach to capital management is as set out in the Directors' Report. The regulatory capital base of the Bank was GBP12,134,000 at 31 December 2010. The Bank complied with all regulatory capital requirements throughout the year.