BANK OF CEYLON (UK) LTD

Gateway to Sri Lanka

Bank of Ceylon (UK) Ltd

Financial Statements

For the year ended 31 December 2011

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 W D R Swanney	Independent Non-Executive Director
Mr R England	Independent Non-Executive Director

The directors who served during the year were as follows:

Ms W A Nalani	Non –Executive Director and General Manager of Bank of Ceylon (Appointed 3rd October 2011)
Mr K B S Bandara	Chief Executive Officer (Appointed 12th August 2011)
Mr D S Muthukudaarachchi	Chief Operating Officer/ Secretary (Appointed 11th July 2011)
Mr B A C Fernando	Non –Executive Director and General Manager of Bank of Ceylon (Resigned 15th August 2011)
Mr I G C Madadeniya	Chief Executive Officer (Resigned 12th August 2011)
Mrs S K Jayasinghe	Chief Operating Officer/ Secretary (Resigned 11th July 2011)

Registered office 1 Devonshire Square, London, EC2M 4WD

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

Year 2011 will go down in history as the first full year of operation of Bank of Ceylon (UK) Ltd as an independent bank. There can be no doubt that the circumstances surrounding that early stage of operation have been those of great challenge. The year saw little or no growth in the UK economy, economic turmoil in mainland Europe and continued political uncertainty in the Middle East. Notwithstanding these challenges the Bank continued to develop its services and infra-structure in line with its strategic aim of establishing a solid platform of support for Bank of Ceylon to become a global banker.

Despite the difficult economic circumstances the Bank was successful in developing both corporate and discount lending, successful activities that support the strategic direction of the Bank. Development of lending compensated for both the low interest environment in place throughout the year that constrained margin growth and the widespread concerns regarding European banks that limited the wholesale rates available. The Bank has no sovereign debt exposure to the Euro zone and its Euro denominated asset exposure is to the UK operations of Asian banks.

However, relative performance for 2011 was adversely impacted by the discontinuance of the significant level of fee revenue earned in 2010, when the business was a branch of its parent, from handling letters of credit related to Iranian crude oil imports to Sri Lanka. The Bank has been successful in developing replacement business streams, in particular providing trade finance support to a range of exports from UK to Sri Lanka. However, whilst the number of such transactions has grown significantly the values do not match those of the very large oil shipments previously financed and international commission income was £968,000 lower in the year to 31 December 2011 than in the eight months to 31 December 2010.

Costs continued to be well controlled and the quality of the lending book meant no additional provisions were required in 2011, but nevertheless the loss for the year was £390,000 (2010 a profit of £10,000). The Bank's performance was improved throughout 2011, with the second half showing a much more favourable result. The Bank will build on this improved business mix and anticipates a greatly improved performance in 2012.

In 2012 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.

The Bank is committed to continuing improvement in the quality of its services and the range of its products. To this end it continues to develop 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.

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It is considered that the current economic and political circumstances will continue throughout 2012 and the Bank is managing risks accordingly: our markets are those known to us and we will look to capitalise on that knowledge to best manage the risks encountered.

On behalf of the Bank I would like to place on record our gratitude to our customers for their sustained support and patronage. The contributions made by our auditors, legal advisers, consultants and correspondents are thankfully acknowledged.

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

1st March 2012

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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 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 2011 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.

The Bank commenced trading on 1 May 2010, and the 2010 comparative data included in the annual report is for the eight month period from 1 May to 31 December 2010.

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

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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.

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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 may be 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 regulator (the FSA) sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Capital Requirements Directive 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 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 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 regulator in 2010 and the ICG was agreed in April 2010. The agreed ICG remains confidential between each bank and the regulator in accordance with accepted practice.

By order of the Board:

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Mr S Bandara, Chief Executive Officer

1st March 2012

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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.

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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 (the "Bank")for the year ended 31 December 2011 set out on pages 11 to 28. 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 Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members, as a body, for our audit work, for this report, or for the opinions we have formed.

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 Bank's affairs as at 31 December 2011 and of its loss 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

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1st March 2012

	Statement of Comprehensive Income				
	For the year ended 31 December 2011				
				Year ended 31 December 2011	**8 Months ended 31 December 2010**
		Note		**GBP 000**	**GBP 000**
Interest income				1,169	689
Interest expense		4		(382)	(471)
Net interest income				**787**	**218**
Fees and commissions		5		649	1,538
Dealing and exchange profit				7	57
Operating income				**1,443**	**1,813**
Administration expenses		6		(1,770)	(1,768)
Depreciation		10		(63)	(35)
(Loss)/Profit from ordinary activities before tax				**(390)**	**10**
Tax (charge)/credit on (loss)/profit from ordinary activities		11		(49)	4
(Loss)/Profit from ordinary activities after tax				**(439)**	**14**

The Bank has no other comprehensive income items.

The Bank received authorisation from the UK Financial Services Authority in April 2010 and started trading

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on 1st May 2010.

The notes on pages 15 to 28 are an integral part of these financial statements.

Statement of Financial Position			
As at 31 December 2011			
		31 December 2011	**31 December 2010**
	Note	**GBP 000**	**GBP 000**
Assets			
Cash at bank and in hand		1,320	13,546
Loans and advances to banks	12	63,031	112,903
Loans and advances to customers	13	3,640	1,094
Debt securities	14	3,994	1,918
Property and equipment	10	2,907	2,911
Deferred tax	11	51	7
Other assets		172	150
Total assets		**75,115**	**132,529**
Liabilities			
Deposits by Banks	15	49,648	106,343
Customer accounts	16	13,573	13,869
Other liabilities	17	203	183
Total liabilities		63,424	120,395
Equity			

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Share capital	18	12,120	12,120
Retained earnings		(429)	14
Equity shareholders' funds		11,691	12,134
Total liabilities and equity		**75,115**	**132,529**

These financial statements were approved by the Board of Directors on 1st March 2012 and were signed on its behalf by:

Mr S Bandara, Chief Executive Officer

The notes on pages 15 to 28 are an integral part of these financial statements.

Statement of Changes in Equity				
For the Year ended 31 December 2011				
		Share capital GBP 000	**Retained earnings GBP 000**	**Total equity GBP 000**
Equity shareholder's funds 31 December 2010		**12,120**	**14**	**12,134**
(Loss)/Profit for the year		-	(439)	**(439)**
Translation loss on conversion of reserves		-	(4)	(4)
Equity shareholder's funds 31 December 2011		**12,120**	**(429)**	**11,691**
Equity shareholder's funds 1 May 2010		-	-	-
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 notes on pages 15 to 28 are an integral part of these financial statements.

Statement of Cash Flows			
For the year ended 31 December 2011			
		Year ended 31 December 2011	**8 Months ended 31 December 2010**
	Note	**GBP 000**	**GBP 000**
Profit before tax		(390)	10
Adjusted for:			
Depreciation	10	63	35
Other non-cash items included in loss (2010 profit) before tax		(2)	(7)
		(329)	38
Net decrease /(increase) in assets relating to operating activities			
Loans and advances to banks	12	49,872	(112,903)

Loans and advances to customers	13	(2,546)	(1,094)
Debt securities	14	(2,076)	(1,918)
Other assets		(22)	(146)
		45,228	(116,061)
Net (decrease) /increase in liabilities relating to operating activities			
Due to banks	15	(56,695)	106,343
Due to customers	16	(296)	13,869
Other liabilities	17	20	183
		(56,971)	120,395
Net cash flow from operating activities		**(12,072)**	**4,372**
Acquisition of fixed assets		(59)	(2,946)
Pre subsidiarisation tax charges		(95)	0
Proceeds from the issue of share capital		0	12,120
Net cash flow from operating, investment and financing activities		**(12,226)**	**13,546**
Cash at bank and in hand at 31 December 2011		**1,320**	**13,546**

The notes on pages 15 to 28 are an integral part of these financial statements.

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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 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.

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 2011. The impact is expected to be immaterial.

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 period to 31 December 2010 consists of the trading results for eight months following the transfer of business from the London Branch of Bank of Ceylon on 1 May 2010.

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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

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

a. Interest income and expense

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

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

b. Foreign currency

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

c. Fees and commissions

Fees and 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

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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 year 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.

i. 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.

ii. Offsetting

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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.

iii. 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.

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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. 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.

n. Dealing and Exchange Profit

Dealing and exchange profit relates to foreign exchange income derived from currency transactions and the revaluation of assets and liabilities denominated in currencies other than Sterling.

o. Identity of related parties

Related parties comprise the shareholder and its related entities, directors and key management of the Bank. The Bank, in the ordinary course of business, enters into transactions, at agreed terms and conditions, with other business enterprises or individuals that fall within the definition of related party contained in International Accounting Standard 24.

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4. Interest expense

	Year ended 31 December 2011	8 Months ended 31 December 2010
	GBP 000	GBP 000
Interest paid to related entities	317	374
Other interest paid on deposits	65	97
	382	**471**

5. Fees and commissions

	Year ended 31 December 2011	8 Months ended 31 December 2010
	GBP 000	GBP 000
International commission	478	1,446
Domestic commission	89	62
Other income	82	30
	649	**1,538**

6. Administration expenses

		Year ended 31 December 2011	8 Months ended 31 December 2010
	Note	GBP 000	GBP 000
Wages and salaries including directors		990	768
Social security costs		138	94
Other pension costs		29	19
Total staff costs	7	1,157	881
Costs relating to the transfer of business from the London Branch of Bank of Ceylon		0	335
Fees payable to the Bank's auditors for the audit of the Bank's financial statements		36	20
Fees payable to the Bank's auditors for non audit related services		0	79

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Fees payable to the Bank's auditors for taxation compliance advice		23	13
Other administration expenses		554	440
Total administration expenses		**1,770**	**1,768**

7. Staff Costs

		Year ended 31 December 2011	8 Months ended 31 December 2010
		GBP 000	GBP 000
Staff			
Salary and allowances		717	570
Social security costs		93	71
Pension costs		29	19
		839	660
Directors			
Salary and allowances		273	197
Social security costs		45	24
		318	221
Total staff costs		**1,157**	**881**
The average number of persons employed by the Bank during the period was made up as follows:		**Year ended 31 December 2011**	**8 Months ended 31 December 2010**
Executive directors		2	2
Non-executive directors		4	4
Executive management		3	4
Clerical and other grades		18	17
		27	**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 £273,000 (2010 - £221,000). The highest paid director received emoluments of £63,000 in 2011. The highest paid director in 2010 received £58,000.

10) Property and Equipment

	Freehold Property GBP 000	Computer Equipmen t GBP 000	Furniture & Equipment GBP 000	Work in Progress GBP 000	Total GBP 000
Cost at 31 December 2010	2,560	37	42	307	2,946
Additions in the year	-	-	1	58	59
Cost at 31 December 2011	2,560	37	43	365	3,005
Depreciation at 31 December 2010	(34)	(1)	-	-	(35)
Depreciation charged in the year	(51)	(7)	(5)	-	(63)

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Depreciation at 31 December 2011	(85)	(8)	(5)	-	(98)
Net book value at 31 December 2011	**2,475**	**3 298**	**365**	**2,907**	

10) Property and Equipment (continued)

	Freehold Property	Computer Equipment	Furniture & Equipment		Work in Progress		Total
	GBP 000	GBP 000	GBP 000	GBP000		GBP000	
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	

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Work in Progress

The Bank has 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 GBP 781,000.

Work in Progress expenditure at 31 December comprised**:**

	2011 GBP 000	2010 **GBP 000**
Purchase of application licences	187	147
External consultancy	123	123
Equipment	55	37
	365	307

1. Taxation

Analysis of tax charge

	Year ended 31 December 2011	**8 Months ended 31 December 2010**
	GBP 000	**GBP 000**
Current tax being United Kingdom Corporation Tax for the period at 26.5% (2010 28%)	(2)	3
Deferred tax arising from timing differences in recognition	51	(7)
Charge/(Credit) for year	**49**	**(4)**

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11) Taxation (continued)

Reconciliation of total tax charge

	Year ended 31 December 2011	8 Months ended 31 December 2010
	GBP 000	GBP 000
Tax on profit from ordinary activities – being UK Corporation Tax at 26.5% (2010 - 28%)	(103)	(3)
(Loss)/profit from ordinary activities before tax	(390)	10
Tax at 26.5% (2010 - 28%)	(103)	3
Tax paid on pre subsidiarisation activities	95	0
Tax in relation to prior year	22	0
Effect of expenses not deductible for tax purposes	(16)	13
Tax values in excess of asset values	51	(20)
Charge (Credit) for period	**49**	**(4)**

Analysis of deferred tax asset

	Year ended 31 December 2011	8 Months ended 31 December 2010
	GBP 000	GBP 000
Asset values in excess of the tax values of those assets	51	7

12) Loans and advances to banks

	As at 31 December 2011	As at 31 December 2010
	GBP 000	GBP 000
Repayable within one month	41,604	95,387
Repayable within three months	20,124	17,516
Repayable with agreed maturity within 1 year or less but greater than 3 months	1,303	-
	63,031	**112,903**

Loans and advances to banks include GBP 571,000 (2010 nil) advanced to a Group company.

13) Loans and advances to customers

	As at 31 December 2011		
	Gross	Impairment	Carrying
	amount	allowance	amount
	GBP 000	GBP 000	GBP 000
Personal loans and advances	1,173	-	1,173

Commercial loans and advances	2,492	25	2,467
	3,665	**25**	**3,640**

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1. Loans and advances to customers (continued)

	As at 31 December 2010		
	Gross	Impairment	Carrying
	amount	allowance	amount
	GBP 000	GBP 000	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 (2010 GBP nil).

14) Debt securities

Debt securities issued by the UK and Sri Lankan governments and supra nationals are held for liquidity asset buffer purposes in accordance with BIPRU 12 and as investments. As these securities are classified as held to maturity the Bank does not account for these fixed rate investments at fair value through profit and loss.

	As at 31 December 2011	
	Carrying Amount	Fair Value
	GBP 000	GBP 000
Maturities within one month	0	0
Maturities within three months	2,994	3,038
Repayable within two years	1,000	1,009
	3,994	**4,047**

	As at 31 December 2010	
	Carrying Amount	Fair Value
	GBP 000	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 2011	As at 31 December 2010
	GBP 000	GBP 000
Repayable on demand or at short notice	27,451	85,370
Repayable with agreed maturity within three months	6,289	5,220
Repayable with agreed maturity within 1 year or less but greater than 3 months	15,908	15,753
	49,648	106,343
Amounts include the following Group deposits:		
Repayable on demand or at short notice	19,814	84,076

Repayable with agreed maturity within three months	6,289	15,753
Repayable with agreed maturity within 1 year or less but greater than 3 months	15,908	0
	42,011	99,829

1. Deposits by customers

	As at 31 December 2011	As at 31 December 2010
	GBP 000	**GBP 000**
Repayable on demand or at short notice	3,688	7,089
Repayable with agreed maturity within three months	9,692	6,178
1 year or less but greater than 3 months	193	602
	13,573	13,869

Deposits repayable on demand include GBP 125,000 (2010 - GBP 150,000) held as collateral against guarantees issued by the Bank.

1. Other Liabilities

	As at 31 December 2011	As at 31 December 2010
	GBP 000	**GBP 000**
Accrued expenses	81	104
Corporation tax payable	-	3
Trade payables	122	76
Other Liabilities	203	183

2. Share Capital

	As at 31 December 2011	As at 31 December 2010
	GBP 000	**GBP 000**
12,119,611 Authorised, issued and fully paid shares of GBP 1 each	12,120	12,120

3. 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. No charges were levied during the year (2010 GBP nil) but GBP 317,000 (2010 GBP375,000) was paid in interest on deposits held. At 31 December 2011 Bank of Ceylon (UK) Limited held GBP 42,011,000 (2010 GBP 99,829,000) of

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deposits from Bank of Ceylon.

4. Contingent Liabilities

		As at 31 December 2011	As at 31 December 2010
		GBP 000	GBP 000
Guarantees Issued		1,078	1,050
Documentary credits and short term trade related transactions		566	128
		1,644	1,178

5. Interest rate risk

31 December 2011	Total	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	1,320	-	-	-	1,320
Loans and advances to banks	63,031	61,728	1,303	-	-
Loans and advances to customers	3,640	1,344	-	2,296	-
Debt securities	3,994	2,994	-	1,000	-
Property and equipment	2,907	-	-	-	2,907
Deferred tax and other assets	223	-	-	-	223
Total assets	**75,115**	**66,066**	**1,303**	**3,296**	**4,450**
Liabilities					
Deposits by Banks	49,648	33,740	15,908	-	-
Customer accounts	13,573	13,380	193	-	-
Other liabilities	203	-	-	-	203
	63,424	47,120	16,101	0	203
Share capital	12,120	-	-	-	12,120
Retained earnings	(429)	-	-	-	(429)
Total liabilities and equity	**75,115**	**47,120**	**16,101**	**0**	**11,894**
Net interest gap		18,946	(14,798)	3,296	(7,444)
Cumulative interest gap		18,946	4,148	7,444	(0)

31 December 2010	Total	0-3 Months	3-12 Months	Over 1 Year	Non Interest Bearing
Assets	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cash at bank and in hand	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 GBP 305,000 (2010 - GBP 640,000). A 2% reduction in rates would have a similar but opposite effect.

6. Maturity Analysis

31 December 2011	**Total**	**0-3 Months**	**3-12 Months**	**Over 1 Year**	**Undated**
	GBP 000	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Assets					
Cash at bank and in hand	1,320	1,320	-	-	-
Loans and advances to banks	63,031	61,728	1,303	-	-
Loans and advances to customers	3,640	2,018	58	1,564	-
Debt securities	3,994	2,994	-	1,000	-
Property and equipment	2,907	-	-	-	2,907
Deferred tax and other assets	223	223	-	-	-
Total assets	**75,115**	**68,283**	**1,361**	**2,564**	**2,907**
Liabilities					
Deposits by Banks	49,648	33,740	15,908	-	-
Customer accounts	13,573	13,380	193	-	-
Other liabilities	203	-	-	-	203
	63,424	47,137	16,101	0	203
Share capital	12,120	-	-	-	12,120
Retained earnings	(429)	-	-	-	(429)
Total liabilities and equity	**75,115**	**47,120**	**16,101**	**0**	**11,894**
Net maturity gap		21,163	(14,740)	2,564	(8,987)
Cumulative maturity gap		21,163	6,423	8,987	(0)

31 December 2010	**Total**	**0-3 Months**	**3-12 Months**	**Over 1 Year**	**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

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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

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7. Foreign exchange exposure

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

31 December 2011	**Total**	**GBP**	**Euro**	**LKR**	**USD**
Assets	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	1,320	282	93	29	916
Loans and advances to banks	63,031	41,216	16,544	-	5,271
Loans and advances to customers	3,640	2,006	-	-	1,634
Debt securities	3,994	2,000	-	1,994	-
Property and equipment	2,907	2,907	-	-	-
Deferred tax and other assets	223	203	-	20	-
Total assets	**75,115**	**48,614**	**16,637**	**2,043**	**7,821**
Liabilities					
Deposits by Banks	49,648	34,146	6,786	-	8,716
Customer accounts	13,573	3,522	9,615	-	436
Other liabilities	203	151	43	5	4
	63,424	37,819	16,444	5	9,156
Share capital	12,120	12,120	-	-	-
Retained earnings	(429)	(429)	-	-	-
Total liabilities and equity	**75,115**	**49,510**	**16,444**	**5**	**9,156**
Gross exposure (liability)		(888)	201	2,017	(1,330)
Foreign exchange contracts		-	-	(1,298)	1,298
Net exposure (liability)		**(888)**	**201**	**719**	**(32)**

31 December 2010	**Total GBP 000**	**GBP GBP 000**	**Euro GBP 000**	**LKR GBP 000**	**USD GBP 000**
Assets					
Cash at bank and in hand	13,546	193	13,042	12	299
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**	**12**	**5,722**
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**

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Gross exposure (liability)		(1,426)	65	12	1,349
Foreign exchange contracts		1,402	-	-	(1,402)
Net exposure (liability)		**(24)**	**65**	**12**	**(53)**

1. Foreign exchange exposure (continued)

At 31 December 2011 a 5% strengthening of Sterling against the Euro would have reduced profits by GBP 10,000 (2010 - reduced profits by GBP 3,000) whilst a 5% strengthening of Sterling against the Sri Lankan Rupee would have reduced profits by GBP 37,000. In each case a weakening of Sterling would have had an equal but opposite effect.

8. 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.

	As at 31 December 2011 GBP 000	**As at 31 December 2010 GBP 000**
Cash at bank	1,182	13,453
Loans and advances to banks	63,031	112,903
Loans and advances to customers	3,640	1,094
Debt securities	3,994	1,918
Other assets	107	98
Maximum credit risk exposure	71,954	129,466
Investment grade assets	51,266	126,307
Other assets	20,688	3,159
	71,954	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's holdings of debt securities comprise UK Government Gilts and International Bank for Reconstruction and Development Bonds held for liquidity asset buffer purposes in accordance with BIPRU 12 together with Sri Lankan Treasury Bills. These assets were valued at GBP 3,994,000 at 31 December 2011 (investments at 31 December 2010 were GBP 1,918,000). A 5% movement in the value of investments would impact reserves by GBP 200,000 (2010 GBP 96,000).

9. 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 GBP 11,691,000 at 31 December 2011 (GBP 12,134,000 at 31 December 2010). The Bank complied with all regulatory capital requirements throughout the year.

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