



Bank of Ceylon (UK) Ltd

Financial Statements

For the year ended 31 December 2013

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Directors and advisors

Directors

The directors who served throughout the year were as follows:

Mr D M A Gunasekara	Non-Executive Director and General Manager of Bank of Ceylon (Appointed 8 th January 2013)
Mr N Fernando	Chief Executive Officer (Appointed 4 th January 2013)
Mr D S Muthukudaarachchi	Chief Operating Officer/ Secretary
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:

Mr M R Zarook	Non-Executive Chairman and Chairman of Bank of Ceylon (Appointed 17 th January 2013) (Resigned 30 th December 2013)
Dr Gamini Wickramasinghe	Non-Executive Chairman and Chairman of Bank of Ceylon (Resigned 8 th January 2013)
Mr K B S Bandara	Chief Executive Officer (Resigned 4 th January 2013)
Mr K Dharmasiri	Non-Executive Director and General Manager of Bank of Ceylon (Resigned 7 th January 2013)

Registered office	1 Devonshire Square, London, EC2M 4WD
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Solicitors

Field Fisher Waterhouse
35 Vine Street, London, EC3N 2PX

Auditors

KPMG Audit Plc
15 Canada Square, London, E14 5GL

Chief Executive Officer's report

At the start of the year 2013 there were a number of management changes that took place at the top level of the bank. The incumbent Chief Executive Officer returned to the parent bank to take up a higher position and a new Chief Executive Officer took charge. At the same time a new Chairman and a new General Manager were appointed to the parent bank in Sri Lanka, who were then appointed to the board of the bank to replace the former Chairman and the second non independent non executive director positions respectively.

The bank entered into the year 2013 positively and anticipated a better performance than the previous year for various reasons. It was thought that the bank had consolidated sufficiently to increase its activities to the next level based on the foundations laid during the three and a half year period since establishment. The main source of income, trade finance activities generated in Sri Lanka, was expected to improve significantly as the Sri Lankan economy was growing at a faster pace with an import friendly regime in Sri Lanka. At the same time the UK economy was expected to show some early growth. Furthermore the loan book was also expected to gather momentum with the economic recovery in the UK. The bank had also expected to achieve break-even during the year and to have been able to secure means of raising lower cost funding independently from the market thereby reducing any over reliance on its parent bank for its funding requirements.

However results during the year 2013 were somewhat mixed as a number of the assumptions made at the start of the year fell below the levels anticipated.

Among the salient features of the bank's operations during the year, bill discounting was prominent. It was possible for the bank to increase its bill discounting volumes considerably, compared to the previous years and interest income earned on this activity also showed a significant growth. The retail business and buy to let mortgage loans also grew reasonably well although still fell slightly short of expectations. Both these sectors delivered the boost in earnings which the bank had been working for. However treasury operations and income generated on the money market and the foreign exchange market were below expectations. In one way this was attributed to UK interest rates remaining unchanged and the certainty of low rates with the introduction of forward guidance by the new Governor of the Bank of England. Furthermore the deposits coming from Colombo banks reduced due to stringent fund management techniques adopted by them reducing their overnight holdings. Whilst bill discounting volumes and income showed a positive trend, volumes and income from Letters of Credit advised and reimbursed during the year did not perform as well as expected amidst economic growth in Sri Lanka due to intermittent policy changes on imports. The volumes received were at the same level in respect of Letters of Credit advised and far below the Letters of Credit reimbursed compared to the last year.

Whilst all efforts were being made to increase the income, at the same time significant efforts were made to curtail costs, both fixed and recurring. On this front there were positive results with the non interest expenses for the year being below last year's. All these cost reduction exercises were carried out amidst unavoidable additional expenses made during the year for IT security, addressing regulatory requirements and essential /non essential (to prevent costs spiralling) buildings maintenance.

During this year the bank was able to make further improvements to its core banking system. An additional operating system was introduced to automate trade finance operations.

At this moment I cannot forget the patronage extended to us by officers in the parent bank's head office, especially the Senior Deputy General Manager (International, Treasury & Investment), the General Manager and the Chairman. I must especially also thank the two non executive directors, the Chief Operating Officer and our staff for the tremendous contribution made during the year.

Our advisers, consultants and service providers also deserve a bouquet for the wonderful jobs done.

As a whole I am confident of overall performance of the bank, given a challenging year. I am also determined that we will see a way to breakeven during 2014.



Nimal Fernando

5th March 2014

Directors' Report

Results and Dividends

The profit for the year, after taxation, amounted to GBP 57,000 (2012: loss of GBP 206,000). There was no dividend declared in the year (2012: Nil).

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.

Further details regarding adoption of the going concern basis can be found in the accounting policies of these financial statements.

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.

Auditor

As KPMG Audit Plc has instigated an orderly wind down of its business, in accordance with Section 489 of the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditor of the Bank is to be proposed at the forthcoming Annual General Meeting.

The company did not make any political or charitable contributions in the year. (2012: Nil)

By order of the Board:



Nimal Fernando, Chief Executive Officer

5th March 2014

Strategic Report

The directors present the Strategic report of the company for year ended 31 December 2013 in accordance with Companies Act 2006, section 414C.

The purpose of this report is to inform relevant stakeholders in the company as to how the directors have performed their fiduciary duty under section 172 of Companies Act 2006.

Business Model and Business Review

Bank of Ceylon (UK) Ltd (the Bank) is a wholly owned subsidiary of Bank of Ceylon (BOC).

The Bank is authorised by The Prudential Regulation Authority (PRA) and regulated by The Financial Conduct Authority (FCA) and the PRA to carry on 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 2013 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 Chief Executive Officer's Report on page 4.

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 of the UK subsidiary and the Board of Directors of Bank of Ceylon Sri Lanka, 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 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 may be reviewed by the Prudential Regulation Authority ("PRA") 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 sets and monitors capital requirements for the Bank. The Bank is required to comply with the provisions of the Capital Requirements Directive (CRD) in respect of regulatory capital. The Bank's regulatory capital comprises ordinary share capital 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 (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:



Nimal Fernando, Chief Executive Officer

5th March 2014

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

The directors are responsible for preparing the Strategic Report and 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 IFRSs as adopted by the EU and applicable law.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit and loss of the company 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 IFRSs 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.

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 2013 set out on pages 12 to 32. 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 10, 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 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

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 2013 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 Strategic Report and 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

Samer Hijazi (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

15, Canada Square
London, E14 5GL

5th March 2014

Statement of Comprehensive Income

For the year ended 31 December 2013

		Year ended 31 December 2013	Year ended 31 December 2012
	Note	GBP 000	GBP 000
Interest income		1,043	1,038
Interest expense	4	(218)	(196)
Net interest income		825	842
Fees and commissions	5	587	625
Dealing and exchange profit		116	205
Operating income		1,528	1,672
Administration expenses	6	(1,789)	(1,890)
Depreciation	10	(27)	(63)
Amortization	11	(97)	(21)
Loss from ordinary activities before tax		(385)	(302)
Tax credit /(charge) on loss from ordinary activities	12	(37)	81
Loss from ordinary activities after tax		(422)	(221)
Other comprehensive income			
Revaluation of property, plant and equipment		463	-
Net change in the fair value of available for sale investments		16	15
Other comprehensive income for the year		479	15
Total comprehensive income for the year		57	(206)

The notes on pages 16 to 32 are an integral part of these financial statements.

Statement of Financial Position

As at 31 December 2013

	Note	31 December 2013 GBP 000	31 December 2012 GBP 000
Assets			
Cash at bank and in hand		2,008	2,820
Loans and advances to banks	13	50,014	70,664
Loans and advances to customers	14	8,745	6,726
Investments	15	1,031	2,215
Property and equipment	10	3,055	2,479
Intangible assets	11	522	344
Deferred tax	12	-	64
Other assets		492	182
Total assets		65,867	85,494
Liabilities			
Deposits by Banks	16	46,292	66,419
Customer accounts	17	4,656	4,538
Other liabilities	18	498	172
Total liabilities		51,446	71,129
Equity			
Share capital	19	15,000	15,000
Fair value reserve		31	15
Revaluation reserve		463	-
Retained earnings		(1,073)	(650)
Equity shareholders' funds		14,421	14,365
Total liabilities and equity		65,867	85,494

These financial statements were approved by the Board of Directors on 5th March 2014 and were signed on its behalf by:



Nimal Fernando, Chief Executive Officer

The notes on pages 16 to 32 are an integral part of these financial statements.

Statement of Changes in Equity**For the Year ended 31 December 2013**

	Share Capital GBP 000	Fair value Reserve GBP 000	Retained earnings GBP 000	Revaluation Reserve GBP 000	Total equity GBP 000
Equity shareholders' funds 1 January 2013	15,000	15	(650)	-	14,365
Loss for the year	-	-	(422)	-	(422)
Revaluation Reserve	-	-	-	463	463
Net change in the fair value of available for sale investments	-	16	-	-	16
Translation loss on conversion of reserves	-	-	(1)	-	(1)
Equity shareholders' funds 31 December 2013	15,000	31	(1,073)	463	14,421
Equity shareholders' funds 1 January 2012	12,120	-	(429)	-	11,691
Loss for the year	-	-	(219)	-	(219)
Additional capital added during the year	2,880	-	-	-	2,880
Net change in the fair value of available for sale investments	-	15	-	-	15
Translation loss on conversion of reserves	-	-	(2)	-	(2)
Equity shareholders' funds 31 December 2012	15,000	15	(650)	-	14,365

The notes on pages 16 to 32 are an integral part of these financial statements.

Statement of Cash Flows

For the year ended 31 December 2013

	Note	Year ended 31 December 2013 GBP 000	Year ended 31 December 2012 GBP 000
Cash flow from operating activities:			
Loss before tax		(385)	(302)
Adjusted for:			
Depreciation	10	27	63
Amortization	11	97	21
Other non-cash items included in loss before tax		(35)	83
		<u>(296)</u>	<u>(135)</u>
Changes in:			
Loans and advances to banks	13	20,650	(7,633)
Loans and advances to customers	14	(2,019)	(3,086)
Investments	15	1,184	1,779
Other assets		(310)	(10)
Deposits by banks	16	(20,127)	16,771
Customer accounts	17	118	(9,035)
Other liabilities	18	326	(31)
		<u>(178)</u>	<u>(1,245)</u>
Net cash flow used in operating activities		<u>(474)</u>	<u>(1,380)</u>
Cash flow for investing activities			
Acquisition of fixed assets		(338)	-
Pre subsidiarisation tax charges		-	-
Net cash flow used in investing activities		<u>(338)</u>	<u>-</u>
Cash flow from financing activities			
Proceeds from the issue of share capital		-	2,880
Net cash flow from financing activities		<u>-</u>	<u>2,880</u>
Net increase / (decrease) in cash and cash equivalent		(812)	1,500
Cash and cash equivalents at 1 January		<u>2,820</u>	<u>1,320</u>
Cash and cash equivalents at 31 December		<u>2,008</u>	<u>2,820</u>

The notes on pages 16 to 32 are an integral part of these financial statements.

Notes to the Financial Statements

1) Reporting entity

Bank of Ceylon (UK) Ltd (the "Bank") is a company incorporated in the United Kingdom under the Companies Act 2006.

The Bank is authorised by The Prudential Regulation Authority (PRA) and regulated by The Financial Conduct Authority (FCA) and the PRA 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.

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 2013. The impact is expected to be immaterial, except for IFRS9 (which is effective for annual periods beginning on or after 1 January 2015) which is expected to have pervasive impact on the Bank's Financial Statements.

b) Going Concern Basis of Accounting

The financial statements of the Bank have been prepared on a going concern basis as the directors continue to be of the opinion that the Bank has sufficient resources to

continue in business for the foreseeable future.

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

In forming this opinion the directors have had due regard to the guidance issued by the Financial Reporting Council in January 2013 entitled 'Revised Guidance on Going Concern and revised International Standards on Auditing (UK and Ireland).

c) Functional and presentational currency

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

d) Basis of measurement

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

e) Critical accounting estimates

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. 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

At each reporting date 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 financial asset 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. For available for sale investments a significant or prolonged decline in its fair value below its cost is objective evidence of impairment in general, the bank considers a decline in 20% to be significant and a period of nine months to be prolonged.

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

During the year the Directors opted to change the Company's policy for valuing Freehold Land and Property from the historic cost model to the Fair Value model. The Company's premises are now shown at fair value based on periodic valuation by external independent valuers less subsequent depreciation and impairment losses. Valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date.

The revaluation reserve will be released against future depreciation and impairment charges. Subsequent depreciation and impairment will be taken through the income statement.

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditures that are directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

The estimated useful lives for the current year are as follows:

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.

f) Capital work in progress

The Bank capitalises all costs relating to assets as capital work in progress, until the date of completion and commissioning of the assets. The costs are transferred from capital work in progress to the appropriate asset category upon completion and commissioning and

amortised over their useful economic lives from the date of such completion and commissioning.

g) Intangible assets

Intangible assets comprise computer software which is not considered as an integral part of the related hardware. Intangible assets acquired by the Bank and which have finite useful lives are measured at cost less accumulated amortisation and impairment losses, if any. Other intangible assets acquired by the Group and which have infinite useful lives are measured at cost less accumulated impairment losses, if any.

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.

Amortisation

Amortisation is recognised in the consolidated income statement on a straight line basis over the estimated useful lives of the intangible assets from the date they are available for use. The estimated useful lives for the current and comparative periods are as follows:

Computer software	5 years
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h) 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.

Income and expenses are presented on a net basis only when permitted by IFRS, or for gains and losses arises from similar transactions such as the bank's trading activity.

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 a market for a financial instrument is not active, the bank establishes fair value using valuation techniques. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, net present value techniques and discounted cash flow methods. The chosen valuation technique

makes maximum use of market inputs, relies as little as possible on estimates specific to the Bank, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument.

Assets are measured at a bid price.

i) Cash and cash equivalents

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

j) 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.

k) Available for sale investments

The Bank's debt securities are classified as available for sale investments.

Available-for-sale investments are non-derivative financial assets that are designated as available-for-sale and that are not classified as held-to-maturity investments, or at fair value through profit or loss, or loans and receivables. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are

recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss in other comprehensive income is transferred to the statement of comprehensive income.

Available for sale investments are those intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices.

Available for sale investments are initially recognised on trade date (the date on which the Bank commits to purchase the asset). These investments are subsequently carried at fair value.

Gains and losses arising from changes in fair value of the available for sale financial assets other than foreign exchange gains and losses from monetary items are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gains or losses previously recognised in equity is recognised in profit or loss.

Interest income on available for sale equity instruments are recognised in the income statement when the entity's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial assets is not active (and for unlisted securities), the Bank establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

l) 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.

m) 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.

n) 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.

o) 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.

p) 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.

q) 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.

4) Interest expense

	Year ended 31 December 2013 GBP 000	Year ended 31 December 2012 GBP 000
Interest paid to related entities	176	153
Other interest paid on deposits	42	43
	218	196

5) Fees and commissions

	Year ended 31 December 2013 GBP 000	Year ended 31 December 2012 GBP 000
International commission	360	380
Domestic commission	175	201
Other income	52	44
	587	625

6) Administration expenses

	Note	Year ended 31 December 2013 GBP 000	Year ended 31 December 2012 GBP 000
Wages and salaries including directors		1,032	1,024
Social security costs		139	142
Other pension costs		33	31
Total staff costs	7	1,204	1,197
Fees payable to the Bank's auditors for the audit of the Bank's financial statements		26	25
Fees payable to the Bank's auditors for taxation compliance advice		10	16
Other administration expenses		549	652
Total administration expenses		1,789	1,890

7) Staff Costs

	Year ended 31 December 2013 GBP 000	Year ended 31 December 2012 GBP 000
Staff		
Salary and allowances	807	799
Social security costs	102	103
Pension costs	33	31
	<hr/> 942	<hr/> 933
Directors		
Salary and allowances	225	225
Social security costs	37	39
	<hr/> 262	<hr/> 264
Total staff costs	<hr/> 1,204	<hr/> 1,197

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

	Year ended 31 December 2013	Year ended 31 December 2012
Executive directors	2	2
Non-executive directors	2	2
Executive management	4	4
Clerical and other grades	19	19
	<hr/> 27	<hr/> 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 GBP 225,000 (2012 – GBP 225,000). The highest paid director received emoluments of GBP 93,000 in 2013. The highest paid director in 2012 received GBP 93,000.

10) Property and Equipment

	Freehold Property GBP 000	Computer Equipment GBP 000	Furniture & Equipment GBP 000	Land GBP 000	Total GBP 000
Cost					
Cost at 1 January 2013	2,560	37	43	-	2,640
Additions in the year	-	6	57	-	63
Revaluation	390	-	-	-	390
Transfers	(1,450)	-	-	1,450	-
Cost at 31 December 2013	<hr/> 1,500	<hr/> 43	<hr/> 100	<hr/> 1,450	<hr/> 3,093
Accumulated depreciation					
Depreciation at 1 January 2013	(136)	(16)	(9)	-	(161)
Depreciation charged for the year	(14)	(8)	(5)	-	(27)
Revaluation	150	-	-	-	150
Depreciation at 31 December 2013	<hr/> -	<hr/> (24)	<hr/> (14)	<hr/> -	<hr/> (38)
Net book value at 31 December 2013	<hr/> 1,500	<hr/> 19	<hr/> 86	<hr/> 1,450	<hr/> 3,055

10) Property and Equipment (continued)

	Freehold Property GBP 000	Computer Equipment GBP 000	Furniture & Equipment GBP 000	Work in Progress GBP 000	Total GBP 000
Cost					
Cost at 1 January 2012	2,560	37	43	365	3,005
Additions in the year	-	-	-	-	-
Transfers	-	-	-	(365)	(365)
Cost at 31 December 2012	2,560	37	43	-	2,640
Accumulated depreciation					
Balance at 1 January 2012	(85)	(8)	(5)	-	(98)
Depreciation charged for the year	(51)	(8)	(4)	-	(63)
At 31 December 2012	(136)	(16)	(9)	0	(161)
Net book value at 31 December 2012	2,424	21	34	-	2,479

11) Intangible assets

	Computer software GBP 000	Total GBP 000
Cost		
Balance at 1 January 2013	365	365
Additions in the period	275	275
Balance at 31 December 2013	640	640
Accumulated amortization		
Balance at 1 January 2013	(21)	(21)
Amortization for the year	(97)	(97)
Balance at 31 December 2013	(118)	(118)
Net book value at 31 December 2013	522	522

12) Taxation

Analysis of tax charge

	Year ended 31 December 2013 GBP 000	Year ended 31 December 2012 GBP 000
Current tax being United Kingdom Corporation Tax for the period at 23.25% (2012 24.50%)	(27)	26
Deferred tax arising from timing differences in recognition	64	(107)
(Credit)/ Charge for year	37	(81)

Reconciliation of total tax charge

	Year ended 31 December 2013 GBP 000	Year ended 31 December 2012 GBP 000
Tax on profit from ordinary activities – being UK Corporation Tax at 23.25% (2012 – 24.50%)	(90)	(74)
(Loss)/profit from ordinary activities before tax	(385)	(302)
Tax at 23.25% (2012 – 24.50%)	(90)	(74)
Tax in relation to prior year	21	26
Effect of expenses not deductible for tax purposes	1	74
Tax values in excess of asset values	(44)	-
Tax in relation to loss carry back	(27)	-
Deferred tax write-off	64	-
Current tax losses not utilised	112	-
Charge / (Credit) for the year	37	(81)

Analysis of deferred tax asset

	Year ended 31 December 2013 GBP 000	Year ended 31 December 2012 GBP 000
Asset values in excess of the tax values of those assets	-	64

At 31 December 2013 Bank of Ceylon (UK) Limited has an unrecognised deferred tax asset of GBP 157,000. This is made up of a deferred tax asset in relation to trading losses of GBP 221,000 and a deferred tax liability in relation to capital allowances in excess of depreciation GBP 64,000. Management believe that it is not probable that taxable profits will be available against which the deferred tax can be utilised in the foreseeable future. Therefore deferred tax is not recognised on the balance sheet.

A reduction in the main rate of UK corporation tax from 23 per cent to 21 per cent with effect from 1 April 2014 and from 21 per cent to 20 per cent with effect from 1 April 2015 was substantively enacted on 2 July 2013. The unrecognised deferred tax asset has been calculated at 20 per cent.

13) Loans and advances to banks

	As at 31 December 2013 GBP 000	As at 31 December 2012 GBP 000
Repayable within one month	32,374	65,971
Repayable within three months	2,302	4,693
Repayable with agreed maturity within 1 year or less but greater than 3 months	15,338	-
	50,014	70,664

Loans and advances to banks include GBP 15,751,000 (2012 GBP 436,000) advanced to a Group company.

14) Loans and advances to customers

	As at 31 December 2013		
	Gross amount GBP 000	Impairment allowance GBP 000	Carrying amount GBP 000
Personal loans and advances	4,798	-	4,798
Commercial loans and advances	3,995	48	3,947
	8,793	48	8,745

	As at 31 December 2012		
	Gross amount GBP 000	Impairment allowance GBP 000	Carrying amount GBP 000
Personal loans and advances	2,658	-	2,658
Commercial loans and advances	4,111	43	4,068
	6,769	43	6,726

Full provision has been made against loans assessed to be impaired. The carrying value of impaired loans is GBP nil (2012 GBP nil).

15) Investments

	As at 31 December 2013 GBP 000	As at 31 December 2012 GBP 000
Held to Maturity	-	-
Available for sale	1,031	2,215
	1,031	2,215

Investments are 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. These securities were classified as held to maturity, but during July 2012 the Bank reclassified these debt securities and classified them as available for sale.

16) Deposits by banks

	As at 31 December 2013 GBP 000	As at 31 December 2012 GBP 000
Repayable on demand or at short notice	3,619	3,996
Repayable with agreed maturity within three months	34,203	46,775
Repayable with agreed maturity within 1 year or less but greater than 3 months	8,470	15,648
	<u>46,292</u>	<u>66,419</u>
Amounts include the following Group deposits:		
Repayable on demand or at short notice	2,008	2,348
Repayable with agreed maturity within three months	34,203	26,800
Repayable with agreed maturity within 1 year or less but greater than 3 months	8,470	15,648
	<u>44,681</u>	<u>44,796</u>

17) Deposits by customers

	As at 31 December 2013 GBP 000	As at 31 December 2012 GBP 000
Repayable on demand or at short notice	4,217	3,917
Repayable with agreed maturity within three months	160	399
1 year or less but greater than 3 months	279	222
	<u>4,656</u>	<u>4,538</u>

Deposits repayable on demand include GBP 3,000 (2012 - GBP 7,000) held as collateral against guarantees issued by the Bank.

18) Other Liabilities

	As at 31 December 2013 GBP 000	As at 31 December 2012 GBP 000
Accrued expenses	58	68
Trade payables	440	104
	<u>498</u>	<u>172</u>

19) Share Capital

	As at 31 December 2013 GBP 000	As at 31 December 2012 GBP 000
15,000,000 (2012: 15,000,000) Authorised, issued and fully paid shares of GBP 1 each	15,000	15,000

20) 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 the Parent is situated at No. 04, Bank of Ceylon Mawatha, Colombo 01, Sri Lanka. Copies of the Parent consolidated accounts can be obtained from this address or accessed through the internet at <http://www.boc.lk/bochome/aboutus/stat.jsp>.

20) Related Parties (continued)

The Bank has a related party relationship with its Parent, associates, directors and executive officers including business entities over which they can exercise control or significant influence or which can exercise significant influence over the Banks. The Bank's management is of the opinion that the terms of such transactions are not significantly different from those that could have been obtained from third parties.

The Bank of Ceylon (UK) Limited transacts with its parent group on a commercial basis. No charges were levied during the year (2012 GBP nil) but GBP 153,000 (2012 GBP153,000) was paid in interest on deposits held. At 31 December 2013 Bank of Ceylon (UK) Limited held GBP 42,673,000 (2012 GBP 44,796,000) of deposits from Bank of Ceylon.

21) Contingent Liabilities

	As at 31 December 2013 GBP 000	As at 31 December 2012 GBP 000
Guarantees Issued	208	211
Documentary credits and short term trade related transactions	1,036	1,732
	<u>1,244</u>	<u>1,943</u>

22) Interest rate risk

31 December 2013	Total GBP 000	0-3 Months GBP 000	3-12 Months GBP 000	Over 1 Year GBP 000	Non Interest Bearing GBP 000
Assets					
Cash at bank and in hand	2,008	-	-	-	2,008
Loans and advances to banks	50,014	34,676	15,338	-	-
Loans and advances to customers	8,745	1,823	23	6,899	-
Debt securities	1,031	-	1,031	-	-
Property and equipment	3,055	-	-	-	3,055
Intangible assets	522	-	-	-	522
Deferred tax and other assets	492	-	-	-	492
Total assets	65,867	36,499	16,392	6,899	6,077
Liabilities					
Deposits by Banks	46,292	27,122	19,170	-	-
Customer accounts	4,656	4,377	279	-	-
Other liabilities	498	-	-	-	498
	51,446	31,499	19,449	-	498
Share capital	15,000	-	-	-	15,000
Fair value reserve	31	-	-	-	31
Revaluation Reserve	463	-	-	-	463
Retained earnings	(1,073)	-	-	-	(1,073)
Total liabilities and equity	65,867	31,499	19,449	-	14,919
Net interest gap		5,000	(3,057)	6,899	(8,842)
Cumulative interest gap		5,000	1,943	8,842	-

22) Interest rate risk (continued)

31 December 2012	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	2,820	-	-	-	2,820
Loans and advances to banks	70,664	65,971	4,693	-	-
Loans and advances to customers	6,726	850	1,969	3,907	-
Debt securities	2,215	1,209	1,006	-	-
Property and equipment	2,479	-	-	-	2,479
Intangible assets	344	-	-	-	344
Deferred tax and other assets	246	-	-	-	246
Total assets	85,494	68,030	7,668	3,907	5,889
Liabilities					
Deposits by Banks	66,419	50,771	15,648	-	-
Customer accounts	4,538	4,316	222	-	-
Other liabilities	172	-	-	-	172
	71,129	55,087	15,870	-	172
Share capital	15,000	-	-	-	15,000
Fair value reserve	15	-	-	-	15
Retained earnings	(650)	-	-	-	(650)
Total liabilities and equity	85,494	55,087	15,870	-	14,537
Net interest gap		12,943	(8,202)	3,907	(8,648)
Cumulative interest gap		12,943	4,741	8,648	-

A parallel shift increase of 2% in interest rates would bring additional income of GBP 177,000 (2012 - GBP 174,000). A 2% reduction in rates would have a similar but opposite effect.

23) Maturity Analysis

31 December 2013	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	2,008	2,008	-	-	-
Loans and advances to banks	50,014	34,676	15,338	-	-
Loans and advances to customers	8,745	1,823	23	6,899	-
Debt securities	1,031	-	1,031	-	-
Property and equipment	3,055	-	-	-	3,055
Intangible assets	522	-	-	-	522
Deferred tax and other assets	492	492	-	-	-
Total assets	65,867	38,999	16,392	6,899	3,577
Liabilities					
Deposits by Banks	46,292	27,122	19,170	-	-
Customer accounts	4,656	4,377	279	-	-
Other liabilities	498	-	-	-	498
	51,446	31,499	19,449	-	498
Share capital	15,000	-	-	-	15,000
Fair value reserve	31	-	-	-	31
Revaluation Reserve	463	-	-	-	463
Retained earnings	(1,073)	-	-	-	(1,073)
Total liabilities and equity	65,867	31,499	19,449	-	14,919
Net maturity gap		7,500	(3,057)	6,899	(11,342)
Cumulative maturity gap		7,500	4,443	11,342	-

23) Maturity Analysis (continued)

31 December 2012	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	2,820	2,820	-	-	-
Loans and advances to banks	70,664	65,971	4,693	-	-
Loans and advances to customers	6,726	850	1,969	3,907	-
Debt securities	2,215	1,209	1,006	-	-
Property and equipment	2,479	-	-	-	2,479
Intangible assets	344	-	-	-	344
Deferred tax and other assets	246	246	-	-	-
Total assets	85,494	71,096	7,668	3,907	2,823
Liabilities					
Deposits by Banks	66,419	50,771	15,648	-	-
Customer accounts	4,538	4,316	222	-	-
Other liabilities	172	-	-	-	172
	71,129	55,087	15,870	-	172
Share capital	15,000	-	-	-	15,000
Fair value reserve	15	-	-	-	15
Retained earnings	(650)	-	-	-	(650)
Total liabilities and equity	85,494	55,087	15,870	-	14,537
Net maturity gap		16,009	(8,202)	3,907	(11,714)
Cumulative maturity gap		16,009	7,807	11,714	-

24) Foreign exchange exposure

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

31 December 2013	Total	GBP	Euro	LKR	USD
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Assets					
Cash at bank and in hand	2,008	475	1,251	14	268
Loans and advances to banks	50,014	32,250	-	-	17,764
Loans and advances to customers	8,745	7,395	-	-	1,350
Debt securities	1,031	1,031	-	-	-
Property and equipment	3,055	3,055	-	-	-
Intangible assets	522	522	-	-	-
Deferred tax and other assets	492	403	-	-	89
Total assets	65,867	45,131	1,251	14	19,471
Liabilities					
Deposits by Banks	46,292	36,018	1,196	-	9,078
Customer accounts	4,656	4,364	42	-	250
Other liabilities	498	291	-	-	207
	51,446	40,673	1,238	-	9,535
Share capital	15,000	15,000	-	-	-
Fair value reserve	31	31	-	-	-
Revaluation reserve	463	463	-	-	-
Retained earnings	(1,073)	(1,073)	-	-	-
Total liabilities and equity	65,867	55,094	1,238	-	9,535
Gross exposure (liability)		(9,963)	13	14	9,936
Foreign exchange contracts		10,000	-	-	(10,000)
Net exposure (liability)		37	13	14	(64)

24) Foreign exchange exposure (continued)

31 December 2012	Total GBP 000	GBP GBP 000	Euro GBP 000	JPY GBP 000	USD GBP 000
Assets					
Cash at bank and in hand	2,820	478	1,495	1	846
Loans and advances to banks	70,664	64,500	-	-	6,164
Loans and advances to customers	6,726	5,226	-	-	1,500
Debt securities	2,215	2,215	-	-	-
Property and equipment	2,479	2,479	-	-	-
Intangible assets	344	344	-	-	-
Deferred tax and other assets	246	190	-	-	56
Total assets	85,494	75,432	1,495	1	8,566
Liabilities					
Deposits by Banks	66,419	59,427	1,445	-	5,547
Customer accounts	4,538	4,141	41	-	356
Other liabilities	172	161	-	-	11
	71,129	63,729	1,486	-	5,914
Share capital	15,000	15,000	-	-	-
Fair value reserve	15	15	-	-	-
Retained earnings	(650)	(650)	-	-	-
Total liabilities and equity	85,494	78,094	1,486	-	5,914
Gross exposure (liability)		(2,662)	9	1	2,652
Foreign exchange contracts		2,500	-	-	(2,500)
Net exposure (liability)		(162)	9	1	152

At 31 December 2013 a 5% strengthening of Sterling against the Euro would have reduced profits by GBP 1,000 (2012 - reduced profits by GBP Nil) whilst a 5% strengthening of Sterling against the Sri Lankan Rupee would have reduced profits by GBP 1,000 (2012: Nil) and a 5% strengthening of Sterling against US Dollars would have increased profits by GBP 1,000 (2012: Nil). In each case a weakening of Sterling would have had an equal but opposite effect.

25) 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 Strategic Report.

25) Risk management (continued)

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 2013 GBP 000	As at 31 December 2012 GBP 000
Cash at bank	1,897	2,683
Loans and advances to banks	50,014	70,664
Loans and advances to customers	8,745	6,726
Investments	1,031	2,215
Other assets	109	84
Maximum credit risk exposure	61,796	82,372
Investment grade assets	35,698	65,498
Other assets	26,098	16,874
	61,796	82,372

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 23 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 22 above), Foreign Exchange Risk (assessed in Note 24 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 1,000,000 at 31 December 2013 (investments at 31 December 2012 were GBP 2,200,000). A 5% movement in the value of investments would impact reserves by GBP 50,000 (2012 GBP 110,000).

26) Fair Value

The term "financial instrument" includes both financial assets and financial liabilities. The fair value of a financial instrument is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The Bank analyses financial instruments held at fair value into the three categories as outlined below.

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

26) Fair Value (continued)

- Level 3 financial instruments are those valued using techniques that incorporate information other than observable market data. Instruments in this category have been valued using a valuation technique where at least one input, which could have a significant effect on the instrument's valuation, is not based on observable market data. Financial instruments included are primarily unlisted equity shares.

2013

	Level 1 GBP 000	Level 2 GBP 000	Level 3 GBP 000	Total GBP 000
Financial instrument assets				
Debt Securities	1,031	-	-	1,031
Loans and advances to customers	-	8,745	-	8,745
Total	1,031	8,745	-	9,776

2012

	Level 1 GBP 000	Level 2 GBP 000	Level 3 GBP 000	Total GBP 000
Financial instrument assets				
Debt securities	2,215	-	-	2,215
Loans and advances to customers	-	6,726	-	6,726
Total	2,215	6,726	-	8,941

27) Capital Management

The Bank's approach to capital management is as set out in the Strategic Report. The regulatory capital base of the Bank was GBP 13,968,000 at 31 December 2013 (GBP 14,416,000 at 31 December 2012). The Bank complied with all regulatory capital requirements throughout the year.

28) Subsequent events

There were no subsequent events.