Bank of Ceylon (UK) Ltd

Financial Statements

For the year ended 31 December 2016

Company registration no. 06736473

Contents

BOARD OF DIRECTORS

Mr Ronald C Perera, PC	Chairman
Mr Anthony John Pulle Appointed 14th January 2016	Executive Director and Chief Executive Officer
Mr M.P.Ruwan Kumara	Executive Director and Chief Operating Officer
Mr W.D.R. Swanney	Independent Non-Executive Director
Mr R. England	Independent Non-Executive Director
Mr D.M. Gunasekera	Non- Executive Director and General Manager, BOC

Mr Colin Finlayson	Company Secretary
Registered office	1 Devonshire Square, London, EC2M 4WD
Solicitor	Fieldfisher Riverbank House, 2 Swan Lane, London EC4R 3TT
Auditor	KPMG LLP 15 Canada Square, E14 5GL

Chairman's report

2016 has been a rewarding year for the Bank, in being able to demonstrate its ability and commitment to reduce losses over two successive years in line with the business plan. The loss at the end of 2016 is £123K, a reduction of 60% from 2015. The reduction in the loss has been achieved through organic growth in each of the three focus areas of Treasury operations, Lending and Trade Finance.

The business momentum gained during the latter part of 2015 was impacted in 2016 by external factors such as the imposition of stamp duty on Buy-to-Let properties in April, uncertainty in the run up to the EU referendum in June, a sterling rate cut in August and the unprecedented devaluation of sterling. All of these events have had varying degrees of influence on our product portfolio in terms of timing and growth targets. Despite all of the challenges, management have remained focused on implementing the strategy which has yielded growth of the asset book and its associated income streams. It is heartening to note that this year's available regulatory capital is being held at 2015 levels. The results demonstrate that the Bank is not reliant on any one source of business to achieve overall results and that our strategy is working.

In the area of governance, I am pleased to confirm that the PRA/FCA Senior Managers Regime was implemented on schedule. The code of Conduct Rules are being embedded across the organisation in preparation for the certification regime, which will be in place by March 2017. As part of ongoing overall enhancement of governance processes, Compliance have engaged with all of the business units to ensure staff have a good understanding and appreciation of the Rules and are able to apply them effectively. Similarly, Risk Management have also implemented ongoing enhancements during 2016, as good risk management is vital to our operational success.

The outlook for 2017 will be challenging with Brexit introducing uncertainty, the risk of sterling pressure continuing and ongoing regulatory changes. Market expectations are that sterling interest rates will continue at their current levels, pushing rate increases out to 2019. We are nevertheless confident of achieving our growth targets moving forward with the momentum we have gained in each of the three focus areas. We shall focus on consolidating the gains made and expanding our customer base over the coming years with a view to further strengthening our business model. This will create new opportunities for further growth and progressively over time create a healthier balance between the proportion of business we receive from the parent and other sources.

I would also like to recognise the support rendered by our loyal customers who have continued to place their trust and confidence in us and to our staff for all their efforts and contribution during the year, laying the foundations for a successful 2017.

Ronald C Perera, PC

Chairman 7th March 2017

Report of the Board of Directors

The Board of Directors submit their Report together with the audited financial statements for the year ended 31 December 2016.

Operating environment

2016 results are in line with management's expectation and are positive in terms of reducing annual losses by 60% from the previous year. As described in the Chairman's report, trading conditions during the year have been very challenging. Despite the numerous challenges, the Bank has achieved significant progress in each of its three business areas. In the area of Treasury operations, the expansion of the customer base and new product introductions have enabled further volume growth during the year. In the area of Trade Finance, bills discounting volumes reached record levels through the establishment of closer business links and active marketing. In the area of lending, the bank has achieved good penetration of the Buy-to-Let, Commercial and Personal segments through developing the broker network, active marketing and focusing on improved customer service levels. The balance sheet at the end of 2016 grew by 11% in terms of the asset book. The CET1 ratio remains at a healthy level and the current loan to value of loans secured against UK residential properties is on average below 60%, all of which provide adequate room for growth and expansion during 2017.

As a consequence, the reported loss for the year is £123, 000 after taxation (2015: loss of £312, 000).

Going Concern Basis of Accounting

These financial statements have been prepared on a going concern basis, as the Directors are satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions. That review includes a review of the income statement and financial position, policies and processes for managing credit, liquidity and market risk. In addition, in making their assessment the Directors have considered future projections of profitability, cash flows and capital resources.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this Report confirm that, as far as they are each aware, there is no relevant audit information of which the Bank's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Bank's auditor is aware of that information.

Charitable donations

The company did not make any political or charitable contributions during the year. (2015: Nil)

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the Board:

Anthony John Pulle, Chief Executive Officer

7th March 2017

Strategic Report

The Directors present the Strategic Report of the company for year ended 31 December 2016 in accordance with Companies Act 2006, section 414C.

The purpose of this report is to inform relevant stakeholders of 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 certain regulated financial service activities including deposit-taking and dealing in investments as principal. The Bank offers retail services, corporate and correspondent banking facilities in addition to trade finance services.

The Directors are required by the Companies Act to set out in this report a fair review of the business of the Bank within their business review. The information that fulfils this requirement can be found within the Chairman's Report on page 4.

Corporate Governance

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

The Board meets quarterly and has defined responsibilities for the overall direction, supervision and control of the Bank. This includes assessment of the Bank's competitive position, approval of strategic and financial plans and review of the performance and financial status. It reviews and approves significant changes in the Bank's structure and organisation, establishes the risk framework and the overall risk appetite. Other responsibilities include review and approval of key policies in relation to credit, large exposures, impairment, liquidity and operational risk. The Board also approves and monitors the Bank's policies, procedures and processes in connection with the fight against financial crime.

Audit and Risk Committee

The Audit and Risk 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 four times each year. The primary function of the Audit and Risk 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.

Internal Audit is fully independent of the business and undertakes a risk-based audit programme to review the internal controls and regulatory requirements of the Bank. The function is outsourced to a professional firm and their annual work programme is approved by the Audit and Risk Committee.

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 Head of Risk 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 and Risk 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 Head of Risk and 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 day to day oversight of credit risk to the Bank's Credit Committee. The Credit Committee is responsible for the effective management of credit risk by agreeing and recommending to the Board: credit and concentration risk policies, underwriting guidelines and standard proposals within the Board's overall risk appetite, by approving individual credits and lending decisions in line with the responsibility delegated by the Board. The credit process is reviewed on a regular basis by Internal Audit. The members of the Credit committee comprise of the CEO, who is the Chairman, the COO, Head of Risk, Head of Trade Finance, Head of Finance and the Manager, credit.

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 Process (ILAAP). The Bank's ILAAP is prepared annually and may be reviewed by the Prudential Regulation Authority ("PRA") as part of its Liquidity Supervisory Review Process (L-SREP) when setting the Bank's Individual Liquidity Guidance (ILG).

The Bank conducts 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 arises out of a change to market prices, such as interest rate changes and credit spreads. These changes could 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 function principally through monitoring interest rate gaps.

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 also include risks arising from legal and regulatory requirements and generally accepted standards of corporate conduct.

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 the capital requirements of 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 PRA provides individual capital guidance (ICG) to the Bank that sets capital requirements in excess of the minimum statutory own funds requirements under the CRD as adopted in the UK. A key input to the ICG setting process is the Bank's Internal Capital Adequacy Assessment Process (ICAAP) which is reviewed at least annually by the Board of Directors.

Regulatory risk

In the post-financial crisis environment, the regulatory landscape has changed and has become more complex with increased supervision and enforcement. Regulators are increasingly evaluating the robustness of regulated firms' business models and their products portfolios. Consequently, more reporting has been required by the regulatory authorities to monitor financial risk, allowing them to take prompt action where they see negative trends or anticipate problems within an organisation. Management use information systems within the Bank to monitor compliance with the regulatory frame work.

By order of the Board:

Anthony John Pulle, Chief Executive Officer

7th March 2017

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

The directors are responsible for preparing the Strategic Report, 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 or 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.

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

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

We have audited the financial statements of Bank of Ceylon (UK) Limited (the "Bank") for the year ended 31 December 2016 set out on pages 11 to 33. 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 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 2016 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 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.

Alexander Snook (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London E14 5GL

7th March 2017

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 GBP 000	Year ended 31 December 2015 GBP 000
Interest income		1,444	957
Interest expense	4	(267)	(146)
Net interest income		**1,177**	**811**
Fees and commissions	5	610	703
Net gain from trading		149	140
Operating income		**1,936**	**1,654**
Administration expenses	6	(1,876)	(1,784)
Depreciation	10	(48)	(51)
Amortization	11	(135)	(131)
Loss from ordinary activities before tax		**(123)**	**(312)**
Tax credit /(charge) on loss from ordinary activities	12	-	-
Loss from ordinary activities after tax		**(123)**	**(312)**
Other comprehensive income			
Net change in the fair value of available for sale investments		(13)	(14)
Other comprehensive income/(loss) for the year		**(13)**	**(14)**
Total comprehensive income/(loss) for the year		**(136)**	**(326)**

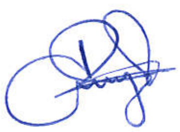
The notes on pages 15 to 33 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Note	31 December 2016 GBP 000	31 December 2015 GBP 000
Assets			
Cash at bank and in hand		1,298	2,105
Loans and advances to banks	13	116,949	107,251
Loans and advances to customers	14	10,845	8,932
Investments	15	7,001	3,966
Property and equipment	10	2,950	2,967
Intangible assets	11	165	290
Other assets		265	231
Total assets		**139,473**	**125,742**
Liabilities			
Deposits by banks	16	120,253	106,589
Customer accounts	17	5,461	5,320
Other liabilities	18	428	356
Total liabilities		126,142	112,265
Equity			
Share capital	19	15,000	15,000
Fair value reserve		1	14
Revaluation reserve		435	445
Retained earnings		(2,105)	(1,982)
Equity shareholders' funds		13,331	13,477
Total liabilities and equity		**139,473**	**125,742**

These financial statements were approved by the Board of Directors on 7th March 2017 and were signed on its behalf by:



Anthony John Pulle, Chief Executive Officer

The notes on pages 15 to 33 are an integral part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

For the Year ended 31 December 2016

	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 2016	**15,000**	**14**	**(1,982)**	**445**	**13,477**
Loss for the year	-	-	(123)	-	**(123)**
Revaluation reserve movement	-	-	-	**(10)**	**(10)**
Net change in the fair value of available for sale investments	-	(13)	-	-	**(13)**
Equity shareholders' funds 31 December 2016	**15,000**	**1**	**(2,105)**	**435**	**13,331**

	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 2015	15,000	26	(1,669)	454	13,811
Loss for the year	-	-	(312)	-	(312)
Revaluation Reserve	-	-	-	(9)	(9)
Net change in the fair value of available for sale investments	-	(12)	-	-	(12)
Equity shareholders' funds 31 December 2015	15,000	14	(1,982)	445	13,477

The notes on pages 15 to 33 are an integral part of these financial statements

STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 GBP 000	Year ended 31 December 2015 GBP 000
Cash flow from operating activities:			
Loss before tax		(123)	(312)
Adjusted for:			
Depreciation	10	48	51
Amortization	11	135	131
Other non-cash items and net change in the fair value of Investment		(13)	-
		47	(130)
Changes in:			
Loans and advances to banks	13	(9,698)	(71,057)
Loans and advances to customers	14	(1,913)	(284)
Investments	15	(3,035)	(2,867)
Other assets		(34)	(181)
Deposits by banks	16	13,664	74,021
Customer accounts	17	141	490
Other liabilities	18	72	16
		(803)	138
Net cash flow used in operating activities		**(756)**	8
Cash flow from investing activities			
Acquisition of fixed assets	10 &11	(51)	(43)
Net cash flow used in investing activities		(51)	(43)
Cash flow from financing activities			
Proceeds from the issue of share capital		-	-
Net cash flow from financing activities		-	-
Net increase / (decrease) in cash and cash equivalent		(807)	(35)
Cash and cash equivalents at 1 January		**2,105**	2,140
Cash and cash equivalents at 31 December		**1,298**	2,105

The notes on pages 15 to 33 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 PRA and regulated by the FCA and the PRA to carry on certain regulated financial services activities including deposit-taking and dealing in investments as principal. The Bank offers retail services, corporate and correspondent banking facilities in addition to trade finance services.

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

2) Basis of Preparation

a) Statement of compliance

The financial statements of the Bank have been prepared in accordance with International Financial Reporting Standards as adopted 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 2016. The impact is expected to be immaterial, except for IFRS9 (which is effective for annual periods beginning on or after 1 January 2018). The impact of IFRS9 on the annual financial statements has not yet been fully determined.

b) Going concern basis of accounting

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

The directors' opinion that the financial statements should be prepared on a going concern basis has been reached after reviewing the company's budget 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 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

The Company's premises are 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 is 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:

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.

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 Bank and which have infinite useful lives are measured at cost less accumulated impairment losses, if any.

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

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) De-recognition

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

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

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 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

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, exchanges 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) Held- to- maturity investments

Held-to-maturity investments are non - derivative financial assets with fixed maturity that the Bank has the positive intention and ability to hold to maturity other than;

i. Those that the Bank designates upon initial recognition as at fair value through profit and loss;
ii. Those that the Bank designates as available- for -sale

These are initially recognised at fair value including direct and incremental transaction costs and measured subsequently at amortised cost, using the effective interest method, less any provision for impairment.

A sale or reclassification of a significant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments to available-for-sale financial assets.

m) 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.

n) 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.

o) 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.

p) 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.

q) Trading profit

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

r) 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.

s) Unless otherwise stated all financial figures have been rounded off to the nearest one thousand Pounds Sterling

4) Interest expense

	Year ended 31 December 2016 GBP 000	Year ended 31 December 2015 GBP 000
Interest paid to related entities	214	112
Other interest paid on deposits	53	34
	267	**146**

5) Fees and commissions

	Year ended 31 December 2016 GBP 000	Year ended 31 December 2015 GBP 000
International commission	293	369
Domestic commission	281	302
Other income	36	32
	610	**703**

6) Administration expenses

	Note	Year ended 31 December 2016 GBP 000	Year ended 31 December 2015 GBP 000
Wages and salaries including directors		982	967
Social security costs		132	132
Other pension costs		36	31
Total staff costs	7	1,150	1,130
Fees payable to the Bank's auditors for the audit of the Bank's financial statements		30	34
Fees payable to the Bank's auditors for taxation compliance advice		12	12
Other administration expenses		684	608
Total administration expenses		**1,876**	**1,784**

7) Staff Costs

	Year ended 31 December 2016 GBP 000	Year ended 31 December 2015 GBP 000
Staff		
Salary and allowances	757	723
Social security costs	95	92
Pension costs	36	31
	888	846
Directors		
Salary and allowances	225	244
Social security costs	37	40
	262	284
Total staff costs	**1,150**	1,130

The average number of persons employed by the Bank during the period was made up as follows:	Year ended 31 December 2016	Year ended 31 December 2015
Executive directors	2	2
Non-executive directors	2	2
Executive management	4	4
Clerical and other grades	18	19
	26	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 225,875 (2015 – GBP 244,000). The highest paid director received emoluments of GBP 92,155 in 2016. The highest paid director in 2015 received GBP 90,370.

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 2016	1,500	51	123	1,450	3,124
Additions in the year	-	4	36	-	40
Revaluation	-	-	-	-	-
Transfers	-	-	-	-	-
Cost at 31 December 2016	1,500	55	159	1,450	3,164
Accumulated depreciation					
Depreciation at 1 January 2016	(79)	(42)	(36)	-	(157)
Depreciation charged for the year	(30)	(4)	(14)	-	(48)
Revaluation	(9)	-	-	-	(9)
Depreciation at 31 December 2016	(118)	(46)	(50)	-	(214)
Net book value at 31 December 2016	**1,382**	**9**	**109**	**1,450**	**2,950**

	Freehold Property GBP 000	Computer Equipment GBP 000	Furniture & Equipment GBP 000	Land GBP 000	Total GBP 000
Cost					
Cost at 1 January 2015	1,500	49	109	1,450	3,108
Additions in the year	-	2	14	-	16
Revaluation	-	-	-	-	-
Transfers	-	-	-	-	-
Cost at 31 December 2015	1,500	51	123	1,450	3,124
Accumulated depreciation					
Depreciation at 1 January 2015	(39)	(33)	(25)	-	(97)
Depreciation charged for the year	(31)	(9)	(11)	-	(51)
Revaluation	(9)	-	-	-	(9)
Depreciation at 31 December 2015	(79)	(42)	(36)	-	(157)
Net book value at 31 December 2015	1,421	9	87	1,450	2,967

11) Intangible assets

	Computer Software -2016 GBP 000	Computer Software -2015 GBP 000
Cost		
Balance at 1 January 2016	667	640
Additions in the year	11	27
Balance at 31 December 2016	678	667
Accumulated amortization		
Balance at 1 January 2016	(377)	(246)
Amortization for the year	(135)	(131)
Balance at 31 December 2016	(512)	(377)
Net book value at 31 December 2016	165	290

12) Analysis of the tax charge

	Year ended 31 December 2016 GBP 000	Year ended 31 December 2015 GBP 000
Current tax being United Kingdom Corporation Tax for the period at 20% (2015- 20%)	-	-
Deferred tax arising from timing differences in recognition	-	-
	-	-
(Credit)/ Charge for year		

	Year ended 31 December 2016 GBP 000	Year ended 31 December 2015 GBP 000
Tax on profit from ordinary activities – being UK Corporation Tax at 20% (2015 – 20 %)	(25)	(62)
(Loss)/profit from ordinary activities before tax	(123)	(312)
Tax at 20% (2015 – 20 %)	(25)	(62)
Tax in relation to prior year	-	-
Effect of expenses not deductible for tax purposes	3	1
Tax values in excess of asset values	-	-
Tax in relation to loss carry back	-	-
Deferred tax write-off		
Current tax losses not utilised	22	61
(Credit) / Charge for the year	-	-

The unrecognised deferred tax asset has been calculated at 20 per cent. Management have decided to exclude the deferred tax asset of GBP 22,000 arising out of the current year's loss from the Statement of Comprehensive Income in view of the successive losses that have occurred over the last years.

13) Loans and advances to banks

	As at 31 December 2016	As at 31 December 2015
	GBP 000	GBP 000
Repayable within one month	113,769	103,108
Repayable within three months but greater than 1 month	1,724	3,412
Repayable with agreed maturity within 1 year but greater than 3 months	1,456	731
	116,949	107,251

Loans and advances to banks included GBP 200,343 in relation to three bills discounted which were issued by BOC Group companies (2015 GBP 41,000).

14) Loans and advances to customers

	As at 31 December 2016		
	Gross amount GBP 000	Impairment allowance GBP 000	Carrying amount GBP 000
Personal loans and advances	5,007	-	5,007
Commercial loans and advances	5,861	(23)	5,838
	10,868	**(23)**	**10,845**

	As at 31 December 2015		
	Gross amount GBP 000	Impairment allowance GBP 000	Carrying amount GBP 000
Personal loans and advances	4,641	-	4,641
Commercial loans and advances	4,329	(38)	4,291
	8,970	(38)	8,932

Full provision has been made against loans assessed as impaired. The carrying value of impaired loans is GBP nil (2015 GBP nil). Loans and advances to staff were GBP 51,000 (2015 GBP 51,000)

15) Investments

	As at 31 December 2016 GBP 000	As at 31 December 2015 GBP 000
Available for sale	**1,001**	1,014
Held to maturity	**6,000**	2,952
	7,001	3,966

Available for sale investments relate to debt securities issued by the government of the UK and are held as part of the Bank's stock of high quality liquidity assets in accordance with the Capital Requirements Directive (CRD IV).

Held to maturity are investments in US dollar denominated Sri Lanka Government and corporate bonds.

16) Deposits by banks

	As at 31 December 2016 GBP 000	As at 31 December 2015 GBP 000
Repayable on demand or at short notice	5,358	5,092
Repayable with agreed maturity within three months	96,808	84,664
Repayable with agreed maturity within 3 months & 1yr	0	737
Repayable with agreed maturity of over 1 year.	18,087	16,096
	120,253	**106,589**
Amounts include the following Group deposits:		
Repayable on demand or at short notice	2,728	2,844
Repayable with agreed maturity within three months	62,700	65,863
Repayable with agreed maturity over 3 months & 1yr	0	737
Repayable with agreed maturity of over 1 year.	18,087	16,096
	83,515	85,540

17) Deposits by customers

	As at 31 December 2016 GBP 000	As at 31 December 2015 GBP 000
Repayable on demand or at short notice	4,916	5,089
Repayable with agreed maturity within three months	157	91
Repayable with agreed maturity over 3 months & 1yr	388	140
	5,461	5,320

Deposits repayable on demand include GBP Nil (2015 - GBP 4,900) held as collateral against guarantees issued by the Bank.

18) Other Liabilities

	As at 31 December 2016 GBP 000	As at 31 December 2015 GBP 000
Accrued expenses	80	66
Trade payables	348	290
	428	356

19) Share Capital

	As at 31 December 2016 GBP 000	As at 31 December 2015 GBP 000
15,000,000 (2015: 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. 01, Bank of Ceylon Square, Bank of Ceylon Mawatha, Colombo 01, Sri Lanka. Copies of the Parent consolidated accounts are obtainable at http://web.boc.lk/index.php.

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

The Bank enters into commercial transactions in the ordinary course of business with these parties on an arm's length basis. In the normal course of business, the Bank has discounted bills of exchange, received commissions on exports bills and paid interest on deposits received from the parent during the year. An annual rolling ten year deposit of £16.7 M will mature during 2025.

Interest payments to the Bank of Ceylon in respect of deposits held during 2016 amounted to GBP 214,000 (2015 GBP 112, 000). As at the 31 December 2016, Bank of Ceylon (UK) Limited held deposits of GBP 80,787,000 (2015 GBP 82,700,000) excluding Vostro balances on behalf of the Bank of Ceylon.

21) Contingent Liabilities

	As at 31 December 2016 GBP 000	As at 31 December 2015 GBP 000
Guarantees Issued	160	175
Documentary credits and short term trade related transactions	655	1,585
	815	1,760

22) Interest rate risk

31 December 2016	Carrying Value 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	1,298	-	-	-	1,298
Loans and advances to banks	116,949	115,493	1,456	-	-
Loans and advances to customers	10,845	1,064	981	8,800	-
Debt securities	7,001	1,000		5,918	83
Property and equipment	2,950	-	-	-	2,950
Intangible assets	165	-	-	-	165
Other assets	265	-	-	-	265
Total assets	**139,473**	**117,557**	**2,437**	**14,718**	**4,761**
Liabilities					
Deposits by Banks	120,253	102,166	-	18,087	-
Customer accounts	5,461	5,073	388	-	-
Other liabilities	428	-	-	-	428
	126,142	107,239	388	18,087	428
Share capital	15,000	-	-	-	15,000
Fair value reserve	1	-	-	-	1
Revaluation Reserve	435	-	-	-	435
Retained earnings	(2,105)	-	-	-	(2,105)
Total liabilities and equity	**139,473**	**107,239**	**388**	**18,087**	**13,759**
Net interest gap		10,318	**2,049**	(3,369)	(8,998)
Cumulative interest gap		10,318	12,367	8,998	-

31 December 2015	Carrying Value 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	2,105	-	-	-	2,105
Loans and advances to banks	107,251	106,520	731	-	-
Loans and advances to customers	8,932	1,365	675	6,892	-
Debt securities	3,966	-	-	3,880	86
Property and equipment	2,967	-	-	-	2,967
Intangible assets	290	-	-	-	290
Other assets	231		-	-	231
Total assets	125,742	107,885	1,406	10,772	5,679
Liabilities					
Deposits by Banks	106,589	89,756	737	16,096	-
Customer accounts	5,320	5,180	140	-	-
Other liabilities	356	-	-	-	356
	112,265	94,936	877	16,096-	356
Share capital	15,000	-	-	-	15,000
Fair value reserve	14	-	-	-	14
Revaluation Reserve	445	-	-	-	445
Retained earnings	(1,982)	-	-	-	(1,982)
Total liabilities and equity	125,742	94,936	877	16,096	13,833

Net interest gap	12,949	529	(5,324)	(8,154)
Cumulative interest gap	12,949	13,478	8,154	-

An increase of 1% in interest rates would bring additional income of GBP 91,000 (2015 - GBP 84,710). A .25% reduction in interest rates would have a negative impact of GBP 22,765.

23) Maturity Analysis

31 December 2016	Total	0-3 Months	3-12 Months	Over 1 Year	Undated
Assets	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	1,298	-	-	-	1,298
Loans and advances to banks	116,949	115,493	1,456	-	-
Loans and advances to customers	10,845	1,064	981	8,800	-
Debt securities	7,001	1,001	-	6,000	-
Property and equipment	2,950	-	-	-	2,950
Intangible assets	165	-	-	-	165
Other assets	265	265	-	-	-
Total assets	**139,473**	**117,823**	**2,437**	**14,800**	**4,413**
Liabilities					
Deposits by Banks	120,253	102,166	-	18,087	-
Customer accounts	5,461	5,073	388	-	-
Other liabilities	428	-	-	-	428
	126,142	107,239	388	18,087	428
Share capital	15,000	-	-	-	15,000
Fair value reserve	1	-	-	-	1
Revaluation Reserve	435	-	-	-	435
Retained earnings	(2,105)	-	-	-	(2,105)
Total liabilities and equity	**139,473**	**107,239**	**388**	**18,087**	**13,759**
Net maturity gap		10,584	2,049	(3,287)	(9,346)
Cumulative maturity gap		10,584	12,633	9,346	-

31 December 2015	Total	0-3 Months	3-12 Months	Over 1 Year	Undated
Assets	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cash at bank and in hand	2,140		-	-	2,140
Loans and advances to banks	36,194	35,558	636	-	-
Loans and advances to customers	8,648	1,403	1,049	6,196	-
Debt securities	1,026	-	-	1,026	-
Property and equipment	3,011	-	-	-	3,011
Intangible assets	394	-	-	-	394
Other assets	136	136	-	-	-
Total assets	51,549	37,097	1,685	7,222	5,545
Liabilities					
Deposits by Banks	32,568	16,730	15,838	-	-
Customer accounts	4,830	4,585	245	-	-
Other liabilities	340	-	-	-	340
	37,738	21,315	16,083	0	340
Share capital	15,000	-	-	-	15,000
Fair value reserve	26	-	-	-	26
Revaluation Reserve	454	-	-	-	454
Retained earnings	(1,669)	-	-	-	(1,669)

Total liabilities and equity	**51,549**	**21,315**	**16,083**	-	**14,151**
Net maturity gap		**15,782**	(14,398)	7,222	(8,606)
cumulative maturity gap		15,782	1,384	8,606	-

24) Foreign exchange exposure

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

31 December 2016	**Total**	**GBP**	**Euro**	**LKR**	**USD**
Assets	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	1,298	186	920	-	192
Loans and advances to banks	116,949	95,081	420	-	21,448
Loans and advances to customers	10,845	9,929	916	-	-
Debt securities	7,001	1,001	-	-	6,000
Property and equipment	2,950	2,950	-	-	-
Intangible assets	165	165	-	-	-
Other assets	265	121	8	-	136
Total assets	**139,473**	**109,433**	**2,264**	**-**	**27,776**
Liabilities					
Deposits by Banks	120,253	90,507	2,197	16	27,533
Customer accounts	5,461	5,353	33	-	75
Other liabilities	428	371	27	-	30
	126,142	96,231	2,257	16	27,638
Share capital	15,000	15,000	-	-	-
Fair value reserve	1	1	-	-	-
Revaluation reserve	435	435	-	-	-
Retained earnings	(2,105)	(2,105)	-	-	-
Total liabilities and equity	**139,473**	**109,562**	**2,257**	**16**	**27,638**
Gross exposure (liability)		(129)	7	16	138
Foreign exchange contracts			-	-	-
Net exposure (liability)		**(129)**	**7**	**(16)**	**138**

31 December 2015	**Total GBP 000**	**GBP GBP 000**	**Euro GBP 000**	**LKR GBP 000**	**USD GBP 000**
Assets					
Cash at bank and in hand	2,140	242	1,317		581
Loans and advances to banks	36,194	28,795	164	-	7,235
Loans and advances to customers	8,648	7,366	-	-	1,282
Debt securities	1,026	1,026	-	-	-
Property and equipment	3,011	3,011	-	-	-
Intangible assets	394	394	-	-	-
Other assets	136	110	2	-	24
Total assets	**51,549**	**40,944**	**1,483**	-	**9,122**
Liabilities					
Deposits by Banks	32,568	22,381	1377	6	8,804
Customer accounts	4,830	4,392	59	-	379
Other liabilities	340	324	3	-	13
	37,738	27,097	1,439	6	9,196
Share capital	15,000	15,000	-	-	-
Fair value reserve	26	26	-	-	-
Revaluation Reserve	454	454			

Retained earnings	(1,669)	(1,669)	-	-	-
Total liabilities and equity	51,549	40,908	1,439	6	9,196
Gross exposure (liability)		36	44	(6)	(74)
Foreign exchange contracts			-	-	-
Net exposure (liability)		36	80	(6)	(74)

At 31 December 2016 a 5% strengthening of Sterling against the US Dollar would have reduced profits by GBP 6,000 and a 5% weakening would have a reverse 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.

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 2016 GBP 000	As at 31 December 2015 GBP 000
Cash at bank	1,259	2,054
Loans and advances to banks	116,949	107,251
Loans and advances to customers	10,845	8,932
Investments	7,001	3,966
Other assets	265	84
Maximum credit risk exposure	136,319	122,287

Investment grade assets	110,636	109,439
Other assets	25,683	12,848
	136,319	122,287

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 held for liquidity purposes in accordance with CRD IV and Eurobonds issued by the Government of Sri Lanka and Sri Lankan financial institutions. These assets were valued at GBP 7,001,000 at 31 December 2016 (investments at 31 December 2015 were GBP 3,966,000).

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.

- 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.

2016

	Level 1 GBP 000	**Level 2 GBP 000**	**Level 3 GBP 000**	**Total GBP 000**
Financial instrument assets				
Debt Securities	1,001	6,000		7,001
Loans and advances to customers	-	-	10,845	10,845
Total	1,001	6,000	10,845	17,846

2015

	Level 1 GBP 000	**Level 2 GBP 000**	**Level 3 GBP 000**	**Total GBP 000**
Financial instrument assets				
Debt securities	1,014	2,952	-	3,966
Loans and advances to customers	-	-	8,932	8,932
Total	1,014	2,952	8,932	12,898

27) Capital Management

The Bank's approach to capital management is as set out in the Strategic Report. The regulatory capital of the Bank was GBP 13,166,000 at 31 December 2016 after deducting the book value of intangible assets from shareholder's funds (GBP 13,173, 000 at 31 December 2015). The Bank complied with all regulatory capital requirements throughout the year.

28) Subsequent events

There were no subsequent events.

Bank of Ceylon (UK) Ltd Country-by-Country Reporting as at 31 December 2016

The principal activity of the Bank of Ceylon (UK) Ltd is providing retail and wholesale banking services in the UK. Please refer to the basis of preparation for further details on how the information was prepared.

Country-by-Country disclosure (£'000)

Country	Turnover	Profit/(Loss) before tax	Corporation tax paid/received	Subsidies received	Headcount (including temp/contract staff)
	GBP 000	GBP 000	GBP 000	GBP 000	
UK	2,203	(123)	0	0	26
Global	**2,203**	**(123)**	**0**	**0**	**26**

Basis of preparation

Country: The geographical location of the Company considers the country of incorporation or residence as well as the relevant tax jurisdiction. In this context, the countries applicable will be United Kingdom

Turnover: Bank of Ceylon (UK) Ltd defines revenue, as the sum of the following income statement items:

- Income from retail and commercial lending
- Income from treasury operations
- Income from investments
- Fee based income

Profit/ (loss) before tax: As with turnover, the definition of profit and loss before tax is consistent with that in the Company's financial statements. These numbers also include profit or loss on the sale of fixed assets.

Corporation tax paid: This column discloses the cash amount of corporation tax paid in each country in 2016.

Public subsidies received: In the context of CBCR, this is interpreted as direct support by the government. There were no subsidies received by Bank of Ceylon (UK) Ltd in 2016.

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

Accounting framework: Amounts reported are based on International Financial Reporting Standards ("IFRSs") as adopted by the EU and applicable law and, as regards the parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.