FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2022

Bank of Ceylon (UK) LTD

ANNUAL REPORT 2022

COMPANY REGISTRATION NO. 06736473

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COMPANY INFORMATION

Mr W.D.R. Swanney	Independent Non-Executive Director and Chairman
Mr. E. R. C. Perera, PC *Appointed 18th January 2023*	Chairman Designate - Pending PRA Approval
Mr. Aruna Kumara	Executive Director and Chief Executive Officer
Mr. R. England	Independent Non-Executive Director
Mr P L Balasuriya	Executive Director
Mr. W. P. Russel Fonseka *Appointed 31st January 2023*	Non-Executive Director and General Manager, BOC
Mr. P L Balasuriya	Company Secretary
Registered office	1 Devonshire Square, London, EC2M 4WD
Solicitor	Field Fisher Riverbank House, 2 Swan Lane, London EC4R 3TT
Independent Auditor	MHA MacIntyre Hudson 2 London Wall Place, Barbican, London EC2Y 5AU ·

STRATEGIC REPORT

CHAIRMAN'S REPORT

During 2022 the environment in both the UK and Sri Lanka continued to be challenging. From a business perspective, each jurisdiction continued to present significant challenges to the bank. Faced with these, management took decisive action to seek out new opportunities, and we were able to continue to build our business in the UK, keeping our services open for our valued customers - and delivered an outturn that has been particularly pleasing in the difficult circumstances.

I am delighted to report that the Bank increased profitability at trading level with a profit of £258,243, some 126% better than in 2021. The movements in ratings agencies' grading of Sri Lankan debt caused a larger increase in the IFRS9 provision than last year, which results in the Bank's statutory result for 2022 becoming a loss before tax of £146,619, compared to a profit in 2021 of £112,000. We have, however, successfully navigated the continuing negative factors and pressures in the main economies in which we do business, demonstrating our resilience in meeting challenges outside our influence and minimizing the impact on the Bank of Ceylon Group. The Bank ensured its customer-centric approach, and its online and physical banking activities were maintained during 2022.

The Bank maintained its good credit quality standards, with overall risk remaining low through continued discipline in underwriting standards and risk appetite. The Bank continues to offer facilities to new and developing businesses in the SME sector, albeit that 2022 was challenging in this regard. Trade finance activity, although heavily affected by Sri Lanka's unresolved foreign reserves issues, has been positively addressed by looking to new markets. In the area of residential Buy-to-Let mortgages, the Bank continues to attract new customers requiring a tailored approach to meet their individual requirements. Overall net loans to customers declined slightly from 2021. The level of money market funds placed with the bank from Sri Lankan banks fell away substantially over the year, although in the first few months of 2023, they have recovered somewhat.

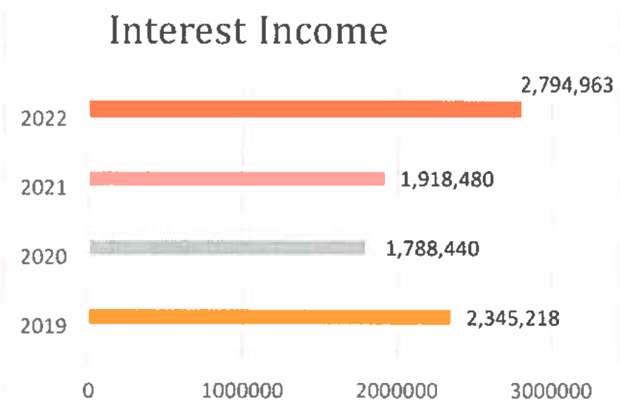
Continuing changes in the external environment, customer behaviors and expectations always create opportunities and challenges for a bank of our size. The Bank enters 2023 with a clear business strategy, a supportive parent bank, and a motivated team, which will serve us well in handling the uncertainties that lie ahead.

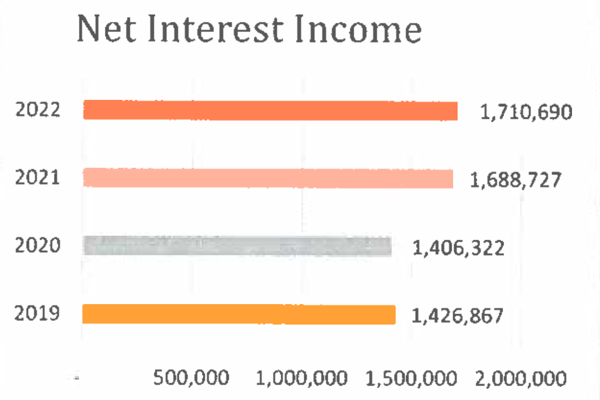
Appreciation is extended to my fellow Board Members, the staff, and to our parent bank, for their contribution to everything we achieved together in another exceptional year. I offer particular thanks to our retiring Chairman, Kanchana Ratwatte, whose sage advice over the past three years has been much valued.

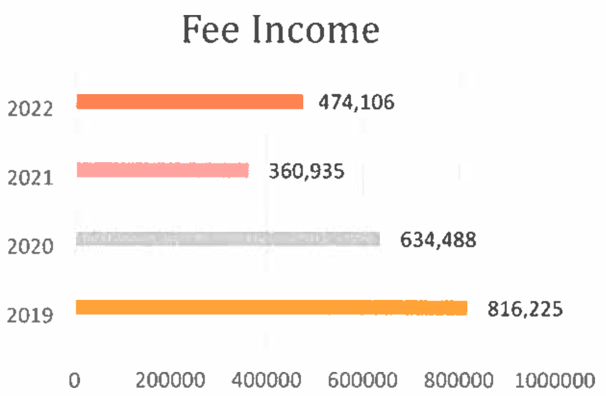
W D R Swanney
Chairman
20TH April 2023

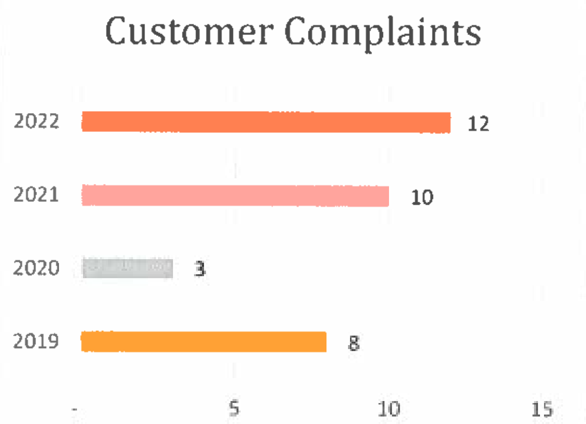
STRATEGIC REPORT CONT.

FINANCIAL HIGHLIGHTS









PRINCIPAL ACTIVITIES

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

The Bank is authorized 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, correspondent banking facilities, trade finance, retail banking, and remittance services.

The Directors are required by the Companies Act 2006 to set out in this report a fair review of the business of the Bank.

We are a specialist bank focusing on lending to customers in the domestic market, typically in the segments underserved by larger high-street banks. This approach requires us to be experts in the areas we operate in by providing excellent customer service through knowledge and speed of delivery. We see specialisation as what differentiates us from our competition. In addition to domestic lending, we provide trade finance services to many UK and non-UK exporters.

BOC UK operates three key business lines: trade finance, financing clients in the private rental market, and providing treasury services.

BUSINESS REVIEW 2022

2022 has been an unprecedented year for BOC UK Ltd, as the economic crisis in Sri Lanka unfolded. In April, the Government of Sri Lanka announced the suspension of interest and capital payments on its international sovereign bonds, which presented a challenge to the Bank. The country's instrument rating was set at SD (selective default), with the sovereign rating set at 'CCC'. These developments had an immediate impact on the volume of trade finance business originating from the UK to Sri Lanka. The Bank was quick to respond to this change, by forging new trade links with Asian exporters. The initial response was measured, followed by a gradual build-up of repeat requests for advising letters of credits. Trade finance business from the new channel expanded to include bill discounting and confirmation services. The overall results from trade finance totalled GBP 447K, a good result in a difficult year.

The events in Sri Lanka have had an impact on the BOC's Treasury operations as well. The suspension of forex lines to Sri Lanka by international banks has had an impact on the Bank's business during the period May to August. In September, the Bank successfully negotiated a line of credit with a European Bank for forex services. These facilities have been fully utilised since being set up, contributing to a steady growth in treasury income. The total treasury income amounted to GBP 2,087,046 is a combination of forex, fee income, and interest income, with the latter benefiting from interest rate increases during the year.

UK lending declined compared to the previous year reflecting elevated levels of redemption mainly in the Buy to Let loan segment. The focus during the year has been navigating in an environment of rising interest rates, higher consumer prices and an uncertain economic outlook. Lending in the fourth quarter improved as drawdowns resumed and a growing pipeline of business.

Asset quality in all the categories remains strong, with overall lending income benefiting from the interest increases.

The Bank has achieved steady progress despite the many challenges through implementation of strategic initiatives during the year. A strong rate environment and a benign credit backdrop has contributed to delivering a good result at trading profit level.

TRADING PROFIT

Trading profit for the year 2022 is GBP 258,243 before ECL provisioning (2021 GBP 173,316) which is a good result in a rapidly changing environment.

IMPAIRMENT PROVISIONS

The Bank has recognised an impairment charge of GBP 404,863 for the year (2021 GBP 59,576), reflecting the default rating on the Sri Lankan International Sovereign Bond (ISB), and the adverse movement in the country's rating on other balance sheet assets with Sri Lankan counterparties. Currently, there are limited signs of credit concerns across our other portfolios with most areas remaining low and stable.

STATUTORY LOSS

The large provision on the Sri Lankan ISB resulted in the trading for the year translating into a loss of (GBP 146,619) (2021 profit of GBP 112,000).

ASSET GROWTH

Total assets grew during the year, however, the loan book declined slightly.

CAPITAL

As of 31st of December 2022, the Bank's capital position remains comfortable, exceeding the regulatory requirements with adequate capital to continue lending activities.

FUNDING STRATEGY

The bank raised GBP 5.9 million of retail deposits early in the year, doubling the level of customer deposits. As a result of this increase, customer deposits now represent 11 % of the Bank's liabilities taking the loan-to-deposit ratio to 157%. The funding strategy will remain deposit-led and will focus on diversification.

Approval on behalf of the Board

Aruna Kumara
Chief Executive Officer
20th *April 2023*

GOVERNANCE

CORPORATE GOVERNANCE BOARD COMPOSITION

At the date of this report, the Board comprises of two Executive Directors, two independent Non-Executive Directors and two Non-independent non-Executive directors appointed by BOC.

The role of the Board is to provide leadership of the Bank within the framework of prudent and effective controls which enables risks to be assessed and managed. The Board establishes the Bank's purpose, its values, sets the strategy and risk appetite, and leads the development of the Bank's culture.

The governance framework includes the Board, Board committees and the Executive committees. The Board meets quarterly and has defined responsibilities for the overall direction, supervision, and control of the Bank. This includes an assessment of the Bank's competitive position, approval of strategic and financial plans, taking into consideration the likely long-run consequences of any decisions, and review of the financial performance and position.

The Board reviews and approves significant changes in the Bank's structure and organisation, establishes the risk management framework, and the overall risk appetite. The Board also has responsibility for driving sustainability and a positive social and environmental impact. Other responsibilities include review and approval of key policies in relation to credit, large exposures, impairment, liquidity, and operational risk. The Board also approves and monitors the Bank's policies, procedures, and processes in connection with the identified risks given below.

Please also see the Audit and Risk Committee report for the year ended 31st December 2022

REPORT OF THE BOARD OF DIRECTORS

BOARD OF DIRECTORS

The Board of Directors present their Report, together with the audited financial statements for the year ended 31 December 2022.

We have prepared these financial statements under International Financial Reporting Standards, in conformity with the Companies Act 2006.

A review of the Bank's business operations, its objectives and activities are covered in the Chairman's Report and the Strategic Report.

DIRECTORS

The names of the current directors who served on the board and changes to the composition of the board that has taken place during the financial year:

- Mr W.D.R. Swanney
- Mr. E. R. C. Perera, PC (Appointed 18th January 2023)
- Mr. Aruna Kumara
- Mr. R. England
- Mr P L Balasuriya
- Mr. W. P. Russel Fonseka (Appointed 31st January 2023)

RESULTS

The results for the year are set out in the income statement on page 29. The loss before taxation for the year ended 31 December 2022 was GBP 146,619 (2021 GBP 113,740). A review of the financial performance of the Bank is included within the Strategic report page 5.

POST BALANCE SHEET EVENTS.

There have been no post-balance sheet events. Note 30 page 55.

GOING CONCERN

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, at least 12 months from the approval of the financial statements.

In making this assessment, the Directors have considered a range of information relating to present and future conditions. Information relevant to this assessment regarding the Bank's principal activities, challenges and uncertainties is described in the Strategic Report.

In assessing the operating environment of the Sri Lankan market, the Directors have had regard to the announcement by the government of Sri Lanka on the 12th of April 2022 regarding the suspension of principal and interest on the international sovereign bonds. Following the down grading of the Sri Lankan sovereign risk to 'CCC'- in 2022, the Bank has been applying the highest risk weights on all lending to Sri Lanka. The international sovereign bond investment has been impaired and the loss given default has been assumed at 60%.

The bank has a formalised process of budgeting, reporting, and reviewing. The Bank's planning procedures forecast its profitability, capital position, funding requirements and cash flow over a three-year horizon. The 2023 plan has been based on the current and forecast economic market conditions that are expected to prevail. The assumptions used in the current plan project the economic environment to remain subdued over the next two years, before the Sri Lankan economy recovers in year three.

The political and economic situation in Sri Lanka has stabilised over several months with exports, tourism, and foreign remittances steadily recovering to the pre- crisis levels. On the 20th of March 2023, the IMF approved the structural funding of USD 2.9 Billion to Sri Lanka and released the first tranche soon after.

The Bank has historically strong relations with Sri Lankan counterparties particularly in the area of trade finance, but has had to limit its exposures since the hight of the economic crisis.

The current forecasts have been based on a lower level of exposure, to which stresses have been applied assuming that IMF funding will not be available to Sri Lanka. Even in such an extreme scenario the stress results indicate that the Bank will have adequate Capital and liquidity to continue operations.

The Bank is confident of raising adequate funds in the UK retail market to finance is growth and expansion activities. A deep economic crisis in Sri Lanka will not impact the Bank's ability to deliver on its UK expansion. The bank's performance during the first quarter of 2023 is well ahead of budget and is an indication that the budgets have been based on a more conservative assumption for the Sri Lankan economy.

The parent bank BOC Colombo is due to publish its financial results for the year end 2022 shortly. Despite the economic challenges, the bank has successfully delivered year on year growth of 28 % at operating income. Profit for the year is down by 15% due to the significant increase in impairment charges. In February 2023, Fitch Ratings upgraded Bank of Ceylon Colombo's long term foreign currency issuer default ratings to 'CC' from a 'RD' (Restricted Default), reflecting the improved foreign currency liquidity position since June 2022.

The Directors believe that the Bank has sufficient resources to continue its activities for the foreseeable future and that there is sufficient capital to enable it to continue to meet its regulatory capital requirements as set out by the Prudential Regulation Authority.

In assessing the appropriateness of the going concern basis, the directors considered the Bank's financial position, the cash flow requirements laid out in its forecasts, its access to funding, the assumptions underlying the forecasts and the potential risks affecting them. After performing this assessment, the directors concluded that it was appropriate for them to continue to adopt the going concern basis in preparing the Annual Report and Accounts.

DISCLOSURE IN RESPECT OF FINANCIAL INSTRUMENTS

In the course of its normal business activities, the financial instruments transacted by the Bank include: investments in counterparties (note 13), lending to customers (note 14), sovereign bonds (note 17). Please also see strategic report for additional disclosures.

DISCLOSURE OF INFORMATION TO THE AUDITOR

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

QUALIFYING INDEMNITY INSURANCE

The Bank had a 'Directors' and Officers' liability insurance policy in place throughout the year.

RESEARCH AND DEVELOPMENT ACTIVITIES

The Bank did not undertake any formal research and development activities in the ordinary course of business. See the Strategic Report for more information.

CHARITABLE DONATIONS

The company did not make any political or charitable contributions during the year (2021: Nil).

INDEPENDENT AUDITOR

MHA Macintyre Hudson has expressed their willingness to continue in office and have been re-appointed pursuant to section 487(2) of the companies Act 2006.

Approval on behalf of the Board

Aruna Kumara
Chief Executive Officer
20th *April 2023*

SECTION 172 STATEMENT

This section of the Strategic Report describes how our directors have had regard to the matters set out in Section 172 (1) of the Companies Act 2006.

Directors must act in the way they consider, in good faith to promote the success of the Company for the benefit of its members as a whole and in doing so have regard (amongst other matters) to:

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

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

- standing agenda items on people matters, business strategy, and stakeholder matters;
- receiving periodic updates against the business plan from Executive Management;
- the Board is aware of the impact inflationary pressures are having on our customers, and has responded by providing targeted relief.
- continue the Bank's people strategy through 2022 to build a collaborative culture to enhance employee engagement. During 2022 the Bank continued to focus on staff development by arranging workshops and programmes on regulatory compliance and risk awareness training. The Bank encourages staff engagement at all levels through regular discussions and presentations at management meetings.
- the board is committed to transitioning to a low-carbon economy. The scale of operations at the Bank limits our ability to generate saving, through the transition. Through our policy of selective lending, we are committed to ensuring the sustainability of the environment;
- ensuring the Bank has an experienced client-facing team who look after our clients and are knowledgeable about their business. The Board receives periodic updates on customer complaints and any other issues;
- the board strives for regular open and transparent dialogue with the regulators, ensuring alignment on evolving priorities. The Chief Executive Officer and the Non-Executive directors have met with the PRA.
- the major shareholder is represented at the board via two nominated directors.

Authorised and approved on behalf of the Board.

Aruna Kumara
Chief Executive Officer
20th April 2023

PRINCIPAL RISKS AND UNCERTAINTIES

RISK MANAGEMENT FRAMEWORK

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

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

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

The Bank's principal risks categories has exposure to the following risks:

Credit Risk	Market Risk	Financial Risk	Operational and Resilience Risk

CREDIT RISK

"Credit risk" is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks, and investments in debt securities. Credit risk can arise in respect of both on and off-balance sheet exposures. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country, and sector risk).

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

	As at 31 December 2022 GBP 000	As at 31 December 2021 GBP 000
Loans and advances to Banks	91,116	21,104
Loans and advances to customers	18,096	19,359
Investments	453	1,499
Other assets	185	129
Maximum credit risk exposure	**109,850**	42,091
Investment grade assets (BOE)	83,615	17,849
Other assets	26,233	24,242
	109,848	42,091

MANAGEMENT OF CREDIT RISK

The Board of Directors has delegated responsibility for the day-to-day oversight of credit risk to the Bank's Credit Committee. The Credit Committee is responsible for the effective management of credit risk including the following:

- Formulating credit policies covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements.
- Establishing risk appetite and risk limits.
- Establishing the authorisation structure for the approval and renewal of credit facilities. Facilities require the approval of the Credit Manager, the Chief Executive Officer, the Credit Committee, or the Board of directors, as appropriate.
- Reviewing and assessing credit risk: the Credit Committee assesses all exposures in excess of designated limits before facilities are committed to customers. Renewals and reviews of facilities are subject to the same review process.
- Limiting concentrations of exposures to customers, counterparties, geography and by product.
- Developing and maintaining the Bank's risk grading to categorise exposures according to the degree of risk of default. The responsibility for setting risk grades lies with the final approving executive or committee, as appropriate. Risk grades are subject to regular reviews by the Credit Committee.
- Developing and maintaining the Bank's processes for measuring ECL; this includes processes for:
  - ✓ initial approval, regular validation and back-testing of the models used;
  - ✓ determining and monitoring significant increases in credit risk, and
  - ✓ horizon scanning for expected events.
- Reviewing compliance with agreed exposure limits, including those for country risk and product types. Regular reports on the credit quality of the portfolios are provided to the Credit Committee, which may require appropriate corrective action to be taken. These include reports containing estimates of expected credit loss ("ECL") allowances.

Operating departments are required to implement the Bank's credit policies and procedures, and are responsible for the quality and performance of their credit portfolios, and for monitoring and controlling all credit risks in the portfolios.

The credit process is reviewed on a regular basis by Internal Audit.

SENSITIVITY ANALYSIS OF ECL ESTIMATES

The balance sheet assets comprise exposures relating to trade finance loans, money market placements, investments, domestic lending and off-balance confirmations. The sensitivity of the ECL provision in relation to changes in scenario weights and probability of default are set out in the tables below.

Changes to scenario weightings

Across the portfolio a 10% increase in the weighting of the 'Downturn' scenario (with a corresponding 10% decrease in the weightings of the 'Base Case' scenario) would result in a small change to the expected credit loss allowance.

Sensitivity analysis: Change in scenario weightings assigned

The table below sets out the impact of the change to the 2022 base case.

2022	Base case	Scenario ('Downturn' weight increases by 10%; 'Base Case decreases by 10%)	%Change in ECL Allowance Incr/(Decr)
	GBP	GBP	%
Stage 1	299,087	300,545	0.5
Stage 2	-		
Stage 3	491,352	491,352	-
Total ECL allowance	790,439	791,897	0.5

2021	Base case	Scenario ('Downturn' weight increases by 10%; 'Base Case decreases by 10%)	%Change in ECL Allowance Incr/(Decr)
	GBP	GBP	%
Stage 1	212,230	213,689	1
Stage 2	173,346	173,346	-
Stage 3	-		-
Total ECL allowance	385,576	387,035	1

Probability of Default (PD)

The credit allowance estimate is also sensitive to changes in PD. A 10% increase of the base case PD will increase the total ECL by GBP 27,000.

Sensitivity analysis: Changes in PDs assigned

PDs deteriorate by 10% for each credit rating incrementally for scenarios A, B, and C respectively.

2022	Base case	Scenario PD increases by 10%.	%Change in ECL Allowance Incr/(Decr)
	GBP	GBP	%
Stage 1	299,087	325,962	9
Stage 2	-		
Stage 3	491,352	491,352	0
Total ECL allowance	790,439	817,314	9

2021	Base case	Scenario PD increases by 10%.	%Change in ECL Allowance Incr/(Decr)
	GBP	GBP	%
Stage 1	212,230	234,307	10
Stage 2	173,346	189,569	9
Stage 3	-	-	0
Total ECL allowance	385,576	423,876	10

FINANCIAL CRIME RISK

"Financial crime risk" is the risk that the Bank's products and services will be used to facilitate financial crime against the Bank, its customer's and third parties.

MANAGEMENT OF FINANCIAL CRIME RISK

The bank adopts a risk-based approach to management of financial crime and the following controls and procedures support mitigation:

- A clearly defined financial crime risk policy, approved by the board.
- Ongoing development, maintenance, and reporting of risk appetite measures on financial crime and fraud risk to the Audit and Risk Committee.
- Consideration of financial crime and fraud risk in the context of product and propositions.
- Ongoing assessment of evolving regulatory policy requirements and ensuring the Bank meets the requirements of the UK Money Laundering Regulations.
- Regular oversight, review of systems, controls and higher risk activities and customers.

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

FINANCIAL RISK

Financial risk includes liquidity risk, market risk, capital risk and funding risk all of which have the ability to impact the financial performance of the Bank if managed improperly.

LIQUIDITY RISK

"Liquidity risk" is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. Liquidity risk arises from mismatches in the timing and amounts of cash flows, which is inherent in the Bank's operations and investments. The maturity of all assets and liabilities is shown in notes 13 to 22. The Bank did not have any unmatched derivative exposures at the year end and hence no further liquidity exposure.

MANAGEMENT OF LIQUIDITY RISK

The Bank's Board sets the Bank's strategy for managing liquidity risk; oversight of the implementation is administered by the Bank's Asset and Liability Committee (ALCO). ALCO recommends to the Board the Bank's liquidity policies and procedures which are maintained and updated by the Bank's Finance Department in conjunction with its Risk Department. Treasury Department manages the Bank's liquidity position on a day-to-day basis and reviews daily reports covering the liquidity position of the Bank. A summary report, including exceptions and remedial action taken is submitted regularly to ALCO.

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when they are due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The key elements of the Bank's liquidity strategy are as follows:

- Carrying an Annual Internal Liquidity Adequacy Assessment Process (ILAAP)
- Maintaining an adequate funding base of customer deposits and wholesale market deposits.
- Carrying a portfolio of high-quality liquid assets
- Monitoring maturity mismatches and behavioural characteristics of the Bank's financial assets and financial liabilities.
- Stress testing the Bank's liquidity position against various exposure scenarios.

Treasury Department receives information regarding the liquidity profile of the Bank's financial assets and financial liabilities and details of other projected cash-flows from anticipated future business. Treasury maintains a portfolio of short-term liquid assets, largely made up of short-term placements with central banks and loans and advances to other banks, to ensure that sufficient liquidity is maintained within the Bank.

Regular liquidity stress testing is conducted under a variety of scenarios covering both normal and severe market conditions. The scenarios are developed taking into account both Bank specific events and market related events. The results of the tests are reviewed by ALCO and presented to the Board.

FUNDING RISK

"Funding risk" is the risk when the Bank is unable to raise or maintain funds of sufficient quality and quantity to support the delivery of the business plan or sustain the lending commitments. Prudent funding risk management reduces the likelihood of liquidity risk occurring, increases the stability of funding sources and ensures future balance sheet growth is sustainable.

MANAGEMENT OF FUNDING RISK

Funding plans includes an assessment of the Bank's capacity for raising funds across a selected number of primary funding sources. Refinancing risks are carefully managed and are subject to controls overseen by

ALCO. The Bank operates a Fund Transfer Pricing module to ensure that the pricing of loans reflects the cost of funds.

MARKET RISK

"Market risk" is the risk that changes in market prices will affect the Bank's income or the value of its holdings of financial instruments. The Bank's exposure to market risk is primarily due to interest rate and foreign exchange exposures.

Interest Rate Risk is assessed in Note 25 and Foreign Exchange Risk is assessed in Note 27.

The Bank's holdings of debt securities comprise Government of Sri Lanka bonds. These assets were valued at GBP 327,534 net of ECL provisions as at 31 December 2022 (investments at 31 December 2021 were GBP 1,644,752).

MANAGEMENT OF MARKET RISK

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

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

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

OPERATIONAL RISK

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

MANAGEMENT OF OPERATIONAL RISK

The Bank's objective is to manage operational risk to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and innovation. In all cases, the Bank's policy requires compliance with all legal and regulatory requirements.

The Board has delegated to the Executive Committee responsibility for the development and implementation of controls to address operational risk. This is supported by the development of overall standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorisation of transactions;
- requirements for the reconciliation and monitoring for transactions;
- compliance with regulatory and other legal requirements;
- documentation of controls and procedures;
- requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
- requirements for the reporting of operational losses and the proposed remedial actions;
- development of contingency plans;
- training and professional development;
- information technology and cyber risks; and
- risk mitigation, including insurance where this is cost-effective.

Internal Audit undertakes periodic reviews of operational risk exposures. The results of Internal Audit reviews are discussed by the Executive Committee and submitted to the Audit and Risk Committee.

The results of the tests are reviewed by ALCO and presented to the Board.

CAPITAL ADEQUACY

The Bank is required to comply with the provisions of the Capital Requirements Regulation and Directive (CRD IV) which was transposed to the PRA rule book as part of the Brexit arrangements in respect of regulatory capital. The Bank's regulatory capital comprises ordinary share capital, revaluation reserves and retained earnings.

The regulator provides the Bank with its view of the amount and quality of capital that it considers the Bank must hold in addition to its Pillar 1 capital ("Pillar 2A") to meet the overall financial adequacy requirements for credit risk, market risk, counterparty credit risk, interest rate risk, pension obligation risk and group risk. It also provides its view of the amount of capital buffer the Bank should hold in addition to its total capital requirement to cover losses that may arise under a severe stress scenario, but avoiding duplication with CRD IV buffers (Pillar 2B). The Bank applies the transitional relief arrangements for the capital impact of IFRS 9 ECL provisioning. In June 2020, the Capital Requirements Regulation was amended in response to the COVID 19 pandemic. The Bank has adopted the CET1 addback percentage of 50% for relevant provisions raised from 1 January 2022 in arriving at the regulatory capital, as set out in note 28.

MANAGEMENT OF CAPITAL ADEQUACY

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

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

FINANCIAL RISKS ARISING FROM CLIMATE CHANGE

Climate risk is the exposure to physical and transition risks arising from climate change. Physical risk arises from long-term changes in the climate and weather-related events, rising average temperatures, heatwaves, floods, storms, sea level rises, erosions etc.

Transition risk arises from the adjustment towards a low-carbon economy and could lead to changes in appetite, strategy, policy, and technology. These changes could prompt a reassessment of the value of a large range of assets and create increased financial exposures for the Bank as the costs and opportunities arising from climate change become apparent. Reputational risk may also arise from a failure to meet changing and more demanding societal and regulatory expectations.

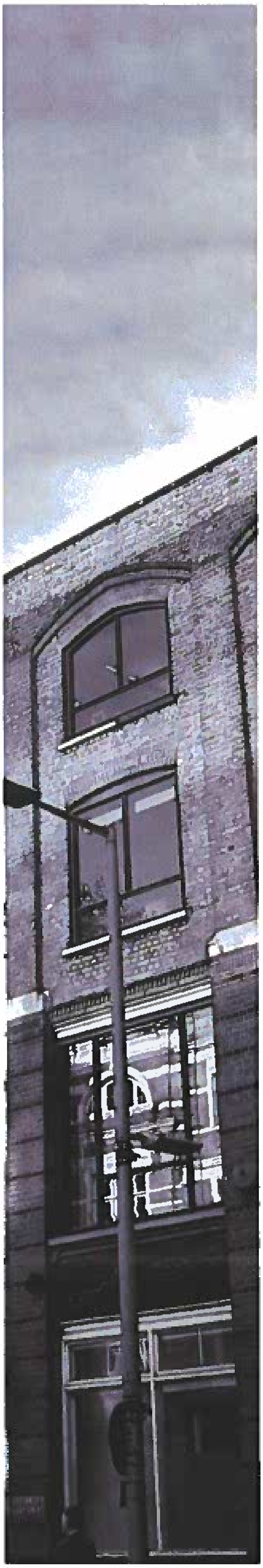
The Bank accepts a level of climate risk in conducting its business. The Board provides oversight of climate - related risks through the Audit and Risk Committee. The Board has delegated day-to-day responsibility for managing the financial risk arising from climate change to the Head of Risk and Compliance with wider climate-related risks and opportunities being managed by the executive team. The Bank is currently in the process of gathering data to support the climate risk assessment and, therefore risk appetite metrics and limits will evolve.

MANAGEMENT OF CLIMATE RISK

The Bank's Board sets the Bank's strategy for managing climate risk with focus on the following three areas.

- Reduce our carbon footprint by reducing the impact our operations have on the environment in the following areas:
    - 100% green gas and electricity
    - zero waste to landfill
    - continued reductions in paper usage.

- Support customers in their transition to a low carbon economy.
    - coaching our customers.
    - Sustainability- linked loans
    - Retrofit loans
    -
- **Embed climate considerations into the Bank's decision-making.**
    - Environment committee
    - ESG to be embedded in our planning cycle.
    - Board to receive quarterly updates.



REPORT OF THE AUDIT AND RISK COMMITTEE

FOR THE YEAR ENDED 31 DECEMBER 2022

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

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

- **Risk Management**
- **Compliance**
- **Whistleblowing, Fraud, Bribery and Financial Crime.**

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

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

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

The composition of the Committee is as follows:

- W D R Swanney (Chair)
- R England

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

KEY AREAS OF FOCUS DURING 2022

During the year the Committee met four times and has been involved with the following matters in addition to the other areas given in this report.

- Approved the Pillar 3 disclosures as 31 December 2021.
- The Committee has spent much time considering the implications of the Sri Lankan economic crisis, high inflation and the macro-economic of the post pandemic recovery.
- Held discussions with the PRA on the alignment with their priorities.

FINANCIAL REPORTING

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

- The committee continued to monitor the rapidly changing macro-economic environment both in Sri Lanka and UK.
- Deliberations regarding potential risks arising from the Sri Lankan economic crisis.
- Reviewed and challenged management's actions taken in response to the crisis.
- The committee considers whether the significant estimates and judgements made by management are appropriate.
- The levels of impairment provisions against loans under IFRS 9 are adequate in an environment of rising living costs and rising interest rates.
- The appropriateness and consistency of accounting policies and practices;
- The clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements, including advising the Board on whether the Report and Financial Statements (the "Annual Report"), when taken as a whole are fair, balanced and understandable and provide information sufficient for Members to assess the Bank's performance, business model and strategy; and
- The material areas in which significant judgements have been applied.

The primary areas of judgement considered by the Committee in relation to the 2022 accounts were:

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

The Committee considered whether the 2022 Annual Report was fair, balanced, and understandable. The Committee did this by satisfying itself that there was a robust process of review and challenge to ensure balance and consistency. The Committee fully discharged its responsibilities in relation to financial reporting in the 2022 Annual Report.

INTERNAL CONTROLS AND RISK MANAGEMENT SYSTEMS

The Board recognises the importance of sound systems of internal control and risk management systems in the achievement of its objectives and the safeguarding of the Bank's assets. Internal controls and risk management systems also facilitate the effectiveness and efficiency of operations. This helps to ensure the reliability of internal and external reporting, and assists in compliance with applicable laws and regulations.

The Bank operates in a dynamic business environment and, as a result, the risks it faces are continually changing. The internal controls and risk management systems have been designed to ensure a thorough and regular evaluation of the nature and extent of risk. This evaluation will enhance the Bank's ability to mitigate or react accordingly. The Senior Management Team is responsible for implementing the Board's risk and control policies. It is also recognised that all employees have responsibility for internal control as part of their accountability for achieving their objectives. Staff training and induction is designed to ensure that they are clear on their accountabilities in this area and are competent to operate and monitor the internal control framework.

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

The Committee reviews the internal controls and risk management systems through regular reporting from the Senior Management Team, internal and external auditors. The main matters that were reviewed by the Committee in 2022 were:

- prudential and conduct related;
- internal audit plans;
- reports from the internal auditor; and
- the status of any issues raised in internal audit reports to ensure a timely resolution.

The information received and considered by the Committee provided 'adequate and effective' assurance that during 2022 there were no material breaches of control or regulatory standards. In addition, the Bank maintains an adequate internal control framework.

WHISTLEBLOWING, FRAUD AND BRIBERY, AND FINANCIAL CRIME

The Committee has reviewed the adequacy and security of the Bank's arrangements for its employees and contractors to raise concerns. This has allowed them to raise concerns, in confidence, about possible fraud or other wrongdoings in financial reporting or in other matters. The Committee has reviewed the annual report from the Money Laundering Reporting Officer ("MLRO") and the adequacy and effectiveness of the Bank's anti-money laundering systems and controls. The Bank continues to protect itself and customers against the risks of financial crime through continued due diligence activities and staff training.

INTERNAL AUDIT, RISK AND COMPLIANCE

It is the responsibility of the Committee to monitor the effectiveness of internal audit and compliance activities and to ensure that adequate resources are being allocated. In order to provide the scalability and flexibility of specialist resources required in internal audit, the Bank continues to outsource this role to Grant Thornton LLP. The Head of Risk and Compliance is responsible for managing risk and compliance activities.

The Chair of the Committee meets privately with the internal auditor at least once per year without the Senior Management Team being present. This provides the opportunity for two-way comment and feedback on how the internal audit plan is progressing and how the relationship is performing.

In addition to reviewing the findings of internal audits and thematic issues identified, the Committee also reviewed the responses of the Senior Management Team and the tracking and completion of outstanding actions.

Following a detailed review of the scope of the internal audit work program for the year, the Committee approved the fee for the program of internal audit work for the year. The Head of Risk and Head of Compliance also submitted reports during the year in areas not covered by internal audit.

EXTERNAL AUDIT

The effectiveness of the external audit process is dependent on appropriate audit risk identification and at the start of the audit cycle, the Committee receives from the external auditor a detailed audit plan, identifying its assessment of the key risks.

The Chair of the Committee holds regular meetings with the external auditor. This provides the opportunity for open dialogue and feedback between the Committee and the Auditor without the Executive Directors being present. Matters typically discussed include the Auditor's assessment of financial reporting risks and key financial reporting judgements, the transparency and openness of interactions with the Senior Management Team, confirmation that there has been no restriction in scope placed on them and the independence of their audit.

The Committee approved the fees for audit services for 2022 after a review of the level and nature of the work to be performed and being satisfied that the fees were appropriate for the scope of the work required. The Committee considers the reappointment of the external auditor, including rotation of the Senior Statutory Auditor, each year and assesses their independence on an ongoing basis.

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

There are no non-audit services provided by the current statutory auditors, MHA MacIntyre Hudson.

AUDIT AND RISK COMMITTEE EFFECTIVENESS

The Committee's Terms of Reference were reviewed during the year and found to be fit for purpose.

Approved by the Board on the 20th April 2023 and signed on its behalf by

W D R Swanney
Chairman
20th April 2023

STATEMENT OF DIRECTORS RESPONSIBILITIES

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

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

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

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

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

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

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

By order of the Board:

Aruna Kumara
Chief Executive Officer
20th April 2023

INDEPENDENT AUDITOR'S REPORT

For the purpose of this report, the terms "we" and "our" denote MHA MacIntyre Hudson in relation to UK legal, professional and regulatory responsibilities and reporting obligations to the members of Bank of Ceylon (UK) Limited. For the purposes of the table on pages 29 and 30 that sets out the key audit matters and how our audit addressed the key audit matters, the terms "we" and "our" refer to MHA MacIntyre Hudson. The "Bank" is defined as Bank of Ceylon (UK) Limited. The relevant legislation governing the Bank is the United Kingdom Companies Act 2006 ("Companies Act 2006").

OPINION

We have audited the financial statements of the Bank for the year ended 31 December 2022. The financial statements that we have audited comprise:

- the Statement of Comprehensive Income
- the Statement of Financial Position
- the Statement of Changes in Equity
- the Statement of Cash Flows, and
- Notes 1 to 30 of the financial statements, including significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Bank's financial statements is applicable law and UK adopted International Financial Reporting Standards (UK adopted IFRS).

In our opinion the financial statements:

- give a true and fair view of the state of the Bank's affairs as at 31 December 2022 and of the Bank's loss for the year then ended;
- have been properly prepared in accordance with UK adopted International Financial Reporting Standards (UK adopted IFRS); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Our opinion is consistent with our reporting to the Audit and Risk Committee.

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our ethical responsibilities in accordance with those requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- The consideration of inherent risks to the Bank's operations and specifically its business model.
- The evaluation of how those risks might impact on the Bank's available financial resources.
- Where additional resources may be required, the reasonableness and practicality of the assumptions made by the Directors when assessing the probability and likelihood of those resources becoming available.
- Liquidity considerations including examination of the Bank's cash flow projections.
- The evaluation of the base case scenario and stress scenario and the respective sensitivities and rationale.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

OVERVIEW OF OUR AUDIT APPROACH

Scope	Our audit was scoped by obtaining an understanding of the Bank and its environment, including the Bank's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the directors that may have represented a risk of material misstatement.		
Materiality	**2022**	**2021**	
Overall materiality	£275k	£280k	2% (2021: 2%) of the net assets
Key audit matters			
Recurring	• Expected credit loss ("ECL") provisions – Credit impairment of loans and advances		

KEY AUDIT MATTERS

Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those matters which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Expected credit loss ("ECL") provisions - Credit impairment of loans and advances

Key audit matter description	At 31 December 2022 the Bank reported total gross loans of £109,200k (2021: £40,400k) and £790k of expected credit losses (ECL) (2021: £385k). The Bank has a portfolio of loans and advances with an associated allowance for Expected Credit Losses ("ECL"). The calculation of the IFRS 9 ECL involves a number of complex, judgmental and highly sensitive assumptions that involve significant management estimation and judgement. We have therefore identified a significant risk due to errors associated with the accuracy of the inputs and data elements used in the ECL model including probability of default, loss given default and exposure at default.
How the scope of our audit responded to the key audit matter	We tested the relevant controls related to the Bank's impairment assessment process and provisioning calculation. This included an assessment of the credit sanctioning, credit monitoring and credit provisioning of loans and advances. We performed the following audit procedures to assess the relevant controls: • Performed a walkthrough of the design and implementation of the Bank's processes in relation to credit underwriting, monitoring, collections, and provisioning. • Tested the controls in place to allocate loans to the respective risk categories (staging) and the application of the significant increase in credit risk (SICR) criteria on loans. • Reviewed and tested the design of the ECL model for compliance with IFRS 9 requirements. • Reviewed the appropriateness of the Bank's impairment policy against the requirements of IFRS 9. We engaged our IFRS 9 experts to assess the appropriateness of the methodology applied by management in the impairment model to evaluate whether it was compliant with IFRS 9 requirements. We undertook the following procedures to ensure compliance with the requirements of IFRS 9. • Evaluated the criteria used to allocate a financial asset to stage 1, 2 or 3 in accordance with IFRS 9 • Tested the appropriateness of the staging of exposures including the determination of the PD, EAD and LGD considered by management in the calculation of ECL. We reviewed key management assumptions used in applying the methodology and assessed their reasonableness by performing the relevant procedures: • Engaged with our modelling and credit risk experts to test the assumptions, inputs and formulae used in relation to models used for computing ECL provision. This work included evaluation of economic scenarios considered by management and comparing these to other scenarios from a variety of external sources. • Performed a sensitivity analysis in relation to key management assumptions and judgements to assess their impact on the ECL provisions as at year-end.

	We validated, on a sample basis, the key data elements used in the ECL model including assessing the suitability and relevance of the key assumptions applied to determine the probability of default and loss given default. We have performed the following audit procedures to assess the reliability of data elements within the ECL model: • Tested the appropriateness of the staging of the exposure by testing the correct application of SICR criteria. Our work in this regard included validating the payment history for a sample of exposures to evaluate correct classification as either stage 1, 2 or 3. • Evaluated data quality by agreeing data points used in ECL calculation to relevant source systems. • Tested post model adjustments and overlays. This included assessing the completeness and appropriateness of these adjustments. We performed credit reviews on a sample of loan files to identify indicators of deterioration in credit quality. We undertook the following audit procedures while assessing the credit quality of borrowers: • Evaluated management's credit monitoring which drives the probability of default estimates applied in the staging calculation. • Recalculated, on a sample basis, the risk ratings for performing loans. • Assessed the timing and robustness of management's annual credit review on each wholesale loan exposure to evaluate whether it appropriately considered credit risk factors including publicly available information. ***Disclosures*** • We have assessed the appropriateness of the disclosures in the financial statements for the year ended 31 December 2022. • We confirmed that the output of the model, specifically any ECL charge or reversal was correctly reflected in the general ledger and ultimately the financial statements. • We tested the data flows used to populate the disclosures and assessed the adequacy of disclosures for compliance with the accounting standards and regulatory considerations.
Key observations	We found the approach taken in respect of ECL to be consistent with the requirements of IFRS 9 and we have concluded that the assumptions and judgements made by management in the application of the ECL model were reasonable and supportable and the relevant IFRS 9 disclosures are appropriately disclosed in the financial statements.

OUR APPLICATION OF MATERIALITY

Our definition of materiality considers the value of error or omission on the financial statements that, individually or in aggregate, would change or influence the economic decision of a reasonably knowledgeable user of those financial statements. Misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole. Materiality is used in planning the scope of our work, executing that work and evaluating the results.

Overall Materiality	£275k (2021: £280k)
• Basis of determining overall materiality	We determined materiality based on 2% (2021: 2%) of the net assets value. We have considered the primary users of the financial statements to be shareholders, customers of the Bank, ultimate parent company and the UK regulators (FCA and PRA).

	We have utilised net assets as benchmark as regulatory capital resources are considered to be a key driver of Bank's decision-making process and has been a primary focus for regulators. Net assets are an appropriate proxy for regulatory capital resources as it is the starting point for determining regulatory capital resources and has historically seen low level of adjustments to arrive at regulatory capital resources from net assets.
Performance materiality	£192k (2021: £196k)
• Basis of determining overall performance materiality	We set performance materiality based on 70% (2021: 70%) of overall materiality. Performance materiality is the application of materiality at the individual account or balance level, set at an amount to reduce, to an appropriately low level, the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statements as a whole. The determination of performance materiality reflects our assessment of the risk of undetected errors existing, the nature of the systems and controls and the level of misstatements arising in previous audits.
Error reporting threshold	We agreed to report any corrected or uncorrected adjustments exceeding £14k (2021: £14k) to the Audit and Risk Committee as well as differences below this threshold that in our view warranted reporting on qualitative grounds.

The control environment
We evaluated the design and implementation of those internal controls of the Bank which are relevant to our audit, such as those relating to the financial reporting cycle.

We deployed our internal IT audit specialists to obtain an understanding of the general IT environment.

Climate-related risks
In planning our audit and gaining an understanding of the Bank, we considered the potential impact of climate-related risks on the business and its financial statements. We obtained management's climate-related risk assessment, along with relevant documentation and reports relating to management's assessment and held discussions with management to understand their process for identifying and assessing those risks.

We have agreed with managements' assessment that climate-related risks are not material to these financial statements.

Reporting on other information
The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Strategic report and directors report
In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received by branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors
As explained more fully in the directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities . This description forms part of our auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud.

These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

Identifying and assessing potential risks arising from irregularities, including fraud

The extent of the procedures undertaken to identify and assess the risks of material misstatement in respect of irregularities, including fraud, included the following:

- We considered the nature of the industry and sector the control environment, business performance including remuneration policies and the Bank's own risk assessment that irregularities might occur as a result of fraud or error. From our sector experience and through discussion with the directors, we obtained an understanding of the legal and regulatory frameworks applicable to the Bank focusing on laws and regulations that could reasonably be expected to have a direct material effect on the financial statements, such as provisions of the Companies Act 2006, UK tax legislation or those that had a fundamental effect on the operations of the Bank including the regulatory and supervisory requirements of the Prudential Regulation Authority (PRA) and the Financial Conduct Authority (FCA).
- We enquired with the directors and management concerning the Bank's policies and procedures relating to:
  - Identifying, evaluating and complying with the laws and regulations and whether they were aware of any instances of non-compliance;
  - Detecting and responding to the risks of fraud and whether they had any knowledge of actual or suspected fraud; and
  - The internal controls established to mitigate risks related to fraud or non-compliance with laws and regulations.

- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by evaluating management's incentives and opportunities for manipulation of the financial statements. This included utilising the spectrum of inherent risk and an evaluation of the risk of management override of controls. We determined that the principal risks were related to posting inappropriate journal entries to increase revenue or reduce costs, creating fictitious transactions to hide losses or to improve financial performance, and management bias in accounting estimates particularly in determining expected credit losses.

Audit response to risks identified

In respect of the above procedures:

- We corroborated the results of our enquiries through our review of the minutes of the Bank's board, audit committee meetings, inspection of the complaints register, inspection of legal and regulatory correspondence and correspondences from the regulators PRA and the FCA;
- Audit procedures performed by the engagement team in connection with the risks identified included:
  - ➢ reviewing financial statement disclosures and testing to supporting documentation to assess compliance with applicable laws and regulations expected to have a direct impact on the financial statements.
  - ➢ testing journal entries, including those processed late for financial statements preparation, those posted by infrequent or unexpected users, those posted to unusual account combinations;
  - ➢ evaluating the business rationale of significant transactions outside the normal course of business, and reviewing accounting estimates for bias;
  - ➢ enquiry of management around actual and potential litigation and claims.
  - ➢ challenging the assumptions and judgements made by management in its significant accounting estimates, in particular those relating to the determination of the expected credit losses as reported in the key audit matter section of our report; and
  - ➢ obtaining confirmations from third parties to confirm existence of a sample of transactions and balances.
- The Bank operates in a highly regulated banking industry. As such, the Senior Statutory Auditor considered the experience and expertise of the engagement team to ensure that the team had the appropriate competence and capabilities; and
- We communicated relevant laws and regulations and potential fraud risks to all engagement team members, including experts, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Other requirements

We were appointed by the Directors on 20 December 2019. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 4 years.

We did not provide any non-audit services which are prohibited by the FRC's Ethical Standard to the Bank, and we remain independent of the Bank in conducting our audit.

Use of our report

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.

Rakesh Shaunak FCA, CTA
(Senior Statutory Auditor)
for and on behalf of MHA MacIntyre Hudson, Statutory Auditor
London, United Kingdom
20th April 2023

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022	2021
		GBP 000	**GBP 000**
Interest income	4a	2,795	1,918
Interest expense	4b	(1,084)	(229)
Net interest income		**1,711**	**1,689**
Fees and commission income	5	474	361
Net gains from Forex transactions		193	50
Net Operating income		**2,378**	**2,100**
Personnel expenses	6	(1,126)	(1,085)
Operational expenses	7	(877)	(723)
Depreciation	8	(106)	(107)
Amortization	9	(11)	(12)
Impairment losses on credit exposure	10	(405)	(59)
		(2,525)	(1,986)
(Loss)/Profit from ordinary activities before tax		**(147)**	**114**
Tax credit/(charge)on loss from ordinary activities		1	(2)
(Loss)/Profit from ordinary activities after tax		**(146)**	**112**
Other comprehensive income		**(146)**	**112**
Total comprehensive (loss)/income for the year		**(146)**	**112**

The accompanying notes on pages 39 to 62 forms an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	2022	2021
Assets		**GBP 000**	**GBP 000**
Cash at bank and in hand	12	3,144	2,866
Loans and advances to Banks	13	91,116	21,104
Loans and advances to customers	14	18,096	19,359
Derivatives	15	1,146	88
Other assets	16	183	129
Investments	17	453	1,499
Property and equipment	8	3,450	3,563
Intangible assets	9	11	22
Total assets		**117,599**	**48,630**
Liabilities			
Deposits by Banks	18	90,034	28,123
Customer accounts deposits	19	11,427	5,811
Derivatives	20	852	86
Other liabilities	21	1,210	377
Current Liabilities		103,523	34,397
Deferred tax	11	245	331
Total liabilities		103,768	34,728
Equity			
Share capital		15,000	15,000
Revaluation reserve		820	745
Retained earnings		(1,989)	(1,843)
Equity shareholders' funds		13,831	13,902
Total liabilities and equity		**117,599**	**48,630**

The accompanying notes on pages 39 to 62 form an integral part of these financial statements

These financial statements were approved by the Board of Directors and were authorised for issue on the 20th April 2023, and were signed on its behalf by:

Aruna Kumara
Chief Executive Officer

STATEMENT OF CHANGES TO EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share Capital	Retained Earnings	Revaluation Reserve	Total Equity
Equity Shareholder's funds 1 January 2022	GBP 000	GBP 000	GBP 000	GBP 000
Cost at 1 January 2022	15,000	(1,843)	745	13,902
Total Comprehensive Income		(146)		(146)
Revaluation Reserve movement			75	75
Equity Shareholder's funds 31st December 2022	15,000	(1,989)	820	13,831

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

The accompanying notes on pages 39 to 62 form an integral part of these financial statements

STATEMENT OF CASHFLOW

FOR THE YEAR ENDED 31 DECEMBER 2022

	2022	2021
Net cash flow from operating activities	**GBP 000**	**GBP 000**
Profit / loss before tax	(147)	114
Non-cash items included in profit and other adjustments:		
Depreciation of operating property, plant, and equipment	106	107
Profit on disposal of operating property, plant, and equipment	-	-
Amortization of intangible assets	11	12
Movements related to asset backed loan notes denominated in currency	-	-
Impairment losses on loans to customers	405	59
Net (increase) / decrease in operating assets:		
Loans to customers	1,260	1,001
Financial instruments	(70,102)	92,438
Other Receivable	(1,112)	761
Net increase / (decrease) in operating liabilities		
Retail deposits	5,616	1,079
Financial instruments	61,911	(95,893)
Other liabilities	1,598	(511)
Cash generated by operations	(454)	(833)
	(454)	(833)
Net cash flow from investing activities		
Purchase of operating property, plant, and equipment	(2)	-
Net cash flow from financing activities		
Repayment on investments	747	1,760
Net increase/(decrease) in cash and cash equivalents	291	927
Opening cash and cash equivalents	2,866	1,939
Closing Cash and cash equivalents	3,157	2,866
Represented by balance within:		
Cash	39	49
Short term bank balances	3,118	2,817
	3,157	2,866
Additional information at operational cashflow.		
Interest Received	2,794	1,918
Interest Expenses	(1,084)	(229)

The accompanying notes on pages 39 to 62 forms an integral part of these financial statement

NOTES TO THE FINANCIAL STATEMENTS

1) REPORTING ENTITY

Bank of Ceylon (UK) Limited (the "Bank") is a company incorporated in England and Wales under the Companies Act 2006. The Bank is authorised by the PRA and regulated by the FCA and the PRA to carry on certain regulated financial services activities including deposit-taking and dealing in investments as principal. The Bank offers retail services, corporate and correspondent banking facilities in addition to trade finance and remittance services.

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

2) BASIS OF ACCOUNTING

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

A) New standards and amended standards

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

Lease liability in a sale and leaseback transaction (Amendments to IFRS 16)

The amendments to IFRS 16 change the basis of calculation of a gain or loss arising on a sale and leaseback transaction to better reflect in terms of economic substance, the lessee's retained ownership interest.

The amendment is effective for financial years beginning on or after 1 January 2023 and is not yet endorsed by the UK Endorsement Board.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)

The amendment narrows the scope of the initial recognition exemption to exclude transactions that give rise to equal and offsetting temporal differences e.g., leases and decommissioning liabilities.

For changes affecting leases and decommission liabilities, the associated deferred tax assets and liabilities will need to be recognised from the beginning of the earliest comparative period presented, with any cumulative effect recognised as an adjustment to retained earnings or other components of equity at that date.

For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

The amendment is effective for financial years beginning on or after 1 January 2023 and is endorsed by the UK Endorsement Board (UKEB).

Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

The amendments, as issued in 2020, aim to clarify the requirements on determining whether a liability is current or non-current, and apply for annual reporting periods beginning on or after 1 January 2023.

The IASB has subsequently proposed further amendments to IAS 1 and the deferral of the effective date of the 2020 amendments to no earlier than 1 January 2023. The amendment is not yet endorsed by the UK Endorsement Board (UKEB).

Amendments to References to the Conceptual Framework in IFRS standards

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

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

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

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

b) Going concern basis of accounting

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

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

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

c) Functional and presentational currency

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

d) Basis of measurement

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

e) Critical accounting estimates

The preparation of the financial statements in accordance with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise judgement in the process of applying the accounting policies. There have been no significant changes in the basis upon which critical estimates and judgements have been determined compared to those applied as of 31st December 2021.

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.

The Bank considers data from reputable external sources to form a general market consensus which informs its central scenario. These sources include data and forecast from public statements, PRA and private sector economic research bodies. The Bank also takes account of public statements from bodies such as the Bank of England and the UK Government in deciding its final position.

The base case used for the IFRS9 impairment is consistent with the base case scenario which forms the basis for the banks business planning and forecasting. The upside and down side scenarios continue to be derived from the base scenario. The sever scenarios has been derived from the guide lines provided by the Bank of England. To ensure that the scenario is appropriately sever a slightly higher level of unemployment. The assumptions under the severe scenario includes a worsening of the trade finance business with Sri Lanka which is assumed to deteriorate further with money market deposits assumed to decline.

The weightings attached to each scenario are set out below:

Base case scenario	30%
Upside scenario	10%
Downside Scenario	30%
Severe Scenario	30%

The impacts of these scenarios on capital and liquidity have been considered by the board in assessing the going concern of the bank as set out on pages 9 and 10.

3) SIGNIFICANT ACCOUNTING POLICIES

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

a) Interest income and expense

Interest income is recognised in the income statement using the effective interest method which discounts the estimated future cash payments or receipts over the expected life of the financial instruments to the gross carrying amount of the non-credit impaired financial asset. Interest expense is recognised in the income statement using the same effective interest method on the amortised cost of the financial liability.

The application of the method has the effect of recognising income (and expense) receivable (or payable) on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment

b) Foreign currency

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

c) Fees and commissions

Fees and commission that are not an integral part of the effective interest rate are recognised as and when the services are performed in accordance with IFRS15. Fee and commission income include the provision of retail and corporate products and services, comprising of trade finance, E-cash remittances, and treasury payments.

d) Property and equipment

The Company's premises are shown at fair value based on periodic valuation by an external independent valuer's report less subsequent depreciation and impairment losses. Valuations are performed with sufficient regularity to ensure that the carrying value does not differ significantly from fair value at the balance sheet date.

The revaluation reserve is released against future depreciation and impairment charges. The transfer to retained earnings should not be made through profit or loss.

Items of equipment are measured at cost less accumulated depreciation and accumulated impairment losses. The Company's property, plant and equipment is carried at cost, less accumulated depreciation, and impairment losses. Impairment is assessed whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Furniture and fittings are measured and recorded on financial statements at their historical cost since the value is unlikely to fluctuate, it is recorded at cost price. However, carrying value of the particular asset is subject to yearly depreciation charge and impairment is assessed regularly.

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

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

Buildings	50 years
Fixture's fittings and furniture	10 years
IT equipment and software	5 years

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

e) Intangible assets

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

f) Amortisation

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

Computer software	5 years

g) Financial assets and financial liabilities

(Applicable policies from 1st January 2021).

i) Classification

On initial recognition, financial assets are classified as measured at amortised cost, fair value through other comprehensive income or fair value through profit or loss, depending on the Bank's business model for managing the financial assets and whether the cash flows represent solely payments of principal and interest. The Bank assesses its business models at a portfolio level based on its

objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales. Financial assets with embedded derivatives are considered in their entirety when considering their cash flow characteristics. The Bank reclassifies financial assets when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Bank's operations.

Reclassifications are expected to be rare. Equity investments are measured at fair value through profit or loss unless the Bank elects at initial recognition to account for the instruments at fair value through other comprehensive income. For these instruments, principally strategic investments, dividends are recognised in profit or loss, but fair value gains and losses are not subsequently reclassified to profit or loss following de-recognition of the investment.

a. Loans and advances

Loans and advances to customers arise when providing money directly to a customer and includes a mortgage, term lending and overdrafts. They are initially recognised at fair value and are subsequently measured at amortised cost, using the effective interest method adjusted for ECL. They are derecognised when the rights to receive cash flows have expired or when substantially all the risks and reward of ownership are transferred.

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.

vi) Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

When available the fair value of a financial instrument using quoted prices in an active market for that instrument. Where no such market exists for the particular asset or liability, the valuation technique used to arrive at the fair value, including the use of the transaction prices obtained in recent arm's length transactions where possible, discount cash flow analysis and other valuation techniques commonly used by market participants. In doing so fair value is estimated using a valuation technique that makes maximum possible use of market inputs and that places minimal possible reliance upon entity – specific inputs.

vii) Impairment

Impairment provisioning ECL (expected credit loss) is determined by using a staging model and forward-looking information. Impairment provision on all financial assets is recognised either on 12-month losses or lifetime expected losses.

- ❖ Probability of Default (PD) is used to assess the likelihood of a default event occurring within the next 12 months.
- ❖ Loss Given Default (LGD) represents the extent of loss on a defaulted exposure.
- ❖ Exposure at Default (EAD) is the amount expected to be owed, at the time of the default.
- ❖ Expected credit loss (ECL) is calculated as the discounted multiple of the Probability of default, the exposure at default and the loss given a default.

Stage 1 – are financial assets that have not decreased significantly in credit quality since initial recognition or that have low credit risk at the reporting date. In forming this judgement Credit department and Risk department jointly review and update all customer account information, in making an assessment for all lending. In assessing the credit risk of investments and treasury assets, the Bank uses external rating agency data to identify any changes since initial recognition. For stage 1 assets, the Bank recognises a 12-month expected loss allowance on initial recognition. Interest revenue is calculated on the gross carrying amount of the asset.

Stage 2- exposures are where an account has exceeded 30 days past due or where a there has been a significant increase in credit risk since initial recognition. An exposure will be considered to have deteriorated, where there are delays in payments or where external information reflects a weakening in credit risk. In the case of investments, a rating decline could cause the staging to be downgraded. The Bank also takes into consideration the impact of macroeconomic factors on an institutional counterparty. Where there has

been a subsequent improvement in credit risk such that a Stage 2 asset is considered to have same or better credit risk as it had at inception the asset shall be re-classified as Stage1. For Stage 2 assets lifetime ECL is recognized, but interest revenue is still calculated on the gross carrying amount of the asset.

Stage 3 - are exposures where there is objective evidence that the credit risk is impaired. For Stage 3 assets, lifetime ECL is recognized and interest income is calculated on the net carrying amount (that is, net of credit allowance).

Significant increase in credit risk (SICR)

The Bank defines a SICR, in the following hierarchical order:

- ❖ Change in credit risk based on qualitative indicators causing the asset to be included under watch list, forbearance, and bankruptcies.
- ❖ Exposure becomes 30 days past due;

viii) Financial guarantees

Financial guarantees are contracts that the Bank enters, to make specified payments to reimburse the holder of the guarantee, for a loss it incurs because a specified debtor fails to make payment, when due in accordance with the terms of a debt instrument. These guarantees are issued for a fee.

h) Confirmation of documentary credits

A confirmed letter of credit is a guarantee given by the Bank to an exporter. This is in addition to the letter of credit received from the importer's bank. The confirmed letter decreases the risk for the exporter. The confirmation assures the exporter payment in the event the importers bank fails to pay the exporter. Confirmations are issued for a fee.

i) Cash and cash equivalents

Cash and cash equivalents include cash in hand and funds held with Bank's on current, on demand or with maturities of three months or less from inception.

j) Pension liabilities

The Bank operates a defined contribution pension scheme and the amount charged in the profit and loss in respect of pension costs, is the contribution payable in the period.

k) Taxation

Current tax is the expected tax payable on the taxable income for the year using tax rates laws enacted or substantively enacted on the reporting date.

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

Deferred tax is calculated using rates and laws that have been enacted or substantively enacted at the reporting date which are expected to apply when the temporary difference reverses.

Deferred tax on revalued property is calculated based on the expected manner of the recovery value of the property.

Deferred tax is recognised in profit or loss unless it relates to an item of other comprehensive income or equity in which case it is recognised in other comprehensive income or equity respectively.

L) VAT

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

M) Financial risk management

The management of credit risk, liquidity risk, and market risk are set out in the strategic report on pages 13 to 19.

4a) Interest Income

	Year ended 31st December 2022 GBP 000	Year ended 31st December 2021 GBP 000
Loans and advances to customers	1,074	929
Loans and advances to banks	1,699	584
Interest from investments	22	405
	2,795	1,918

Interest income for all interest-bearing financial instruments is recognised in the statement of comprehensive income using the effective interest rates of the financial asset.

4b) Interest Expense

	Year ended 31st December 2022 GBP 000	Year ended 31st December 2021 GBP 000
Customer deposits	113	10
Amounts due to banks	971	219
	1,084	229

5) Fees and commission

	Year ended 31st December 2022 GBP 000	Year ended 31st December 2021 GBP 000
International commission	124	82
Domestic commission	301	242
Other income	49	37
	474	361

6) Personnel expenses

	Year ended 31st December 2022 GBP 000	Year ended 31st December 2021 GBP 000
Staff		
Salary and allowances	728	714
Social security costs	88	88
Pension costs	33	32
	849	834
Directors		
Salary and allowances	242	216
Social security costs	35	35
	277	251
Total staff cost	1,126	1,085

Average number of employees during the year

Executive directors	2	2
Non-executive directors	2	2
Executive management	2	2
Clerical and other grades	18	17
	24	23

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

DIRECTORS' EMOLUMENTS

The total emoluments of the directors were GBP 241,713 (2021 – GBP 215,893). The highest paid director received emoluments of GBP 96,233 in 2022. The highest paid director in 2021 received GBP 81,135.

7) Operational expenses	**Year ended 31st December 2022 GBP 000**	**Year ended 31st December 2021 GBP 000**
Fees payable to auditors	94	88
Other administrative expenses	783	635
	877	723

8) Property and Equipment

	Land	**Freehold property**	**Computer equipment**	**Furniture equipment**	**Total**
	GBP 000	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cost at 1 January 2022	**2,135**	**1,500**	**358**	**200**	**4,193**
Additions in the year	-	-	2	-	2
Cost at 31 December 2022	**2,135**	**1,500**	**360**	**200**	**4,195**
Accumulated depreciation					
Depreciation at 1 January 2022	-	**(314)**	**(175)**	**(141)**	**(630)**
Depreciation charged for the year	-	(30)	(60)	(16)	(106)
Revaluation	-	(9)	-	-	(9)
Depreciation at 31 December 2022	-	**(353)**	**(235)**	**(157)**	**(745)**
Net book value at 31 December 2022	**2,135**	**1,147**	**125**	**43**	**3,450**

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

Land and building occupied by the Bank as its main office, was valued on 25th February 2023 using the same independent firm of valuers who carried out the previous valuation in 2021. The valuation model used to determine the property value is the rental value for office space as defined by the Royal Institution of Chartered Surveyors. The valuation remains unchanged from the valuation carried in the accounts.
Original cost of the head office is GBP 2,560, 000 and accumulated depreciation as 31/12/2022 is GBP 281,200.

9) Intangible assets – computer software

	2022 Computer software	2021 Computer software
Cost	GBP 000	GBP 000
Cost at 1st January	737	737
Additions in the year	0	0
Cost at 31 December	737	737
Accumulated Amortisation		
Depreciation at 1st January	(715)	(703)
Depreciation charge for the year	(11)	(12)
Depreciation at 31st December	(726)	(715)
Net Book value at 31st December	11	22

10) Expected credit loss provisioning

Loans, advances to banks and cash	Stage 1	Stage 2	Stage 3	Total
Balance at 1st January 2022	(187)	-	-	(187)
Net re-measurement of loss allowance	(103)	-	-	(103)
Balance at 31st December 2022	(290)	-	-	(290)

Loans and advances to customers	Stage 1	Stage 2	Stage 3	Total
Balance at 1st January 2022	(6)	-	-	(6)
Net re-measurement of loss allowance	(3)	-	-	(3)
Balance at 31st December 2022	(9)	-	-	(9)

Investments	Stage 1	Stage 2	Stage 3	Total
Balance at 1st January 2022	(19)	(173)	-	(192)
Transfer to stage 1	-	-	-	-
Net re-measurement of loss allowance	19	173	(491)	(299)
Balance at 31st December 2022	0	0	(491)	(491)

Total ECL provision	Stage 1	Stage 2	Stage 3	Total
Balance at 1st January 2022	(212)	(173)	-	(385)
Transfers				
Net re-measurement of loss allowance	(87)	173	(491)	(405)
Balance at 31st December 2022	(299)	0	(491)	(790)

Loans, advances to banks and cash	Stage1	Stage2	Stage3	Total
Balance at 1st January 2021	(12)	0	0	(12)
Net re-measurement of loss allowance	(175)	0	0	(175)
Balance at 31st December 2021	(187)	0	0	(187)

Loans and advances to customers	Stage1	Stage2	Stage3	Total
Balance at 1st January 2021	(2)	0	0	(2)
Net re-measurement of loss allowance	(4)	0	-	(4)
Balance at 31st December 2021	(6)	-	-	(6)

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

Total ECL provision	Stage1	Stage2	Stage3	Total
Balance at 1st January 2021	(14)	(312)	0	(326)
Transfers	(206)	206	0	-
Net re-measurement of loss allowance	8	(67)	0	(59)
Balance at 31st December 2021	(212)	(173)	0	(385)

Financial Instruments held by the Bank comprise of: loans to Banks, loans, and advances to customers, investments in sovereign bonds, bills discounting, and confirmation of letters of credit. All loans and advances to customers are against property or cash collateral.

The table below set out the net exposure after ECL provisioning by geographic location

Geographical Location	Amount GBP '000'
UK	105,577
France	1,675
JPY	2
Netherland	6,004
Sri Lanka	2,995
USA	1,346
Total	**117,599**

The category -loans, advances to Banks and cash in the table, combines the assets in note 12, 13. In addition the ECL provision includes letter of credit confirmations, which is an off-balance sheet item.

The Maldives sovereign bond investments matured and were fully settled in June 2022. The Sri Lankan International sovereign bond (ISB) of USD 1million, has a maturity of 18th April 2024. The instrument rating on this bond was taken down to selective default (SD) following the GOSL decision to suspend interest and capital payments on international debt in April 2022. Accordingly, the investment was impaired and the LGD was assumed at 60%. In arriving at the 60% ratio, the Bank has considered similar debt defaults for the region in the past and have also considered the ongoing discussions with creditors, multilateral agencies, and the IMF in arriving at the percentage. The Sri Lanka ISB in the note above is being valued at GBP 453 K net of the provisions.

The increase in the provisioning of loans and advances granted to Banks reflects the downgrade of Sri Lankan risk to 'CCC- '(2021 Sri Lanka bond rating 'C'). The exposures at year-end relate mainly to on and off-balance sheet trade finance exposures to Sri Lankan counter parties. These exposures are for short durations.

The credit loss provision as at 31st December 2022 is GBP 790,000 (2021 GBP 385,000).

11) Analysis of the tax charge

	As at 31st December 2022	As at 31st December 2021
UK corporation tax at 19.00% (2021-19%)	-	2
Adjustments in respect of prior periods	(1)	-
Total tax charge /(credit)	(1)	2
Origination and reversal of timing differences	-	94
Adjustments in respect of prior periods (Regarding revaluation reserves)	(84)	-
Effect of tax rate change on opening balance	-	57
Total deferred tax charge /(credit)	(84)	151
Tax on profit on ordinary activities	(85)	153

	As at 31st December 2022	As at 31st December 2021
Profit/loss from ordinary activities before tax	(147)	114
Tax at 19% (2021-19%)	(28)	22
Fixed assets differences	18	18
Adjustments in respect of prior periods	(85)	-
Effect of expenses not deductible for tax purposes	1	-
Effect of tax rate change	-	(1)
Temporary differences not recognised	9	114
	(85)	153

Management has decided not to recognise a deferred tax asset of GBP 260,479 arising out of GBP 1,041,917 tax losses and short-term temporary differences until the Bank establishes a consistent record of profitability.

On 10th June 2021, Finance Act 2021 enacted an increase of corporation tax from 19% to 25% with effect from 1st April 2023. Deferred tax assets and liabilities at 31st December 2022 have been valued using 25% rate.

12) Cash and cash equivalents

	As at 31st December 2022 GBP 000	As at 31st December 2021 GBP 000
Cash in hand	39	49
Current Account balances	3,118	2,817
	3,157	2,866
Less impairment loss allowance	(13)	-
	3,144	2,866

13) Loans and advances to banks

	Year ended 31st December 2022 GBP 000	Year ended 31st December 2021 GBP 000
Repayable within one month	83,862	19,285
Repayable within three months but > than 1 month	-	1,399
Repayable with agreed maturity within 1 year but > than 3 months	7,531	607
	91,393	21,291
Less impairment loss allowance	(277)	(187)
Net Loans	91,116	21,104

Loans to Banks repayable within the one-month category, increased during the year as overnight money market deposits from counterparties grew. The ECL provision assessed at the end of the year is GBP 277,101. Loans and advances to Banks included GBP 54,000 in relation to bills discounted which were issued by BOC Group companies (2021 GBP Nil).

14) Loans and advances to customers

	As at 31st December 2022		
	Gross amount GBP 000	Impairment allowances GBP 000	Carrying amount GBP 000
Personal loans and advances	10,750	(9)	10,741
Commercial loans and advances	7,355	-	7,355
	18,105	(9)	18,096

The ECL provision against all loans granted have been assessed at GBP 8,743 during 2022 (2021 GBP 5,841). Loans and advances to staff were GBP 31,506 (2021 GBP 12,462).

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

15) Derivatives

	As at 31st December 2022 GBP 000	As at 31st December 2021 GBP 000
	1,146	88
Currency swaps	1,146	88

16) Other assets

	Year ended 31st December 2022 GBP 000	Year ended 31st December 2021 GBP 000
Prepayments	68	92
Cheque clearing	17	22
Others	98	15
	183	129

Other item is made up of interest receivable at £58K, suspense account debtors at £26k and others at £14k.

17) Investments

	Year ended 31st December 2022 GBP 000	Year ended 31st December 2021 GBP 000
Investments securities measured at amortised cost	944	1,691
Less impairment loss allowance	(491)	(192)
	453	1,499

The investments above have been classified as being held to collect and so have been recognised at amortised cost. During the year investments held by the Bank included securities issued by the government of Maldives and the Government of Sri Lanka (GOSL). Maldives securities matured in June 2022 and were fully realised. The GOSL security is denominated in USD and has a maturity date of 18th April 2024. The instrument rating was lowered to selective default (SD), following the GOSL decision to suspend interest and capital payments pending a restructuring of the country's external debt. The investment in the Sri Lankan bond has been impaired using a loss given default of 60% using a rating agency historical loss given default for the region.

18) Deposits by banks

	As at 31st December 2022 GBP 000	As at 31st December 2021 GBP 000
Repayable on demand or at short notice	15,167	3,415
Repayable with agreed maturity within three months	52,013	7,171
Repayable with agreed maturity within 3 months & 1Yr		
Repayable with agreed maturity of over 1 year	22,854	17,537
	90,034	28,123
Amounts include the following Parent deposits:	2,642	1,411
Repayable on demand or at short notice	52,013	6,797
Repayable with agreed maturity within three months		
Repayable with agreed maturity within 3 months & 1Yr		
Repayable with agreed maturity of over 1 year	22,854	17,537
	77,509	25,745

19) Customer account deposits

	As at 31st December 2022 GBP 000	As at 31st December 2021 GBP 000
Repayable on demand or at short notice	4,960	5,328
Repayable with agreed maturity within three months	39	40
Repayable with agreed maturity over 3 months	6,428	443
	11,427	5,811

20) Derivatives - Liabilities

	As at 31st December 2022 GBP 000	As at 31st December 2021 GBP 000
Currency swaps	852	86
	852	86

21) Other Liabilities

	As at 31st December 2022 GBP 000	As at 31st December 2021 GBP 000
Accrued expenses	236	193
Trade payables	974	184
	1,210	377

22) Share Capital

	As at 31 December 2022 GBP 000	As at 31 December 2021 GBP 000
15,000,000 (2021: 15,000,000) Authorised, issued, and fully paid shares of GBP 1 each	15,000	15,000

Ordinary shares were issued at par and they qualify for standard voting rights and equal dividends.

23) Related Parties and Ultimate Controlling Parties

The Bank of Ceylon (UK) Limited is a wholly owned subsidiary of Bank of Ceylon, a licensed commercial bank established in Sri Lanka under the Banking Act No. 30 of 1988 and owned by the Government of Sri Lanka.

The registered office of the Parent is situated at No. 01, Bank of Ceylon Square, Bank of Ceylon Mawatha, Colombo 01, Sri Lanka. Copies of the Parent consolidated accounts are obtainable at: http://web.boc.lk/index.php.

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

The Bank enters into commercial transactions in the ordinary course of business with these parties on an arm's length basis. In the normal course of business, the Bank has discounted bills of exchange, received commissions on exports bills and paid interest on deposits received from the parent during the year. Two ten-year deposits of GBP 10.7 million and USD 8 million which are currently rolled over annually for a further ten-year period.

Interest payable to the Bank of Ceylon in respect of deposits held during 2022 amounted to GBP 971,321 (2021 GBP 218,732). As at the 31 December 2022, Bank of Ceylon (UK) Limited held deposits of GBP 74,867 (2021 GBP 24,334) excluding Vostro balances on behalf of the Bank of Ceylon. Bills discounted on behalf of the Bank of Ceylon as at 31/12/2022 amount to GBP 53,051 (2021 GBP zero) and confirmation on behalf of the Bank of Ceylon as at 31/12/2022 amounted to GBP 111,295 (2021 GBP zero).

24) Contingent Liabilities

	As at 31st December 2022 GBP 000	As at 31st December 2021 GBP 000
Documentary credits	1,690	1,877
	1,690	1,877

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

25) Interest rate risk

As at 31st Dec 2022	Carrying Value	0-3 Months	3-12 Months	Over 1 Year	Non-Interest Bearing
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Assets					
Cash at bank and in hand	3,144	-	-	-	3,144
Loans and advances to banks	91,116	88,443	2,673	-	-
Loans and advances to customers	18,096	15,766	-	2,330	-
Debt securities	453	126		339	(12)
Financial derivatives	1,146	0	1,146		0
Accrued income	183	-	-	-	183
Total assets	**114,138**	**104,335**	**3,819**	**2,669**	**3,315**
Liabilities					
Deposits by banks	90,034	52,013	22,854		15,167
Customer accounts	11,427	2,283	392	6,036	2,716
Derivatives	852		852		
Other liabilities	1,210				1,210
Deferred tax	245	-	-	-	245
Total liabilities	**103,768**	**54,296**	**24,098**	**6,036**	**19,338**
Net interest gap		50,039	(20,279)	(3,367)	(16,023)
Cumulative interest gap		50,039	29,760	26,393	

As at 31st Dec 2021	Carrying Value	0-3 Months	3-12 Months	Over 1 Year	Non-Interest Bearing
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Assets					
Cash at bank and in hand	2,866	-	-	-	2,866
Loans and advances to banks	21,104	20,497	607	-	-
Loans and advances to customers	19,359	19,359	-	-	-
Debt securities	1,499	-	934	577	(12)
Financial Derivatives	88	0			88
Accrued income	129	-	-	-	129
Total assets	**45,045**	**39,856**	**1,541**	**577**	**3,071**
Liabilities					
Deposits by banks	28,123	7,821	16,887	-	3,415
Customer accounts	5,811	2,908	387	56	2,460
Derivatives	86	-	-	-	86
Other liabilities	377	-	-	-	377
Deferred tax	331	-	-	-	331
Total liabilities	**34,728**	**10,729**	**17,274**	**56**	**6,669**
Net interest gap		29,127	(15,733)	521	(3,598)
Cumulative interest gap		29,127	13,394	**13,915**	

Interest rate risk arises from the possibility that changes in interest rates could adversely affect the value of a financial instrument which include loans, deposits, and debt securities. An increase in interest rates by 1.00% would contribute additional interest income of GBP 263,930 (2021 - GBP 139,150) and vice-versa will produce a reverse effect.

26) Maturity Analysis

As at 31st Dec 2022	Total	0-3 Months	3-12 Months	Over 1 Year	Over 5 Years
Assets	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	3,144	3,144	-	-	-
Loans and advances to banks	91,116	83,585	7,531	-	-
Loans and advances to customers	18,096	192	850	17,054	-
Debt securities	453	126	-	327	-
Derivatives	1,146	-	1,146	-	-
Accrued Income	183	-	126	57	-
Total assets	**114,138**	**87,047**	**9,653**	**17,438**	**-**
Liabilities					
Deposits by banks	90,034	72,689	-	17,345	-
Customer accounts	11,427	4,999	389	6,039	-
Derivatives	852	-	852	-	-
Other liabilities	1,210	741	384	85	-
Deferred tax	245	-	-	-	245
Total Liabilities	**103,768**	**78,429**	**1,625**	**23,469**	**245**
Net maturity gap		8,618	8,030	(6,031)	(245)
Cumulative maturity gap		8,618	16,648	10,617	

As at 31st Dec 2021	Total	0-3 Months	3-12 Months	Over 1 Year	Over 5 Years
Assets	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**	**GBP 000**
Cash at bank and in hand	2,866	2,866	-	-	-
Loans and advances to banks	21,104	20,497	607	-	0
Loans and advances to customers	19,359	39	1,031	18,289	-
Debt securities	1,499	-	934	577	(12)
Derivatives	88	88	-	-	-
Accrued income	129	-	89	40	-
Total assets	**45,045**	**23,490**	**2,661**	**18,906**	**(12)**
Liabilities					
Deposits by banks	28,123	11,236	0	16,887	-
Customer accounts	5,811	5,368	387	56	-
Derivatives	86	86	-	-	-
Other liabilities	377	231	120	26	-
Deferred tax	331	-	-	-	331
Total Liabilities	**34,728**	**16,921**	**507**	**16,969**	**331**
Net maturity gap		6,569	2,154	1,946	319
Cumulative maturity gap		6,569	8,723	10,669	

27) Foreign Exchange Exposure

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

As at 31st Dec 2022	Total	GBP	Euro	LKR	USD
	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Assets					
Cash at bank and in hand	3,144	170	1,717	24	1,233
Loans and advances to banks	91,116	87,267	1,107	0	2,742
Loans and advances to customers	18,096	18,096	-	-	-
Debt securities	453	(491)	-	-	944
Derivatives	1,146	635	511	-	-
Accrued income	183	125	-	-	58
Total assets	**114,138**	**105,802**	**3,335**	**24**	**4,977**
Liabilities					
Deposit by Banks	90,034	79,892	2,782	-	7,360
Customer accounts	11,427	11,356	42	-	29
Derivatives	852	405	447	-	-
Other Liabilities	1,210	1,030	-	-	180
Deferred Tax	245	245	-	-	-
Total Liabilities	**103,768**	**92,928**	**3,271**	**0**	**7,569**
Net Maturity Gap		12,874	64	24	(2,592)
Foreign exchange contracts		(2,480)	(64)	-	2,544
Cumulative maturity gap		10,394	-	24	(48)

As at 31st Dec 2021	Total	GBP	Euro	LKR	USD
Assets	GBP 000	GBP 000	GBP 000	GBP 000	GBP 000
Cash at bank and in hand	2,866	243	259	8	2,356
Loans and advances to banks	21,104	17,885	59	-	3,160
Loans and advances to customers	19,359	19,359	-	-	-
Debt securities	1,499	-	-	-	1,499
Derivatives	88	219	(122)	-	(9)
Accrued income	129	129		-	-
Total assets	**45,045**	**37,835**	**196**	**8**	**7,006**
Liabilities					
Deposits by Banks	28,123	20,780	289	-	7,054
Customer accounts	5,811	5,747	31	-	33
Derivatives	86	219	(123)	-	(10)
Other liabilities	377	339	-	1	37
Deferred tax	331	331	-	-	-
Total liabilities	**34,728**	**27,416**	**197**	**1**	**7,114**
Net maturity gap		10,419	(1)	7	(108)
Foreign exchange contracts					
Cumulative maturity gap		10,419	(1)	7	(108)

Foreign exchange risk is the sensitivity to potential movements in exchange rates of a position's value that is denominated in a different currency from the base currency. Hence, a long or open position in a foreign currency may produce a loss if that currency depreciates against the base currency. As at 31 December 2022 a 5% strengthening of Sterling against the US Dollar would have reduced profits by GBP 2,400 and vice-versa of a reverse effect.

28) Capital Management

The Bank's approach to capital management is set out on page 15 in the Strategic Report. As at 31 December 2022, after deducting book value of intangible assets from shareholder funds is GBP 13,734,398 on a fully loaded basis. The regulatory CET1 capital after adjusting for transitional relief under IFRS9 would be GBP 13,958,648. (GBP 13,425,750 at 31 December 2021).

29) Fair Value.

IFRS 13 Fair value requires an entity to classify its assets and liabilities according to a hierarchy that reflects the observability of significant market inputs. The three levels of the fair value hierarchy are defined below with judgement applied in determining the boundary between Level 2 and 3 classifications. There have not been any transfers between levels during the year.

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

- Level 1 financial instruments are those that are valued using unadjusted quoted prices in active markets for identical financial instruments. These financial instruments consist primarily of liquid listed equity shares and certain exchange-traded derivatives.

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

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

As at 31st Dec 2022	Carrying Value GBP 000	Fair Value GBP 000	Level 1 GBP 000	Level 2 GBP 000	Level 3 GBP 000
Assets					
Cash at bank and in hand	3,144	3,144	-	3,144	-
Loans and advances to banks	91,116	-	-	91,116	-
Loans and advances to customers	18,096	-	-	-	18,096
Investment	453	125	-	125	-
Property Plant & Equipment	3,450	-	-	3,282	-
Total	116,259	3,269	-	97,667	18,096
Liabilities					
Deposit by Banks	90,034	-	-	90,034	-
Customer account	11,427	-	-	11,427	-
Total	101,461	-	-	101,461	-

As at 31st Dec 2021	Carrying Value GBP 000	Fair Value GBP 000	Level 1 GBP 000	Level 2 GBP 000	Level 3 GBP 000
Assets					
Cash at bank and in hand	2,866	2,866	-	2,866	-
Loans and advances to banks	21,104	-	-	21,104	-
Loans and advances to customers	19,359	-	-	-	19,359
Investment	1,499	1,362	-	1,362	-
Property Plant & Equipment	3,563	-	-	3,321	-
Total	48,391	4,228	-	28,653	19,359
Liabilities					
Deposit by Banks	28,123	-	-	28,123	-
Customer account	5,811	-	-	5,811	-
Total	33,934	-	-	33,934	-

Additional information on the above asset is contained in the strategic report on pages 13 to 20.

Cash, bank loans.

The fair values of cash and cash equivalents, bank loans are carried at amortised cost are not materially different from their book values. In arriving at that conclusion market inputs have been considered, but since all of these assets mature within three-month period no changes have been assumed.
As these valuations are not wholly market based, these assets are considered to be level 2 measurements.

Investments
Have been valued using quoted prices for similar instruments as at the year end.

Property plant and equipment.
The valuation model used to value the property is the rental value for office space as defined by the Royal institute of Charted Surveyors. The valuation has been carried out by an independent firm of valuers.

Loans to customers

To assess the likely fair value of the loan assets in the absence of a liquid market, the directors have considered the estimated cash flows expected to arise from its loans to customers based on a mixture of market-based inputs, such as rates and pricing and non-market-based inputs such as redemption rates. Given the mixture of observable and non-observable inputs, these assets classed as level 3 measurements.

30) Events after the reporting period.

No events.

UNAUDITED FINANCIAL INFORMATION

COUNTRY BY COUNTRY REPORTING

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

Country-by-Country disclosure (GBP 000)

Country	Turnover	Profit/(Loss) before tax	Corporation tax paid/received	Subsidies received	Headcount (including temp/contract staff)
	GBP 000	GBP 000	GBP 000	GBP 000	
UK	3,462	(146)	-	-	24
Global	3,462	(146)	-	-	24

BASIS OF PREPARATION

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

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

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

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

Corporation tax paid: This column discloses the cash amount of corporation tax paid in each country in 2022.

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 2022.

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

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