Company Registration No 04406777

Bank of Beirut (UK) Ltd

Annual Report and Financial Statements

31 December 2023

Bank of Beirut (UK) Ltd

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Officers and professional advisers

Directors

Salim G Sfeir (Chairman)
Sophoklis Argyrou
Martin J Osborne
Fawaz H Naboulsi
Marcus John S Trench
Anthony J Bush
Ramzi Saliba
Antoun Samia
Mounir Lyan

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EC4N 6AE

Bankers

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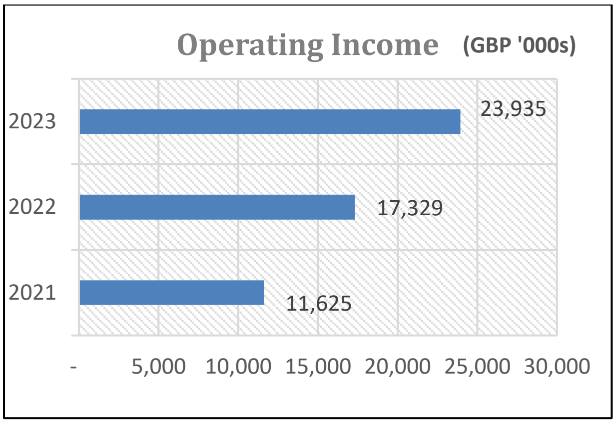
London
EC2M 4AA

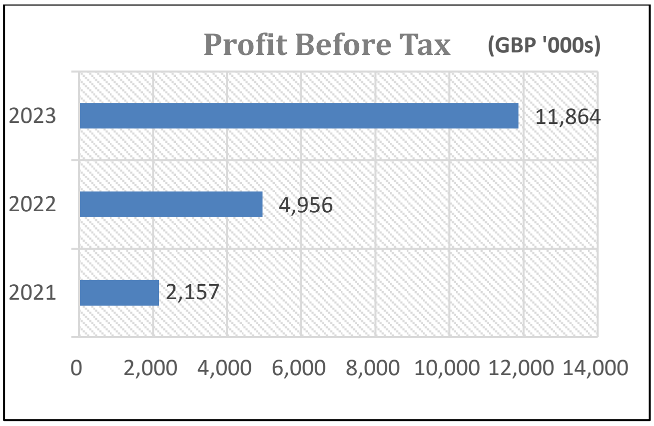
Auditor

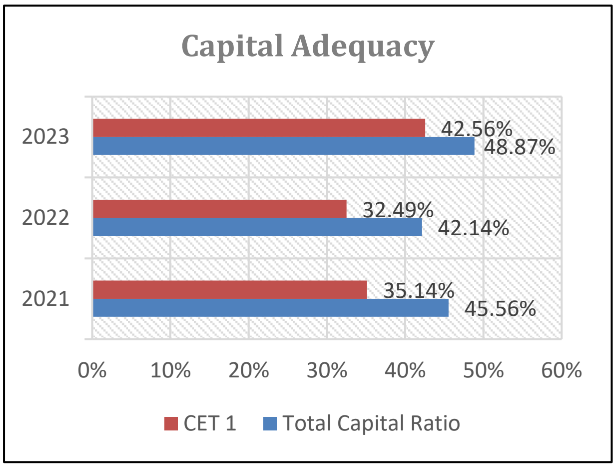
Deloitte LLP
Statutory Auditor
1 New Street Square
London
EC4A 3HQ

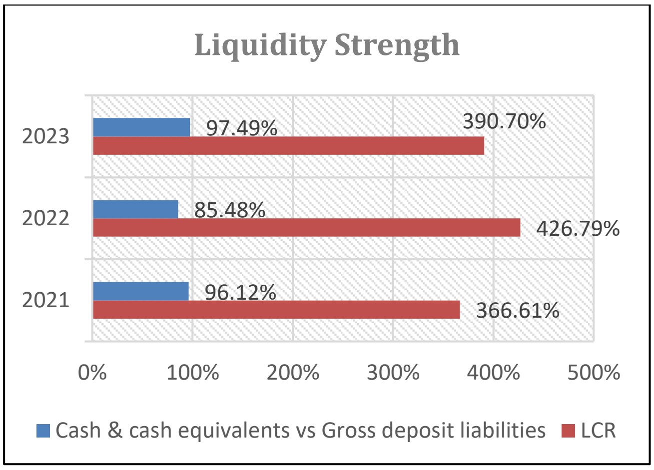
Bank of Beirut (UK) Ltd

Financial highlights









The Capital Adequacy graph shows two ratios, CET 1 which includes only Tier 1 Capital i.e. Shareholders' Funds whilst the Total Capital Ratio includes additionally any qualifying subordinated debt (Tier 2). These figures are divided by the Bank's Risk Weighted Assets. The Liquidity Coverage Requirement (LCR) is a regulatory stress of the Bank's cash-flow mismatch risk. As a minimum the Bank must hold a buffer of qualifying High Quality Liquid Assets (HQLAB) sufficient to cover its stressed net cumulative liquidity position at the end of a 30 day period on a consolidated currency basis. The buffer may be used to cover net liquidity outflows during periods of stress. The LCR regulatory requirement is 100%.

Key Financial highlights (£'000)	2023	2022	2021
Operating Income	23,935	17,329	11,625
Loan Impairments & Provisions	736	2,669	297
Profit before Tax	11,864	4,956	2,157
Total Comprehensive Income	8,899	3,976	1,430
Total Assets	367,529	406,004	410,239
Total Loans & Advances	121,214	161,651	128,986
Total Equity (inc. shareholders funds)	114,995	108,084	104,908
Total Capital Ratio	48.87%	42.14%	45.56%
CET 1 Capital Ratio	42.56%	32.49%	35.14%
LCR Ratio	390.70%	426.79%	366.61%
Administrative expenses to Operating Income Ratio	47.22%	55.78%	78.51%
Cash & Cash equivalents / Total Assets	60.08%	53.91%	61.42%
Cash & Cash equivalents / Gross Deposit liabilities	97.49%	85.48%	96.12%

Chairman's statement

Bank of Beirut (UK) Ltd is a UK based bank with its Head office in the City of London. It is regulated by the UK Prudential Regulation Authority and Financial Conduct Authority.

Our business performed well in 2023 whilst we have demonstrated continued financial prudence as our Capital and liquidity ratios show. We were able to produce record profit before tax of £11.86m and ended the year with a CET1 ratio of 42.56% and well in excess of the regulatory requirements.

As global economies and markets continued their recovery post Covid-19, 2023 witnessed significant increases in base interest rates across all major currencies in an effort to stem inflationary pressures. By year end those efforts had borne fruit and inflation rates had fallen and in the UK alone inflation reduced from a peak of 10.5% to 4%. For the most part inflation had been reined in by the application of higher interest rates. Those increases are now being reversed allowing markets and businesses to regroup and look positively to a future of lower borrowing costs and sustainable growth. Our primary trade finance markets in West Africa have not been immune to these economic pressures mentioned earlier but slowly we are seeing evidence that economic activity is moving forward and foreign exchange is being made more available for imports. Throughout this turbulent period we have supported and worked with our correspondent banking partners in those countries to deliver the best possible service.

It would be remiss of me not to mention the situation in Lebanon where the challenging financial and economic situation remains unchecked in the absence of electing a president and forming a government which will deliver much needed reforms to enable economic restructuring plans available through IMF Funding. This position is now further complicated by the conflict across the southern border of Lebanon between Israel and Gaza and it seems unlikely at this stage that there will be any change in the situation until a negotiated ceasefire can be established.

With the support of its Board, the Bank has determined to steer a conservative course on risk appetite with strong liquidity and capital at the very core of its activities and decision making. As base interest rates have increased, the Bank has been able to generate higher returns on its conservative low credit risk cash based assets and this has replaced the tapering off of income streams arising from the normal trade finance activities.

In reviewing the results for 2023, and with the advantage of higher yielding market rates, the Bank was able to increase its Profit before tax to £11.86m, up 139% over the prior year of £4.95m. At the same time Total Comprehensive Income reached £8.89m up from £3.97m. A close analysis of the financial statements shows Net Interest Income for the year was £16.42m whilst Fee and Commission Income slowed to £6.48m from £8.21m the previous year. The restriction on trade in our key markets caused a 21% reduction in the number of Export Letters of Credit handled. Operating during challenging and difficult periods, the Bank's management has proved very adept at minimising credit risk whilst strategically pricing trade and other risk assets as we maintain and support our business franchises. With our trade markets slowly recovering, coupled with relatively high interest rates, we expect that the Bank will be abler to deliver positive results for the shareholder and the wider Bank of Beirut group in the year ahead.

In January 2023, based on the strong capital and liquidity ratios, and with regulatory approval, the Bank made an economic decision to repay a £16m Tier 2 subordinated loan to the shareholder. The Board also paid a dividend of £1.98m. At year end the Bank's total shareholder's funds including the remaining USD Tier 2 subordinated loan and retained earnings stood at £131.1m. Total assets at year-end were £376m and included a significant amount of liquid assets. This strong position is reflected in capital and liquidity ratios of 48.87% and 390.7%, respectively.

With these strong foundations we look forward to further enhancing the Bank's capabilities and meeting our customers' needs today and in the future. Accordingly, we shall over the coming year commence implementation of a new core banking system. Never to be taken lightly, this project will require a significant effort from management and staff and I remain confident that they are up to the task ahead.

Chairman's statement

We have achieved a great deal this past year and none of which would have been possible without the dedication and resourcefulness of our management and staff in London, Bank of Beirut group staff in other locations and the Board of Directors who have discharged their responsibilities with wisdom and dedication.

S. G. Sfeir
Chairman

24 April 2024

Bank of Beirut (UK) Ltd

Strategic report

Strategic Positioning

Bank of Beirut (UK) Ltd (the Bank) is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. It commenced its UK operations in December 2002 although historically the Bank has maintained a presence in London since 1981 providing important retail deposit and payment services to the Lebanese community based in the UK and overseas.

As the only UK incorporated Lebanese owned Bank, our aim is to leverage on the Banks' affinity with Lebanon and its diaspora. The Bank markets itself primarily as a boutique trade finance house, with a correspondent banking network reach to all major export geographies, specialising in all aspects of export trade finance with an established coverage of Financial Institutions across Sub-Saharan West and East Africa and to a lesser extent, Northern African countries. In addition, we act as a confirming house for a number of banks operating in the Middle Eastern region. Our comprehensive service covers the full range of trade finance products, the financing of which is primarily of a short-dated nature (up to 180 days) but with occasional medium-term transactions.

To supplement its trade activities the Bank also provides traditional lending services to its retail and corporate clients with a modest loan book of £42m (2022 - £40m) and at the same time, under our UK deposit taking license, manages a customer deposit base of £137m (2022 - £175m). All eligible deposits, £40.1m (2022 - £42.7m), are covered by the Deposit Protection Scheme which is overseen by the UK Financial Services Compensation Scheme (FSCS).

Developments in Operating & Market Environment

Israel Gaza War and clashes along the Israel-Lebanon border

At the time of writing Israel's war on Gaza continues despite the best efforts by international actors to bring a permanent ceasefire to stop the relentless killing and suffering of the displaced Gazan people and secure the return of the remaining Israeli hostages held by Hamas. Despite, the passing of a UN Security Council Resolution in late March, demanding a temporary immediate ceasefire and the immediate and unconditional release of all hostages during the Muslim holy month of Ramadan, the situation remains largely unchanged. It is hoped that continued international pressure and isolation of Israel could lead to the beginning of the end of the Israel Gaza War and the return of the remaining Israeli hostages to their families.

Meanwhile, clashes between the Israel Defence Forces and Hezbollah have escalated dangerously along the North Israel / Lebanon border. The continuous efforts and pressure by the US and the EU have so far averted an all-out war in Lebanon between Israel and Hezbollah which could bring further devastation to the long-suffering people of Lebanon. It is hoped that any Israel Gaza war lasting ceasefire will also translate to the end of Israel's clashes with Hezbollah and allow the return of all displaced from towns and villages along the border. However, this picture also remains uncertain given the recent attacks from Iran on Israel.

Lebanon – continuing economic uncertainty and political deadlock in electing a President and forming a new Government

For over four and half years now Lebanon has been facing unprecedented deteriorating economic and financial conditions which has seen the value of the Lebanese Lira decimated. Parliament has failed to elect a President since October 2022, paralysing other branches of government and holding back badly needed progress on reforms. As a result, there has been no meaningful progress on meeting preconditions to the USD 3bn International Monetary Fund (IMF) programme approved back in April 2022, including the restructuring of the banking system and badly needed electricity sector reforms.

Strategic report

International sources expect that any negotiated ceasefire to bring the Israel Gaza war and clashes between Israel Defence Forces and Hezbollah to an end with a border agreement, could also bring a probable internationally supported negotiated settlement on the election of a President and Government in Lebanon as well, despite Lebanese and international counterparties not linking the issues. With a President and Government in place, badly needed reforms can be enacted and preconditions can be met for Lebanon to access its approved USD 3bn IMF programme and other international aid funds to facilitate the reconstruction of its economy and effect the restructuring of its banking system and government debt.

We continue to note that despite the unprecedented economic challenges, the wider Lebanese banking system continues to be resilient with “fresh dollars” flowing in and out of the system and the country freely, at the expense of “Lollars” or local Dollars in the banking system predating the November 2019 financial crisis (including all foreign currency accounts) which can only be withdrawn monthly in restricted small US Dollar amounts or in Lebanese Lira at a US Dollar exchange rate set by Banque du Liban (BDL), the Central Bank of Lebanon.

It is important to report, in line with the Bank’s risk appetite as directed by the Board, that the Bank in the UK continues to have minimal credit risk exposure to the Lebanese Government, its parent Bank of Beirut Sal, other 3rd party Lebanese Financial Institutions and to Lebanese corporates and individual account holders who derive their income from Lebanon.

Performance highlights

The 12-month period to 31 December 2023 saw the Bank of England, the US Fed and the EU ECB continue to increase their respective base interest rates from where they were left off in 2022, rising to 5.25% by August 2023, 5.25%-5.50% by July 2023 and 4% by September 2023 respectively. Coupled with the Bank’s ongoing conservative stance towards low credit risk asset leverage (32.98% of total assets) and high liquid cash and cash equivalent asset holdings (60.08% of total assets), these interest rate rises allowed the Bank to nearly double its Net Interest Income to £16.42m during the 12-month period to 31 December 2023 as opposed to £8.24m during the same period in 2022.

In terms of the Bank’s operating income generating capacity, a £6.6m or 38% increase was registered to £23.94m for the year ended 31 December 2023 as opposed to £17.33m for 2022. This was despite fees and other income registering a reduction of £1.57m during 2023. This was down predominantly to a slowdown in Export Letters of Credit transactions handled from Nigeria which, to a degree was to be expected during an election year with a new President and administration coming in, as importers took a wait and see approach with their imports before and after elections. The slowdown in Letters of Credit issued from Nigerian banks was further exacerbated as the new president of Nigeria, effectively allowed the country's currency to “float” which led to its material depreciation and a reflex reaction by Nigerian banks which prioritised covering their existing US Dollar exposures whilst limiting new US Dollar exposure in the form of new Letters of Credit.

Despite an increase in administrative expenses of £1.63m to £11.3m (2022 - £9.67m), Profit before Tax for the year ended 31 December 2023 increased to £11.86m and registered an increase of 139% over the £4.96m recorded for 2022. The £736k loan impairment and provision charge for the year included taking full specific provision for an unsecured Stage 2 loan exposure which was non-performing as at 31 December 2023 and re-classified as Stage 3, but noting that past dues have since been covered during the 1st quarter of 2024, and a partial provision against an existing Stage 3 loan exposure resulting in a net non-performing loan value of £211k (2022 - £456k) which is also covered by legal charges over properties in favour of the Bank. After an increase in taxation charges for the year equalling £2.84m (2022 - £980k), stemming from the higher Profit before Tax figures but also accounting for an increase in the corporation tax rate from 19% to 25% effective from 1 April 2023, the Bank generated a total comprehensive income for the year of £8.90m or more than 124% increase over the £3.98m reported for 2022.

Strategic report

As at year end 2023, cash and cash equivalent assets stood at £220.8m (2022 - £218.8m) including High Quality Liquid Assets (HQLA) and accounted for 60.0% (2022 – 53.9%) of Total Assets. The high proportion of cash and cash equivalent assets over total assets remains a conscious decision of the Bank to continue to support our customers and franchise through the holding of strong liquidity and capital positions. The Bank in support of this position has maintained liquidity and capital resources that far exceeded its specific minimum regulatory requirements, demonstrating a responsible and conservative approach to business and an acknowledgement to sacrifice short term profitability for long term resilience. In a high interest rate environment however, this conservative approach instilled by the Board, is no longer leading to subdued profitability as has been seen in previous years.

During the year ended 31 December 2023, the Bank continued its low credit risk asset leverage policy with loans and advances to customers, including banks, closing at £121.2m (2022 - £161.6m). The reduction is predominantly down to a more conservative approach to on balance sheet exposures to Nigerian banks, following the effective "floating" of the Naira in June 2023 and its resulting depreciation, which, as mentioned, led to lower volumes of Nigerian Letter of Credit Transactions handled resulting in lower loans and advances to banks. As such, total asset balances for the year closed down at £367.5m (2022 - £406.0m). Total shareholders' funds, including Bank of Beirut Group term Subordinated Loans, were reduced to £131.1m (2022 - £141.6m) following redemption of the GBP denominated Subordinated Loan of £16m in January 2023.

The combined customer and bank deposit liabilities reduced to £226.5m (2022 - £256.0m) as at 31 December 2023, whereas the Bank's cash and cash equivalent balances held with banks and placements with banks was maintained at £182.3m (2022 - £183.0m). The reduction in deposits is accounted for predominantly by movement in corporate balances used to support trading activities. Including our holdings of US and EU Treasuries, all with maturities being equal to or less than 1-year maturity as per our conservative investment horizon approach, held as Financial Assets at Amortised Cost of £38.5m (2022 - £35.8m), the combined total of investments, cash and cash equivalent balances at £220.8m (2022 - £218.8m) accounted for 97.49% (2022 – 85.48%) of total customer and bank deposit liabilities being £226.5m. This high ratio year on year continues to demonstrate the Bank's strategic direction towards maintaining increasing levels of liquidity to ensure long term resilience. This enabled the Bank to report a Liquidity Coverage Ratio (LCR) of 390.70% at 31 December 2023, compared to 426.79% in 2022 which included stable balances funding from the £16m Subordinated Loan repaid in January 2023. We note that our LCR ratios remain well ahead of the regulatory PRA minimum of 100%. The Bank continues to maintain high average HQLA balances, reporting £93.4m at the close of 2023 (2022 - £95.9m) including £55m with the Bank of England.

In terms of the Bank's capital position, as at 31 December 2023 the Bank reported increased total equity of £115.0m (2022 - £108.1m). When combined with our PRA approved Tier 2 capital qualifying USD Subordinated Loan by Bank of Beirut Sal this leads to total capital resources of £131.1 (2022 - £141.6m which included the £16m Subordinated Debt repaid in January 2023). After accounting for the reduced on and off-balance sheet exposures, the Bank reported a total capital adequacy ratio of 48.87% (2022 – 42.14%) due to the reduction in risk weighted assets and increased retained earnings as at 31 December 2023. Based on regulatory capital reporting requirements as at 31 December 2023 our Total Capital headroom was £77m (2022 - £78m), which again reinforces our strategic direction of a conservative appetite towards risk and our drive to maintain strong capital positions for the long-term resilience of our Bank.

The financial statements for the reporting year ended 31 December 2023 are shown on pages 30 to 34.

Strategic report

Financial Performance analysis including key performance indicators (KPIs) and ratios

The financial performance for the year to 31 December 2023 is summarised in the following table (All figures are quoted in GBP '000s) with analysis undertaken above for all KPIs and ratios:

Income Statement	2023	2022	2021
Net interest income	16,418	8,239	3,610
Fees and other income	7,517	9,090	8,015
Total operating income	23,935	17,329	11,625
Administrative expenses	11,303	9,666	9,127
Profit before Tax	**11,864**	**4,956**	**2,157**

Balance Sheet	2023	2022	2021
Loans and advances to customers	121,214	161,651	128,986
Total assets	367,529	406,004	410,239
Total deposits	226,503	256,042	262,126
Shareholders' funds*	131,136	141,633	136,332

Key performance indicators	2023	2022	2021
Capital Adequacy Ratio	48.87%	42.14%	45.56%
Liquidity Coverage Ratio	390.70%	426.79%	366.61%
Cash & Cash equivalents / Gross Deposits	97.49%	85.48%	96.12%
Net Interest Margin	4.82%	2.18%	0.95%
Administrative expenses to income ratio	47.22%	55.78%	78.51%

** Includes Bank of Beirut Group Subordinated Term Loan*

Looking Forward

With market expectations forecasting cumulative interest rate reductions of around 1% by the end of 2024 respectively for the Bank of England Base Rate, USD Fed Fund Rate and EURO ECB Deposit Facility rates, the Bank's interest income will be affected but with the extent depending on the timing and depth of such interest rate reductions. On the other side of the coin, with lower USD interest rates and yields on treasuries falling, foreign currency liquidity is expected to return in emerging markets including Africa, and this should lead to higher volumes of Letter of Credit transactions being offered to the Bank to handle which should reflect an increase of our fees and other income. More specifically, we expect the naira to stabilise between the 1st and 2nd quarter of the year and Letters of Credit issued by Nigerian banks to increase leading to higher volumes of transactions handled by the Bank which will in turn generate higher commission income to further mitigate and compensate the expected reduction in our interest income. By following the same conservative approach of low credit risk asset leverage and high liquid cash and cash equivalent asset holdings, and despite forecasted reductions in interest rates, we still expect the Bank to generate a strong profitable operating performance in 2024 in line with the results for 2023 based on performance witnessed during the opening quarter of 2024.

As we have done over the past few years, we will continue to service our existing customers and traditional trade finance markets with a view to maintaining our franchise which we have successfully built over the years with our network of correspondent banks and exporters around the world. We will also continue to adopt and fine tune our dynamic and rigorous approach towards credit risk management which we employ in identifying, processing and financing selective short term and good credit quality trade finance transactions. With regard to loans to customers, we continue to have some limited appetite in financing well secured trade finance working capital facilities and low leveraged unregulated short-term UK based property financing transactions.

In the face of continuing economic and political uncertainties in our parent's home market of Lebanon as exacerbated by the continuing Israel Gaza war and related tensions at its border with Israel, our overall strategic objective for the next 12 months is to continue to ensure the Bank's long-term resilience by maintaining high levels of liquidity and capital adequacy whilst at the same time ensuring good levels of operating profitability and staff retention.

Correspondent Banking and Trade Services

The Bank has long established its primary markets for the provision of treasury, trade finance and payments services to its trade finance related correspondent bank counterparties. The Bank's strategy is aligned with its parent bank to deliver and support the finance of trade between the UK and continental Europe and exports to the Middle East and African regions. Those countries and markets are continuously reviewed and monitored with a view to expansion and growth opportunities.

Services include but are not limited to confirmation and advising of letters of credit, issuance of letters of guarantees and standby LCs, acceptances, documentary collections, trade advances including discounting, forfaiting, and post finance. Transactions are generally short term in nature for a maximum 180 days.

The Bank maintains a strong trade finance team with additional support provided by its marketing consultants and through the Group representative offices.

Corporate and Commercial Banking

The Bank complements its key trade services products with traditional corporate and commercial lending products and services to enhance trade and investment opportunities between the UK, Europe the Middle East and Africa. Structuring of lending facilities revolves around the requirements of the borrower but with particular appetite to financing of trade related businesses and real estate backed facilities.

Retail Banking

The Bank provides a selection of retail products and services to its customers covering current accounts, call deposit accounts, fixed term deposits and the provision of payment and clearing services. The Bank also has regulatory approval to provide Regulated Mortgage Loans to its non-resident customers. Our customer geographic locations are primarily from the Bank's core markets of UK, West Africa and Lebanon. It is our intention to continue to deliver a wider range of deposit products and other services going forward.

Treasury

The Bank's treasury function focuses on managing the balance sheet together with the market and liquidity risk of the Bank. The Bank does not undertake any proprietary trading activities. In accordance with regulatory requirements the Bank complies with and maintains an appropriate mix of assets for the purposes of liquidity in order to meet its LCR requirements as stipulated by the PRA.

Strategic report

The Bank manages its asset and liability maturity mismatches, liquidity positions and interest rate positions on an on-going basis and in accordance with defined limits and criteria set within its internal treasury and liquidity policies. These policies are reviewed on an annual basis and monitored by the Bank's Management Committee.

Section 172 Statement

Through its Board, the Bank considers carefully the wider stakeholders' needs while making decisions. The Board seeks to meet its duty under Section 172 Companies Act 2006 in considering in good faith, what will promote the success of the Bank for the benefit of the shareholders having due regard to the factors set out in Section 172.

The Board considers the requirements of S172 by way of:

- Standing agenda items and papers presented at Board meetings on Strategy and Development, Risk and Compliance, Culture and Diversity, Operational matters, Employee and other stakeholders' matters.

- Annually the Board conducts a full review the Bank's strategy which considers the purpose and values of the Bank along with the future strategy and direction of the business. Business plans for the succeeding years are also aligned through our engagement with customers and understanding of their businesses. Updates and performance analysis against the Bank's strategic plan are provided to the Board from the Executive Management periodically throughout the year and at Board meetings.

- The Board undertakes annually an evaluation and assessment of its performance. These reviews are not limited to board self-assessment but include engagement with and contributions from other employees within the business. The aim of engagement with employees is to develop and build a collaborative culture to enhance employees' engagement. Members of management are invited to present at meetings of the Board and its sub-committees from time to time.

- The Board has a commitment to sustainability and the environment with a climate change policy clearly documented and defined across our business and operations and reviewed annually (refer page 15).

- Understanding the importance of our clients and customers. The Bank has an experienced and knowledgeable client facing team that have responsibility for meeting the day to day requirements, servicing and management of our clients. The team led by the Managing Director & CEO seeks to ensure client satisfaction and that the highest standards of business conduct are maintained throughout the lifecycle of our engagement and operations. Updates on the Bank's engagement with its clients and other strategic business development initiatives are included within the Board papers. The Bank also addresses its relationships with suppliers, ensuring that where appropriate due diligence and assessments are undertaken on those designated critical suppliers to monitor their activities and supply chain.

- The Bank's shareholder is represented on the Board via its Chairman and two other Non-Executive Directors.

- The Board of Directors strive to manage the Bank in a responsible manner, operating within the regulatory environment and highest standards of governance. The general aim is always to nurture our reputation through excellence in terms of our relevance to the customers and stakeholders, always treating them fairly and equally.

Strategic report

Corporate Governance

The Bank places a strong emphasis on internal governance and the maintenance of high ethical standards in its working practices.

The Bank's corporate governance framework is driven by the Board which comprises two Executive Directors, three Non-Executive Directors representing the shareholder and four independent Non-Executive Directors (INEDs) following the appointment of an additional INED in February 2023. The independent Non-Executive Directors have considerable commercial banking and regulatory experience gained at senior level from a cross section of internationally recognised financial institutions.

The Board has the collective responsibility of promoting the long-term success of the Bank. While the Executive Directors have the direct responsibility for business operations, the Non-Executive Directors are responsible for bringing independent judgement and scrutiny to decisions taken by the Board.

Responsibility for overseeing the risk framework of the Bank is devolved to the following Committees:

- Board Audit, Risk & Compliance Committee (ARCC)
- Management Committee (including ALCO and Operational Resilience sub-committees)
- Board Credit Committee
- Board Remuneration and Nomination Committee

The Bank has two independent control functions.

The Risk and Compliance Department, led by the Head of Risk & Compliance who holds the UK regulatory Senior Management Functions SMF4, SMF16 and SMF17 and has a reporting line to both the Chairman of the ARCC, an Independent Non-Executive Director, and to the Bank's MD/CEO. The Risk and Compliance Department is the principal element of the Bank's 2nd Line of Defence within the Bank's Three Lines of Defence model and has responsibility for the day-to-day evaluation and monitoring of the risks faced by the Bank and for submitting reports to the Bank and Board Committees.

The Internal Audit function of the Bank which covers Senior Management Function SMF5 is outsourced. The outsourcing partner has no executive role within the Bank and was engaged to undertake all internal audit services with effect from January 2019. Internal Audit reports to the ARCC via its Chairman and is the principal element of the Bank's 3rd Line of Defence.

These control functions actively monitor developments and changes in the regulatory environment and reporting on such developments, forms standing agenda items at the Board Committee meetings where the implications are considered and the Bank's response is approved.

Risk Governance

The Bank employs a Risk Manager reporting to the Head of Risk & Compliance who is certified by the Bank under the Senior Managers & Certification Regime (SMCR). Risk management within the Bank is a strategically important role ensuring the development and maintenance of the Bank's risk framework, its risk matrix and its risk appetite. The risk appetite defines the strategic approach of the Bank and its business plans ensuring that its business strategy falls within the overall risk appetite and that the Bank incurs a level of risk that is individually and in aggregate acceptable to the Board.

Strategic report

The Bank follows the industry standard approach of "Three Lines of Defence" comprising:

- Operational controls as set out in functional and departmental procedures manuals (Line 1);
- Oversight, monitoring and periodic reporting by the Bank's control functions (Line 2); and
- Internal audit (Line 3).

The Board is responsible for ensuring the adequacy of the risk management systems of the Bank and for setting a clear statement of risk appetite and impact tolerances. It is assisted in this by a framework of committees, functions and control function managers. The Board has ultimate responsibility for setting the risk appetite of the Bank. Risk Appetite refers to the level of risk deemed acceptable to the Board in each of the principal risk categories i.e. Market Risk, Credit risk, Operational and Conduct Risk.

The role and responsibilities of the various risk management committees are set out in the following paragraphs.

Audit, Risk & Compliance Committee	The Board Audit, Risk & Compliance Committee ("ARCC") is responsible to the Board for the quality and effectiveness of the risk, compliance and audit functions of the Bank and ensures that the key risks to which the Bank is exposed and the adequacy and effectiveness of the controls to manage these risks are kept under review. It ensures that adequate resources are made available at all times in order to meet the Bank's regulatory and statutory obligations and that the executive management has established and maintains an effective system of internal controls on behalf of the Board. In relation to External Audit, ARCC reviews and agrees the proposed audit approach and receives reports, ensuring that outstanding issues arising are monitored until resolved to its satisfaction; the Committee also reviews the financial results, annual financial statements and any public disclosure documents prior to submission to the Board.
Management Committee	The Management Committee ("ManCo") and its ALCO and Operational Resilience sub-Committees are responsible for the efficient and controlled operation of the business. It is authorised to take all steps necessary to conduct the business of the Bank within the confines of the Board's approved strategy, budgets and mandates. ManCo is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Bank.
Credit Committee	The Board Credit Committee ("BCC") reviews all requests for lending in excess of the designated authority of the Management Committee and ensures compliance with relevant lending policies. It is also responsible for reviewing annually the Committee's Terms of Reference, Bank's Credit and Large Exposure Policies and any Country limits as recommended by Management Committee.
Remuneration & Nominations Committee	The Board Remuneration and Nominations ("BRNC") combines two functions. For Remuneration it sets the over-arching principles and parameters of remuneration policy, determines the annual staff bonus

pool and considers and approves the remuneration arrangements of the executive directors and other senior managers. The role of the Nominations function is to support and advise the Board in ensuring it is comprised of individuals who are best able to discharge the duties and responsibilities of Directors ensuring that composition, diversity and succession are regularly assessed.

All senior management functions ensure that effective procedures for risk assessment are maintained, to identify the risks relating to the activities, processes and systems of the Bank and to recommend such amendments and changes as may be required from time to time to ensure the framework remains fit for purpose. The role of the control functions is to:

- recommend appropriate changes to risk governance and organisational structures;
- draft and implement policies and procedures in order to maintain compliance with the regulatory framework;
- provide periodic reports on risk positions and events to the Bank and Board Committees; and
- perform on-going monitoring and on a regular basis assess the adequacy and effectiveness of the measures and procedures put in place, and the actions taken to address any deficiencies in, the Bank's compliance with its prudential obligations.

In order to assist the Bank’s management in prioritising and focusing its risk management efforts, the control functions working with line managers maintain a Risk Register covering the principal risks faced by the business, which is reviewed annually or in response to material developments in the business environment.

The Board undergoes regular training and self-assessment to ensure that an appropriate blend of skills and experience are in place to deliver the long-term success of the Bank.

AML & Compliance

The Bank supports a strong compliance culture and has an independent compliance function, which is empowered to challenge business decisions. The Bank's compliance function is responsible for ensuring that adequate policies and procedures are in place to maintain the Bank's and its employees' compliance with legal and regulatory obligations in respect of both AML and conduct of business issues. Such policies and procedures are designed to detect and minimise any risk of failure by the Bank to comply with its regulatory obligations, as well as any associated risks.

Internal Audit

The primary role of Internal Audit is to help the Board and Executive Management to protect the assets, reputation and sustainability of the Bank. It does this by assessing whether all significant risks are identified and appropriately reported by management and the Risk function to the Board and Executive Management; assessing whether they are adequately controlled; and by challenging Executive Management to improve the effectiveness of governance, risk management and internal controls.

Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve the Bank’s operations. It assists the Bank in accomplishing its objectives by bringing a systematic and disciplined approach to evaluate and improve the effectiveness of the Bank's risk management, control, and governance processes. The role of Internal Audit at the Bank is outsourced.

Strategic report

As part of the Board's overall governance responsibility, ARCC is responsible for approving the Internal Audit Plan and budget. Following the Board's decision to outsource the role of Internal Audit, it remains satisfied that appropriate resources are in place.

Risk Management

Given its current business activities, the Bank views its primary financial risks as being credit and operational. Liquidity is a key risk for all banks and the Bank assesses its liquidity position daily under both business as usual and stressed business conditions. Since the business places no reliance on funds raised from market sources, is able to fund the term lending book from available capital resources and is otherwise engaged in short-term trade finance operations, sizeable liquidity surpluses have been recorded throughout the year as measured using both Regulatory (Liquidity Coverage Ratio and Net Stable Funding Ratio) and the Bank's own internal stress testing model.

The Bank has implemented a Board approved risk management framework which covers both the high-level governance matters referred to in the preceding section and the day-to-day identification and management of risks.

The control functions are responsible for maintaining a suite of risk management policies which give effect to the risk management framework and ensure compliance with the risk appetite set by the Board. On an annual basis the Bank undertakes a risk self-assessment programme which seeks to monitor developing risk trends and which supports the risk metrics produced through the Bank's management information systems.

The Bank's financial risks, conduct of business and other operational risks are managed through the Management Committee and the BCC within authorities set down by ARCC and approved by the Board. The control functions are responsible for providing financial risk metrics to the Committees for monitoring and high level risk management. Conduct of business and operational risk metrics are also collated to assist the Bank in delivering a high quality customer centric outcomes whilst maintaining appropriate fraud and AML controls.

The Bank has also implemented a range of portfolio level limits in order to diversify its credit and liquidity risks. Risk limits are monitored on a daily, weekly or monthly basis as appropriate to the nature of the underlying risks. ICAAP, ILAAP and the Recovery Plan (RP) are prepared with Board engagement at both design and approval stages. The documents inform the annual planning and budgeting process to ensure that the Bank's strategy and business plans are achievable within its capital and liquidity resources. The ICAAP, ILAAP and RP are all subject to interim review and update in response to material changes to the business or regulatory environments.

Consumer Duty

Following approval of a Consumer Duty Action Plan in October 2022, the Board under the guidance of its appointed INED Consumer Duty Champion ensured that the Bank was in a position to meet regulatory expectations when these came into force in July 2023. The Bank has a relatively uncomplicated stable of regulated products and no closed products. As required, all staff became subject to the new Conduct Rule 6 - 'to always act in the best interests of retail customers' and training was provided to staff and Directors to embed strengthened procedures around treating customers carefully, including a greater focus on vulnerability.

Strategic report

Climate Change

The Board has determined that the Bank should pay due regard to environmental and social risks to project-affected ecosystems communities and the climate. Such risks should be avoided where possible or minimised where not. The Board is committed to ensure that it can transition to a low carbon world. The commitment is articulated in a separate Climate Change Policy and Action Plan adopted initially in 2019 and updated annually since. The policy sets out an overarching appetite for climate change risk and ensures that senior management arrangements are in place to deliver on this commitment whilst upholding regulatory expectations. Climate change assessments are embedded in credit and stress testing processes, including consideration of environmental and reputational impacts. The Bank adopts regulatory supported templates for assessing and standardising narratives around climate change risks and commits to make greater disclosure, including via this section of the Strategic Report and in due course, broader disclosure in keeping with emerging regulatory expectation and industry practice. The Board considers that the Bank's response to the financial risks arising from climate change is proportionate to the nature, scale and complexity of its business.

Diversity and Culture

The Bank supports a strong and diverse workforce giving considerable attention in selecting suitable employees that reflect the diversity of the business and the communities within which the Bank conducts its business operations. In order to meet its strategic objectives, the Bank recognises the importance of ensuring its employees have access to a wide range of learning and development tools and training, whether online, through collaboration, workshops and seminars or one to one. Individual development includes wider training on all regulatory aspects including conduct. Supported by its Performance Management program, which has been enhanced, the Bank continues to work with employees towards a common goal to improve personal development and growth, combined with delivering excellent customer service for the Bank and ultimately helping the Bank and its shareholders to achieve overall improved performance and customer satisfaction. The Board's own succession plan recognises the benefits to be gained from equality and gender diversity.

The Strategic Report was approved by the Board of Directors.

Sophoklis Argyrou
Managing Director & CEO
24 April 2024

Directors' report

The directors present their annual report and the audited financial statements for the year ended 31 December 2023. The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards.

Results and dividends

All profit for the year after taxation, which amounted to £8,899,095 (2022: £3,975,883) was transferred to reserves. Please refer to Note 9 for a breakdown of the tax charge in 2023. The directors recommend the payment of a dividend to the parent shareholder in 2024 equal to 50% of the profit after taxation for the year 2023. The proposed dividend payable is £4,449,548 (2022: £1,987,942).

Corporate governance arrangements

Bank of Beirut (UK) Ltd is a UK regulated entity established in the UK in 2002. Its corporate governance arrangements and framework are set out in the Strategic Report (pages 5 – 15).

Future prospects and developments

The Bank's business objectives, together with factors likely to impact and affect its future development and position are set out in the Strategic Report (pages 5 – 15).

Subsequent events

Please refer to Note 33 for subsequent events.

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.

In reaching this assessment the Directors have considered a wide range of information relating to present and future conditions. This assessment includes a review of the Banks' operational resilience, current and future effects on its business model and projections of profitability, capital resources and liquidity. In addition to the severe but plausible firm specific, market wide and combined stress testing of capital, liquidity and recoverability that the Bank is required to undertake, a series of more severe shocks were considered in response to the continuing crisis in Lebanon. After running these stresses, which went beyond any event that has historically been witnessed by the Bank, the Directors were able to demonstrate that the Bank was able to still maintain operating profitability as well as sizeable capital and liquidity surpluses. The strong capital position of £131.1m after repayment of £16m subordinated loan in January 2023 (2022 - £141.6m) in total capital resources, a capital adequacy ratio of 48.87% (2022 – 42.14%) generating an increased total capital headroom of £77m (2022 - £78m) vs total risk exposures of £248m (2022 - £317m), combined with an LCR ratio of 391% (2022 - 427%) underpinned by 97% (2022 - 85%) cash and cash equivalent ratio to Gross Deposit liabilities, as at 31 December 2023 supported strongly the Banks ongoing ability to absorb and deal with these stresses over the forecasted periods.

Consequently, the Directors having considered possible effects from the ongoing Lebanon crisis including the impact of the Israel / Gaza war leading to escalated tensions on the Lebanese border with Israel, have a reasonable expectation that the Bank has adequate capital and liquid resources to continue in operational existence for the foreseeable future and for this reason the going concern basis continues to be adopted in preparing the financial statements. Further details regarding the adoption of the going concern basis can be found within Note 3 of the significant accounting policies in the financial statements.

Directors' report

Risk management objectives and policies

Liquidity risk

The Bank manages its liquidity structure of assets, liabilities and commitments so that cash flows are appropriately balanced to ensure that all funding obligations are met when due and in accordance with the expectations of the PRA's liquidity regime. Banks are required to define a liquidity risk profile and appetite commensurate with their size and business policies. The Bank maintains adequate resources including a buffer of High Quality Liquid Assets (HQLA) to meet regulatory stress requirements (LCR and NSFR) and its own stress testing designed to ensure that even in the event of stressed events for certain periods, including those which are both firm specific and market wide, it is able to meet certain minimal criteria laid down within its policy.

The general policy of the Bank is to match to maturity so as far as is practicable within the guidelines and not to take on large exposures or placements that cannot easily be matched in the market as to currency or maturity. Liquidity is monitored daily by the Treasury, Risk and Senior Management teams and at each meeting of ALCO.

Credit risk

The Bank's exposure to credit risk arises where there is a possibility of a counterparty defaulting on its obligations to the Bank. Credit risk exposure is controlled daily through close monitoring of client positions and is assessed with the aid of credit ratings. The credit department carries out day-to-day management of credit risk, while overall responsibility resides with the Bank's Board Credit Committee. The Bank takes collateral when required; this may be security over a customer's assets, or more commonly, cash**.**

Effective from 1 January 2018 the Bank has adopted the International Financial Reporting Standard IFRS9 to calculate and measure expected credit losses ("ECL"s) that are over and above regulatory capital charges calculated in accordance with the Standardised approach to credit risk in accordance with the Basel methodology.

Operational risk

Operational risk arises from inadequate or failed internal processes, systems and personnel or from events external to the Bank. The Management Committee reviews and considers all operational risks to which the Bank is exposed. Where operational risk has been identified, controls and procedures, including insurance cover have been put in place in mitigation against such risks. Regular reports are made to the Board Audit Risk & Compliance Committee.

Interest rate risk

Interest rate risk is the exposure of the Bank to adverse movements in interest rates. Changes in interest rates can affect the Bank's earnings by changing its net interest income. This risk mainly arises from mismatches between the interest bearing assets and liabilities on the balance sheet. Note 30 shows the interest rate sensitivity gap analysis for addressing the risk for the Bank as at 31 December 2023.

Foreign exchange risk

Foreign exchange risk arises when market prices move and an open currency position has not been hedged. The Bank's policy is not to run speculative foreign exchange positions. The Bank offers foreign exchange services to all clients and selected correspondents of the Bank. There are detailed limits and controls in place to monitor and limit the exposure. The Bank's policy is to clear its currency positions at the close of daily business.

Directors' report

Directors' indemnities

The Bank has made qualifying third party indemnity provisions for the benefit of its directors which were made during the year and remain in force at the date of this report.

Directors

The directors who served on the Board throughout the year and as at the date of this Directors' Report are as follows:

Salim G Sfeir
Sophoklis Argyrou
Martin J Osborne
Fawaz H Naboulsi
Marcus John S Trench
Anthony J Bush
Ramzi Saliba
Antoun Samia
Mounir Lyan (appointed 14 February 2023)

Auditor

Each of the persons who are a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the 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.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

In line with the Financial Reporting Council's rotation requirements for audits of public interest entities, this will be the final year audit by Deloitte LLP. The Board would like to place on record its thanks for their diligence. Going forward the Board has approved the appointment of MHA LLP to act our auditors and a resolution to this effect will be submitted at the forthcoming Annual General Meeting.

Approved by the Board of Directors and signed on behalf of the Board.

Sophoklis Argyrou
Managing Director & CEO

24 April 2024

Statement of directors' responsibilities

International Accounting Standard 1 (IAS 1) requires that, directors prepare the Annual 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 the directors have elected to prepare the financial statements in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB). 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 the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Bank's ability to continue as a going concern.

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 the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of 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 United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF BANK OF BEIRUT (UK) LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Bank of Beirut (UK) Limited (the 'Bank')

- give a true and fair view of the state of the Bank's affairs as at 31 December 2023 and of its profit for the year then ended;

- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and

- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 33.

The financial reporting framework that has been applied in their preparation is applicable law, United Kingdom adopted international accounting standards and IFRSs as issued by the IASB.

2. 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 Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Bank.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Allowance for expected credit losses; and • Recognition of fee and commission income Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used in the current year was £1,149,000 which was determined on the basis of 1% of net assets.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	No significant changes in our approach

4. Conclusions relating to going concern

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

Our evaluation of the directors’ assessment of the Bank’s ability to continue to adopt the going concern basis of accounting included:

- Assessed the profit forecasts for the business, including looking at growth assumptions, management’s historical forecasting accuracy for the year ended 31 December 2023 and performed a comparison of forecast to actual results for the first three months of the year;
- Engaged with our internal regulatory specialists to assess the level of liquidity and the capital resources available to the Bank, including evaluating the ILAAP and ICAAP; and
- Evaluated management’s stress tests and downturn scenarios to assess the ability of the Bank to continue to trade. Our assessment involved reperformance of the tests as well as evaluating appropriateness of the scenarios used.
- Assessed adequacy in the disclosures relating to going concern in the financial statements.

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.

5. 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 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.

5.1. Allowance for expected credit losses

Key audit matter description

Management discloses information about credit risk in note 30 on Financial Instruments and Risk Management. Critical accounting judgements and estimates and key sources of estimation uncertainty are covered in note 4 to the financial statements, with the related accounting policies in note 3 to the financial statements.

As at 31 December 2023, the total allowance for expected credit losses ("ECL") was £10.10m (2022: £10.13m), of which £9.74m (2022: £9.34m) related to loans classified as stage 3. A number of key elements drive the IFRS 9 Financial Instruments ECL calculation, some of which are mechanical in nature whilst other elements involve more judgement. These include:

- The credit rating applied to each exposure and the change in credit rating are a significant determinant of whether an exposure is considered stage 1 or stage 2 and this can involve a high level of judgement. The movement from stage 1 to stage 2 results in the recognition of a lifetime ECL and so can have a significant effect on the level of allowance.
- The actual probabilities of default ("PD") or loss given default ("LGD") applied to an exposure is an exercise which is largely mechanical in nature although there is some judgement in selection of historical default data and how through the cycle (TTC) PDs are converted to point in time (PiT) PDs as required by IFRS 9.
- For stage 3 loans, individual assessments are undertaken to determine the allowance accounting for, where appropriate, the level of collateral.

The judgements involved in determining the ECLs as noted above involve a high level of subjectivity and, therefore, we have identified the allowance for expected credit losses related to these areas as a key audit matter. This key audit matter contains a potential risk of fraud due to the inherent judgement and presence of bias associated with recognising ECLs in the year which directly adjust the income statement.

Specifically, we classified the following as areas of key risk:

- the staging migration associated with exposures on the excess, problem and watchlist reports; and
- the stage classification of corporate and high net worth individual (HNWI) exposures.

How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to the allowance for expected credit losses: • We obtained an understanding of the relevant controls over management's lending and allowance for ECL business cycles. • We reassessed the reasonableness of the overall IFRS 9 methodology used by the Bank. • We assessed the appropriateness of key assumptions used in the LGDs and PDs applied to the exposures, this involved challenging the use of external data versus historical data from its own experience as well as the conversion of TTC PD to PiT PD. • We performed testing on the significant data inputs into the IFRS 9 model. • For a sample of loans classified as stage 1 and 2 we tested the appropriateness of the staging classification. This included consideration of factors such as internal risk indicators and financial performance of the borrower in order to evaluate whether significant increases in credit risk and default events had been adequately captured. • With the engagement of our credit modelling specialists we assessed the model used by the Bank by testing a sample of ECL calculations. • We tested a sample of stage 3 impaired loans and assessed the appropriateness of specific provision amounts, focussing on the valuation of collateral and judgements made in determining the level of individual provisions. • We performed an overall assessment of the reasonableness of the provision by performing an analytical review using current and past results to understand all significant movements, including considering the appropriateness of audit evidence. • Assessed adequacy in the disclosures relating to expected credit losses in the financial statements.
Key observations	We concluded that the allowance for expected credit losses is appropriately stated.

5.2. Recognition of fee and commission income

Key audit matter description	Management discloses information about revenue recognition in notes 3 and 5 to the financial statements. For the year ended 31 December 2023, the Bank recognised fee and commission income of £6.48m (2022: £8.21m), which is received from trade finance and loan arrangements. The booking of fee and commission income is manual in nature and therefore there is potential for error and fraud through manipulation of fee and commission recognition. Hence, we have identified the occurrence and accuracy of these revenues as a key audit matter. The Bank applies a simplified approach in its determination of the effective interest rate recognition to the booking of fee and commission income as a result of the short term nature of the majority of the Bank's business and, especially, the trade finance transactions.

How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to recognition of fee and commission income: - We obtained an understanding of the relevant controls over management's fee and commission income business cycles; - We tested a sample of fee and commission income, including recalculation of amounts and agreeing to supporting documents to assess whether the recognition is in line with the accounting standard; - We assessed whether a simplified approach in determining of the effective interest rate is appropriate; and - We quantified the effect of the simplified approach used to calculate fees has on the financial statements.
Key observations	We concluded that the fee and commission income balance is appropriate.

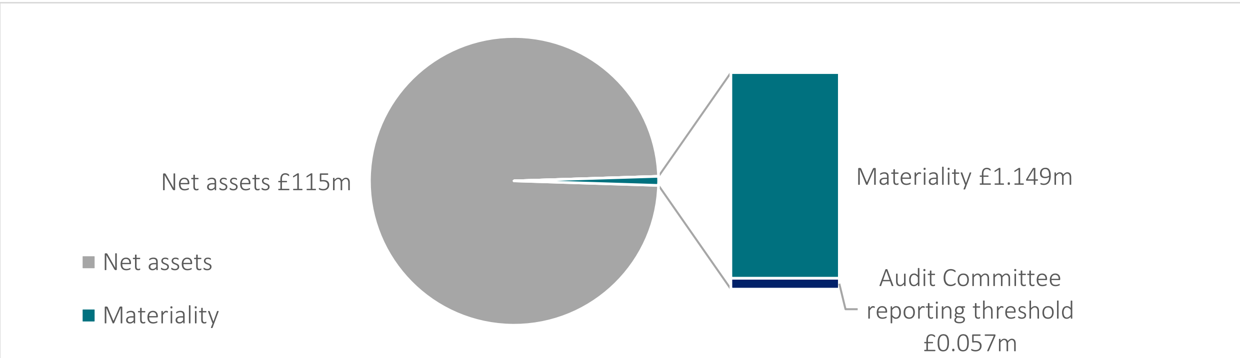
6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Materiality	£1.149m (2022: £1.063m)
Basis for determining materiality	1% of net assets (2022: 1% of net assets)
Rationale for the benchmark applied	Materiality was based on net assets, consistently with the prior audit period, given the capital position of the Bank remains a key metric for the users of the financial statements, including the shareholder of the Bank.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2023 audit (2022: 65%) therefore the performing materiality was determined at £746,000 (2022: 690,000). In determining performance materiality, we considered the quality of the Bank’s control environment in the context of its size and the nature of its business as well as the low number of prior period adjustments reported to those charged with governance.

6.3. Error reporting threshold

We agreed with the Audit, Risk and Compliance Committee that we would report to the Committee all audit differences in excess of £57k (2022: £53k), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit, Risk and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Scoping

Scoping was performed by obtaining an understanding of the Bank and its environment, including internal control, and assessing the risks of material misstatement. Audit work responding to the risks of material misstatement was performed directly by the audit engagement team.

7.2. Our consideration of the control environment

We have tested controls over deposits and interest income with the involvement of our IT specialists to take a control reliance approach for the year ended 31 December 2023. In conjunction with our IT specialists we tested the automated controls over Bankmaster being the general ledger and core banking system which calculates interest income and processes deposits.

We performed a fully substantive based audit with no controls reliance for the remaining sections however with the involvement of our IT specialists, we obtained an understanding of relevant controls, including the IT controls relating to loan origination, allowance for expected credit losses, and financial reporting. This was performed over the key IT systems, Bankmaster and IBS Net which relates to loan origination to support an understanding of the controls environment.

7.3. Our consideration of climate-related risks

In planning our audit, we have considered the potential impact of climate change on the Bank’s business and its financial statements. The Bank performed an assessment of the impact of climate-related risk on the financial statements and concluded there is currently no material impact arising from climate change.

Based on our inquiries with management and our own risk assessment procedures, we did not identify any risks of material misstatement. Our procedures included reading disclosures in the strategic report on page 15 to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit. The Bank has assessed and stated in note 4 that there is currently no material impact arising from climate change on the financial statements.

8. 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.

9. 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.

10. Auditor's 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 the 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 audit of 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.

11. 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. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Bank's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of directors and the audit, risk and compliance committee about their own identification and assessment of the risks of irregularities including those that are specific to the Bank's sector;
- any matters we identified having obtained and reviewed the Bank's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with 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 have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, IT, credit modelling and regulatory specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: allowance for expected credit losses and recognition of fee and commission income. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the Bank operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included UK Companies Act, pensions legislation, tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Bank's ability to operate or to avoid a material penalty. These included the Bank's regulations under the Financial Conduct Authority and Prudential Regulatory Authority.

11.2. Audit response to risks identified

As a result of performing the above, we identified allowance for expected credit losses and recognition of fee and commission income as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;

- inquiring of management, the audit, risk and compliance committee and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC, Financial Conduct Authority and the Prudential Regulatory Authority; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

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 any material misstatements in the strategic report or the directors' report.

13. Opinion on other matter prescribed by the Capital Requirements (Country-by-Country Reporting) Regulations 2013

In our opinion the information given in the notes to the financial statements for the financial year ended 31 December 2023 has been properly prepared, in all material respects, in accordance with the Capital Requirements (Country-by Country Reporting) Regulations 2013.

14. Matters on which we are required to report by exception

14.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

14.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the audit, risk and compliance committee, we were appointed by the Board of Directors of the Bank on 10 December 2002 to audit the financial statements for the year ended 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 22 years, covering the years ended 31 December 2002 to 31 December 2023. The year ended 31 December 2023 will be the last year of our appointment as auditor.

15.2. Consistency of the audit report with the additional report to the audit, risk and compliance committee

Our audit opinion is consistent with the additional report to the audit, risk and compliance committee we are required to provide in accordance with ISAs (UK).

16. 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.

Christopher Brough (Senior Statutory Auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

24 April 2024

Bank of Beirut (UK) Ltd
Company Registration No. 04406777

Income Statement
Year ended 31 December 2023

	Notes	2023 £	2022 £
Continuing operations			
Interest income	5	**20,688,305**	**11,194,555**
Interest expense	6	**(4,269,951)**	**(2,955,818)**
Net interest income		**16,418,354**	**8,238,737**
Net fees and commission income		**6,475,735**	**8,210,725**
Foreign exchange income	8	**1,041,391**	**879,670**
Total non-interest income		**7,517,126**	**9,090,395**
Total income		**23,935,480**	**17,329,132**
Administrative expenses	7	**(11,302,824)**	**(9,666,456)**
Finance cost	17	**(32,246)**	**(37,612)**
Net impairment losses	30	**(736,213)**	**(2,669,229)**
Profit before taxation	8	**11,864,197**	**4,955,835**
Taxation	9	**(2,838,196)**	**(979,952)**
Profit for the year from continuing operations		**9,026,001**	**3,975,883**
Discontinued operations		**(126,906)**	**-**
Profit for the year		**8,899,095**	**3,975,883**

Statement of other comprehensive income
Year ended 31 December 2023

	Notes	2023 £	2022 £
Profit for the year		**8,899,095**	**3,975,883**
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income			
Gains arising during the year		**-**	**2,660**
Income tax relating to items that may be reclassified	9	**-**	**(505)**
Other comprehensive income for the year net of tax		**-**	**2,155**
Total comprehensive income for the year		**8,899,095**	**3,978,038**

Bank of Beirut (UK) Ltd
Company Registration No. 04406777

Balance Sheet
Year ended 31 December 2023

	Notes	2023 £	2022 £
Assets			
Cash and balances at banks		**97,312,901**	**97,866,118**
Placements with banks	10	**84,957,369**	**85,207,005**
Loans and advances to customers	11	**121,214,222**	**161,651,346**
Customers' acceptances	12	**4,492,125**	**4,088,592**
Financial assets at amortised cost	13	**38,550,817**	**35,784,024**
Derivative assets		**47,396**	**-**
Prepayments and accrued income		**1,057,213**	**1,161,165**
Land and Buildings	15	**18,582,982**	**18,648,703**
Right-of-use lease assets	15	**531,105**	**608,200**
Property and equipment	15	**699,430**	**855,208**
Intangible assets	16	**83,084**	**133,444**
Total assets		**367,528,644**	**406,003,805**
Liabilities			
Deposits by banks	18	**89,115,933**	**80,595,854**
Customer accounts	19	**137,387,442**	**175,445,918**
Acceptances payable	12	**4,497,504**	**4,098,473**
Derivative liabilities		**-**	**17,261**
Accruals and deferred income		**832,722**	**529,509**
Lease liabilities	17	**588,223**	**655,100**
Other liabilities	20	**1,885,618**	**1,954,226**
Current tax liability		**1,386,273**	**417,251**
Deferred tax liability	21	**698,679**	**657,256**
Subordinated loan	22	**16,140,915**	**33,548,775**
Total liabilities		**252,533,309**	**297,919,623**
Equity			
Called up share capital	23	**34,150,000**	**34,150,000**
Retained earnings	24	**80,845,335**	**73,934,182**
Total equity		**114,995,335**	**108,084,182**
Total liabilities and equity		**367,528,644**	**406,003,805**

These financial statements were approved by the board of directors and authorised for issue. They were signed on its behalf by:

S Argyrou
Managing Director & CEO
24 April 2024

Statement of changes in equity
Year ended 31 December 2023

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2022	**34,150,000**	**70,758,200**	**104,908,200**
Dividend paid		**(802,055)**	**(802,055)**
Profit for the year	**-**	**3,975,883**	**3,975,883**
Other comprehensive income for the year	**-**	**2,154**	**2,154**
As at 31 December 2022	**34,150,000**	**73,934,182**	**108,084,182**

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2023	**34,150,000**	**73,934,182**	**108,084,182**
Dividend paid		**(1,987,942)**	**(1,987,942)**
Profit for the year		**8,899,095**	**8,899,095**
As at 31 December 2023	**34,150,000**	**80,845,335**	**114,995,335**

Refer to Note 29 - Dividends also related to these financial statements

Cash Flow Statement
Year ended 31 December 2023

	Notes	2023 £	2022 £
Cash flows from operating activities			
Profit for the year		**8,899,095**	**3,975,883**
Adjustments for:			
Taxation	9	**2,838,196**	**979,952**
T-Bills discount and interest	13	**593,678**	**-**
Depreciation and amortisation	15 & 16	**749,666**	**641,631**
Net impairment losses	30	**736,213**	**2,669,229**
Finance cost on lease liabilities	17	**32,246**	**37,612**
Operating cash flows before movements in working capital		**13,849,094**	**8,304,307**
Decrease / (increase) in prepayments and accrued income		**103,952**	**(178,266)**
Increase / (decrease) in accruals and deferred income		**303,213**	**(30,940)**
Net (increase) /decrease in loans and advances to banks and customers		**39,905,397**	**(27,093,355)**
Decrease in deposits by banks and customer accounts		**(29,538,396)**	**(6,084,532)**
(Decrease) / increase in other liabilities		**(68,608)**	**299,163**
Net (decrease) / increase in derivatives financial instruments		**(64,657)**	**17,261**
Cash generated from / (used in) operations		**24,489,995**	**(24,766,362)**
Corporation tax paid		**(1,827,751)**	**(356,100)**
Net cash generated from / (used in) operating activities		**22,662,244**	**(25,122,462)**
Cash flows from investing activities			
Purchase of property, equipment and intangible assets	15 & 16	**(354,976)**	**(769,145)**
Proceeds on maturity of treasury bills and other eligible bills		**43,930,037**	**39,572,065**
Purchase of treasury bills and other eligible bills		**(49,034,081)**	**(45,973,635)**
Net cash used in investing activities		**(5,459,020)**	**(7,170,715)**
Cash flows from financing activities			
Lease payments under Finance Lease		**(147,792)**	**(141,474)**
Subordinated loan redemption		**(17,407,859)**	**-**
Dividend paid		**(1,987,942)**	**(802,055)**
Decrease in cash and cash equivalents		**(2,340,369)**	**(33,236,706)**
Cash and cash equivalents at the beginning of the year		**97,866,118**	**134,556,581**
Effect of exchange rate changes on cash and cash equivalents		**1,787,152**	**(3,453,757)**
Cash and cash equivalents at the end of the year		**97,312,901**	**97,866,118**
Cash and cash equivalents comprised of:			
Cash and balances at banks		**97,312,901**	**97,866,118**

Notes to the financial statements
Year ended 31 December 2023

1. General information

Bank of Beirut (UK) Ltd ("the Bank") is a private company, limited by shares and incorporated in the England and Wales under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Bank's operations and its principal activities are set out in the Strategic Report on pages 5 to 15 and the Directors' Report on pages 16 to 18.

These financial statements are presented in pounds sterling being the currency of the primary economic environment in which the Bank operates. All of the Bank's undertakings and financial results are carried out within the UK.

2. Basis of preparation

The financial statements have been prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared on the historical cost basis as modified by financial instruments recognised at fair value through other comprehensive income. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Bank considers the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

New and amended standards effective for the current year

The following changes to the standards were applicable for 31 December 2023 year end but have no material impact on the Bank's financial position.

IAS 8 – Accounting Policies, changes in accounting estimates and errors
IFRS 17 – Insurance Contracts
IAS 1 - Presentation of Financial Statements
IAS 12 - Income Taxes

Future accounting developments

Effective 1 January 2024, there are further changes to the following standards but again with no material impact expected on the Bank's financial position in future periods;

IAS 1 - Presentation of Financial Statements
IAS 7 - Statement of Cashflows
IFRS 7 - Financial Instruments: Disclosures
IFRS 16 - Leases
IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information
IFRS S2 - Climate-related Disclosures

3. Significant accounting policies

The principal accounting policies adopted are set out below.

Going concern basis

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.

The Bank's business activities, together with factors likely to affect its future development, performance and financial position and commentary on the Bank's financial results, its cash flows and liquidity requirements are set out in the Strategic Report on pages 5 to 15 and the Directors' report on pages 16 to 18 and elsewhere within the financial statements. In addition, notes 30 and 31 to the financial statements include the Bank's objectives, policies and processes for managing its capital, its financial risk, management objectives, details of its financial instruments, any hedging activities and its exposures to liquidity risk and credit risk. The Bank has a proven and conservative business model and its performance has been resilient over the years as it has enjoyed a sound funding and liquidity position and adequate capital resources. Thus, the Directors continue to adopt the going concern basis of accounting in preparing the financial statements.

In reaching this assessment the Directors have considered a wide range of information relating to present and future conditions. This assessment includes a review of the Banks' operational resilience, current and future effects on its business model and projections of profitability, capital resources and liquidity. In addition to the severe but plausible firm specific, market-wide and combined stress testing of capital, liquidity and recoverability that the Bank is required to undertake, a series of more severe shocks to the liability outflows were considered in response to the ongoing crisis in Lebanon. After running these stresses, which went beyond any event that has historically been witnessed by the Bank, the Directors were able to demonstrate that the Bank was still able to maintain operating profitability as well as sizeable capital and liquidity surpluses, recording a strong capital position of £131.1m (2022 - £141.6m) in total capital resources.

Revenue recognition

Net interest income

Interest income and expense are recognised in the income statement for all interest-bearing financial instruments using the effective interest method, except for those classified at fair value through profit or loss.

The effective interest method is a method of calculating the amortised cost of a financial asset or liability and of allocating the interest income or interest expense over the expected life of the financial instrument.

The effective interest rate is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument to the gross carrying amount of the financial asset (before adjusting for expected credit losses) or to the amortised cost of the financial liability including items that are an integral part of the overall return. Interest income from non-credit impaired financial assets is recognised by applying the effective interest rate to the gross carrying amount of the asset. For credit impaired financial assets, the effective interest rate continues to be applied to the gross carrying amount of the asset but interest is not taken to income. In cases where the asset is impaired but covered by other credit risk mitigations, then interest continues to be applied to income.

Fee and commission income and expense

Fees and commissions receivable which are not an integral part of the effective interest rate are recognised as income as the Bank fulfils its performance obligations. The Bank's principal performance obligations arising from contracts with customers are in respect of current and loan accounts. These fees are received, and the Bank provides the service, monthly; the fees are recognised in income on this basis. The Bank also receives certain fees in respect of its trade finance business where the performance obligations are typically fulfilled towards the end of the customer contract; these fees are recognised in income on this basis. Where it is unlikely that the loan commitments will be drawn, loan commitment fees are recognised in fee and commission income over the life of the facility, rather than as an adjustment to the effective interest rate for loans expected to be drawn.

3. Significant accounting policies (continued)

Incremental costs incurred to generate fee and commission income are charged to fees and commissions expense as they are incurred. In cases, when the Bank has performed its obligations, but the counterparty to the transaction has not paid the commission or fees due, then the Bank will recognise a contract asset for the amount at the cut-off date and corresponding revenue recognised in the income statement.

Leasing

Assets of value of less than US$5,000 (low value assets) and leases of terms less than one year are excluded from the consideration of Finance Lease under IFRS 16. All other lease assets are recognised as Finance Leases and corresponding right-of-use lease assets and lease liabilities recognised in the Statement of Financial Position. Lease liability is measured initially at the present value of future lease payments and the right-of-use lease assets as lease liability plus initial direct costs. The implicit rate of return approximates to the incremental borrowing rate for the Bank. In the absence of any specific implicit rate of interest for the lease, the incremental borrowing cost of the Bank is considered as the prevailing Bank of England base lending rate. The right-of-use lease asset is amortised over the lease period and the lease liability at amortised cost after recognising the finance cost of the lease liability.

Financial assets

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.

The Bank reclassifies financial assets 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 and will occur at a portfolio level and not for individual instruments; reclassifications are expected to be rare.

The Bank initially recognises loans and advances, deposits, debt securities in issue and subordinated liabilities when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are derecognised when the contractual right to receive cash flows from those assets has expired.

Financial instruments measured at amortised cost - Financial assets that are held to collect contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. A basic lending arrangement results in contractual cash flows that are solely payments of principal and interest on the principal amount outstanding. Financial assets measured at amortised cost are predominantly loans and advances to customers and banks together with certain debt securities. Loans and advances are initially recognised when cash is advanced to the borrower at fair value inclusive of transaction costs. Interest income is accounted for using the effective interest method.

Financial assets measured at fair value through other comprehensive income - Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement other than in respect of equity shares, for which the cumulative revaluation amount is transferred directly to retained profits. The Bank recognises a charge for expected credit losses in the income statement. As the asset is measured at fair value, the charge does not adjust the carrying value of the asset; it is reflected in other comprehensive income. As at year end 31 December 2023 there were no instruments held under this category.

Financial assets measured at fair value through profit and loss - The Bank undertakes forward FX swap contracts from time to time which are designated at fair value through profit and loss. As at year end 31 December 2023 the Bank held £47,396 worth of derivative assets.

3. Significant accounting policies (continued)

Borrowings - Borrowings which include deposits from banks, customer deposits and subordinated liabilities are recognised initially at fair value, being their issue proceeds net of transaction costs incurred. These instruments are subsequently stated at amortised cost using the effective interest method.

Impairment of financial assets

The impairment charge in the income statement accounts for the change in expected credit losses. Expected credit losses are recognised for loans and advances to customers and banks, other financial assets held at amortised cost, financial assets measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts.

Expected credit losses are calculated as an unbiased and probability weighted estimate using an appropriate probability of default, adjusted to consider a range of possible future economic scenarios, and applying this to the estimated exposure of the Bank at the point of default after considering the value of any collateral held, repayments, or other mitigation of loss and including the impact of discounting using the effective interest rate.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is made for expected credit losses resulting from default events that are possible within the next 12 months (12 - month expected credit losses). In the event of a significant increase in credit risk since origination, allowance (or provision) is made for expected credit losses resulting from all possible default events over the expected life of the financial instrument (lifetime expected credit losses).

Financial assets where 12 month expected credit losses are recognised are considered to be Stage 1; financial assets which are considered to have experienced a significant increase in credit risk since initial recognition are in Stage 2; and financial assets which have defaulted or are otherwise considered to be credit impaired are allocated to Stage 3. Stage 3 assets are subject to individual rather than collective assessment.

Such cases are subject to a risk-based impairment sanctioning process, and these are reviewed and updated at least quarterly, or more frequently if there is a significant change in the credit profile.

An assessment of whether credit risk has increased significantly since initial recognition considers the change in the risk of default occurring over the remaining expected life of the financial instrument. The assessment is unbiased, probability-weighted and uses forward-looking information consistent with that used in the measurement of expected credit losses. In determining whether there has been a significant increase in credit risk, the Bank uses quantitative tests based on relative and absolute probability of default (PD) movements linked to internal credit ratings together with qualitative indicators such as watch lists and other indicators of historical delinquency, credit weakness or financial difficulty.

Where the credit risk subsequently improves such that it no longer represents a significant increase in credit risk since origination, the asset is transferred back to Stage 1. Assets are transferred to Stage 3 when they have defaulted or are otherwise considered to be credit impaired. Default is considered to have occurred when there is evidence that the customer is experiencing financial difficulty which is likely to affect significantly the ability to repay the amount(s) due.

IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Bank has rebutted this presumption. As a general rule, where the Bank is in a Trade Finance relationship and one or a small number of individual items which form part of a larger portfolio are past due, specifically where these relate to claims or charges, but the remaining exposures are performing, the Bank will determine on a case by case basis that there has not been objective evidence of credit impairment. In certain circumstances, the Bank will renegotiate the original terms of a customer’s loan, either as part of an ongoing customer relationship or in response to adverse changes in the circumstances of the borrower. In the latter circumstances, the loan will remain classified as either Stage 2 or Stage 3, as appropriate, until the credit risk has improved such that it no longer represents a significant increase since origination (for a return to Stage 1), or the loan is no longer credit impaired (for a return to Stage 2). Renegotiation may also lead to the loan and associated allowance being derecognised and a new loan being recognised initially at fair value. All changes in lifetime expected credit losses subsequent to the assets’ initial recognition are recognised as an impairment charge. A loan or advance is normally written off, either partially or in full, against the related allowance when the proceeds from realising any available security have been received or there is no realistic

3. Significant accounting policies (continued)

prospect of recovery and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses recorded in the income statement. For both secured and unsecured retail balances, the write-off takes place only once an extensive set of collections processes has been completed, or the status of the account reaches a point where policy dictates that continuing attempts to recover are no longer appropriate. For commercial lending, a write-off occurs if the loan facility with the customer is restructured, the asset is under administration and the only monies that can be received are the amounts estimated by the administrator, the underlying assets are disposed and a decision is made that no further settlement monies will be received, or external evidence (for example, third party valuations) is available that there has been an irreversible decline in expected cash flows.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

All financial liabilities are held at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Financial liabilities are derecognised when the obligation is discharged, cancelled or expired.

Derivative financial instruments and hedge accounting

The Bank’s activities can expose it to the financial risks of changes in currency exchange rates. From time to time, the Bank may use foreign exchange forward contracts to economically hedge these exposures as and when they arise. The Bank does not use derivative financial instruments for speculative purposes.

The use of financial derivatives is governed by the Bank’s policies approved by the board of directors, which provide written principles on the use of financial derivatives.

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into, and subsequently measured, at fair value. Derivatives are carried on the balance sheet as assets when their fair value is positive and as liabilities when their fair value is negative. Changes in the fair value of all derivative instruments are recognised immediately in the income statement.

The Bank does not apply hedge accounting to its derivative financial instruments. As permitted by IFRS 9, the Bank applies the requirements of IAS 39 to its hedging relationships as and when they arise.

Cash and balances at banks

Cash and cash equivalents comprise cash on hand and at banks, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Property and equipment

Property and equipment are stated in the balance sheet at cost, less accumulated depreciation and accumulated impairment losses. With the exception of freehold Land, depreciation is charged on all property and equipment, at rates calculated to write off the cost, less estimated residual value, of each property and equipment evenly over its expected useful life using the straight-line method on the following bases:

Leasehold improvements	over the lease term
Land and Buildings	2% to 5% for the building only
Fixtures, fittings and equipment	10% to 33.33%

The gain or loss arising on the disposal or retirement of a property and equipment is determined as the difference between the sales proceeds and the carrying amount of the property and equipment and is recognised in income.

3. Significant accounting policies (continued)

At each balance sheet date, the Bank reviews the carrying amounts of property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the property and equipment is estimated in order to determine the extent of the impairment loss (if any).

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

De-recognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognised in profit or loss when the asset is derecognised.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Bank reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a re-valued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Taxation

Income tax expense represents the sum of the current tax charge and the deferred tax charge.

The current tax charge is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

3. Significant accounting policies (continued)

Deferred tax is recognised on differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items credited or debited directly to equity, in which case the tax is also recognised directly in equity.

Pension Schemes

The Bank contributes to a defined contribution scheme which is open to all members of staff over the age of 18. Contributions are charged to the income statement when they become payable in accordance with the scheme.

Foreign currency translation

Transactions in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling on the balance sheet date. All differences arising are taken to the income statement. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains or losses are recognised directly to equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly to equity.

Offsetting of assets and liabilities

All assets and liabilities have been reported gross unless there is a legally enforceable right to offset and there is intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

4. Critical accounting judgements and key sources of estimation uncertainty

In the process of applying the Bank’s accounting policies, which are described in note 3, management is required to make judgements that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts included in the income statement during the period. The judgements that have the most significant effect on the amounts recognised in the financial statements are discussed below, along with the related estimates.

Critical accounting judgements

Allowance for impairment losses on loans and advances to customers

At 31 December 2023 the Bank’s impairment losses on loans and advances to customers and banks (see Note 11) was £10.1 million (2022 - £10.14 million). The calculation of the Bank’s expected credit loss (ECL)

4. Critical accounting judgements and key sources of estimation uncertainty (continued)

allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Bank to make a number of judgements, assumptions and estimates. The most significant of these are set out below.

Definition of default and credit impaired assets

Default has occurred when there is evidence that the customer is experiencing significant financial difficulty which is likely to affect the ability to repay amounts due. The definition of default adopted by the Bank is described within Note 3 above under the caption 'Impairment of financial assets'. Determination of default is considered to be a key judgement in the Bank's assessment of its credit exposures.

Significant increase in credit risk

Performing assets are classified as either Stage 1 or Stage 2. An ECL allowance equivalent to 12 months expected losses is established against assets in Stage 1; assets classified as Stage 2 carry an ECL allowance equivalent to lifetime expected losses. Assets are transferred from Stage 1 to Stage 2 when there has been a significant increase in credit risk (SICR) since initial recognition. The Bank uses a quantitative test together with qualitative indicators to determine whether there has been a SICR for an asset. The setting of precise trigger points combined with risk indicators requires judgement.

The use of different trigger points may have a material impact upon the size of the ECL allowance. The Bank monitors the effectiveness of SICR criteria on an ongoing basis. The Bank uses forward looking information such as changes in outstanding balances, macro-economic overlays, together with migration and seasoning factors in order to determine and build scenario based ECL estimates.

Key sources of estimation uncertainty

Probability of default

The probability of default (PD) of an exposure, both over a 12 month period and over its lifetime, is a key input to the measurement of the ECL allowance. Determination of the PD is based on a consistent model applied against the key sectors to which the Bank has exposure using external rating models with adjustments made to account for the shorter dated maturities.

Loss given default

In order to derive Loss Given Default (LGD) percentages, four business segments have been defined, namely Sovereign, Corporate, Bank and Trade Finance. Given low absolute client numbers and in the absence of sufficient historic loss data, the calculations use a variety of international benchmark data including those defined by the Basel Committee, the International Chamber of Commerce and other relevant studies. The Bank only recognises cash and property (subject to haircuts) as acceptable forms of security to arrive at final LGD estimates.

ECL sensitivity analysis is given in Notes 30.1 together with an analysis of the carrying amount of assets and liabilities affected by the aforementioned judgements and estimates.

Climate related risks

The impact of climate related risks on the financial statements have been assessed and it is considered that there is no significant impact.

5. Interest income

Interest income comprises interest from:

	2023 £	2022 £
Loans and advances to banks	**15,896,043**	**7,970,902**
Loans and advances to customers	**3,454,616**	**2,827,776**
Financial assets at amortised cost	**1,337,646**	**395,877**
	20,688,305	**11,194,555**

The amount of interest income attributable to Group companies is £0 (2022 - £2,539).

6. Interest expense

Interest expense comprises interest incurred on:

	2023 £	2022 £
Deposit by banks	**99,348**	**180,538**
Customers' accounts	**2,893,401**	**1,396,040**
Deposits by Group companies	**1,277,202**	**1,379,240**
	4,269,951	**2,955,818**

7. Administrative expenses

Staff costs during the year (including directors)	2023 £	2022 £
Wages and salaries	**5,075,507**	**4,369,038**
Social security costs	**576,306**	**532,968**
Other staff costs	**355,962**	**275,919**
Pension costs	**403,345**	**310,151**
Total staff costs	**6,411,120**	**5,488,076**
Occupancy costs	**746,551**	**687,239**
Administrative costs	**3,395,487**	**2,849,510**
Depreciation and amortisation	**749,666**	**641,631**
Total administrative expenses	**11,302,824**	**9,666,456**

The average monthly number of employees during the current and prior year was as follows:	**2023 No.**	**2022 No.**
Commercial and retail banking activities	**67**	**62**

7. Administrative expenses (continued)

Directors' emoluments

Directors' remuneration during the year consists of:

	2023 £	2022 £
Salaries and other emoluments	**1,077,683**	**815,188**
Pension costs	**29,275**	**22,714**
	1,106,958	**837,902**

The emoluments of the highest paid director for the year ended 31 December 2023 were £617,183 (2022 - £465,996). The highest paid director is a member of the Bank's pension scheme. There were two directors (2022 – two directors) who were part of the Bank's pension scheme.

8. Profit before taxation

The profit is stated after (crediting) /charging:

	2023 £	2022 £
Foreign exchange income	**1,041,391**	**879,670**
Auditor's remuneration:		
Audit of the financial statements	**229,800**	**204,000**
Depreciation and amortisation (includes right of use asset depreciation)	**749,666**	**641,631**

9. Taxation

The charge for the year can be reconciled to the profit per the income statement as follows:

Analysis of tax charge for the year	2023 £	2022 £
Current year	**2,796,773**	**776,636**
Prior year adjustment	**-**	**(3,790)**
Total Current tax charge	**2,796,773**	**772,846**
Deferred tax charge	**41,423**	**207,106**
Total tax expense	**2,838,196**	**979,952**

The charge for tax is based upon a UK corporation tax rate of 19% from 1 January 2023 to 31 March 2023 increasing to 25% effective from 1 April 2023 to 31 December 2023.

9. Taxation (continued)

Factors affecting the tax charge for the year:	**2023**	**2022**
	£	**£**
Profit before taxation	**11,864,197**	**4,990,286**
Tax charge at UK Corporation tax rate of 19% (2022: 19%)		**948,154**
Tax charge at UK Corporation tax rate of 23.2% 2023)	**2,790,524**	
Effects of:		
Fixed asset differences	**42,759**	**(14,451)**
Expenses not deductible for tax purposes	**2,462**	**838**
Income not taxable for tax purposes	**-**	**(505)**
Adjustment to prior periods	**-**	**(3,790)**
Remeasurement of deferred tax for changes in tax rates	**2,451**	**49,705**
Tax expense for the year	**2,838,196**	**979,951**

In addition to the amount charged to the Income Statement, the following amounts have been recognised in Other Comprehensive Income:

Items that may be reclassified subsequently to profit or loss:	**2023**	**2022**
	£	**£**
Financial assets at FVTOCI		
Gains arising during the year	**-**	**2,660**
Total income tax recognised in other comprehensive income	**-**	**(505)**

10. Placement with banks

	2023	**2022**
	£	**£**
Maturing in three months or less	**83,362,966**	**85,110,603**
Maturing in six months but over three months	**1,594,403**	**96,402**

Amounts in respect of Group companies included in placements with banks is nil (2022 – nil).

ECLs are included in these balances as per IFRS9. The ECL amount as at 31 December 2023 was £ 335 for placements (2022 - £478).

Notes to the financial statements
Year ended 31 December 2023

11. Loans and advances to customers

	2023 £	2022 £
Repayable:		
On demand or at short notice	**15,304,074**	**15,924,973**
Remaining maturity:		
Three months or less excluding on demand	**82,071,951**	**114,191,382**
One year or less but over three months	**24,171,432**	**33,644,338**
Three years or less but over one year	**9,763,441**	**8,029,802**
	131,310,898	**171,790,495**
Impairment loss allowance	**(10,096,676)**	**(10,139,149)**
	121,214,222	**161,651,346**

12. Customers' acceptances and acceptances payable

Customers' acceptances and acceptances payable relate to letters of credit where all required documentation has been received and certified by the Bank which make up a total of £4,492,125 (2022 - £4,088,592) and includes an ECL amount of £5,379 (2022 - £9,881). Upon completion of the required documentation, the Bank is obliged to make payment to the counterparty of the customer and the same amount is recoverable from the customer. The customers' acceptances are due from the customers while acceptances payable is due to the counterparty of the customer. Upon acceptance of presented documents, the Bank reserves the right, subject to its customer's request, whether to discount such commitments. For clarification discounted acceptances are excluded from the total of Contingent liabilities referred to under Note 26.

13. Financial assets at amortised cost

US Treasury Bonds	2023 £	2022 £
Balance as at 1 January	**30,492,458**	**-**
Acquisitions	**41,224,971**	**34,024,896**
Maturities	**(36,120,927)**	**(3,319,502)**
Unpaid interest and discount due	**(533,437)**	**(212,545)**
Impairment loss	**(183)**	**(391)**
Exchange differences on monetary assets	**(1,640,172)**	**-**
Balance as at 31 December	**33,422,710**	**30,492,458**

EU Treasury Bonds	2023 £	2022 £
Balance as at 1 January	**5,291,566**	**-**
Acquisitions	**7,809,111**	**5,309,735**
Maturities	**(7,809,111)**	**-**
Unpaid interest and discount due	**(60,241)**	**(17,832)**
Impairment loss	**95**	**(337)**
Exchange differences on monetary assets	**(103,313)**	**-**
Balance as at 31 December	**5,128,107**	**5,291,566**

13. Financial assets at amortised cost (continued)

The Bank's holding of UK, US and EU treasury bills are classified as Financial assets at amortised cost. All assets are purchased as part of the Bank's High Quality Liquid Asset Buffer (HQLA) and held to maturity. The movements during the year are summarised in the table above.

They are categorised as Stage 1 with an ECL for the year 2023 of £815 (2022 - £728).

14. Financial assets at fair value through other comprehensive income

The Bank's holding of its UK, US and EU treasury bills previously held and valued as 'Financial assets at fair value through other comprehensive income' were classified in 2022 as "Financial assets at amortised cost". Only new asset purchases in 2022 were affected. Existing assets with maturity during the year 2022 were accounted for as Financial assets at fair value through other comprehensive income. The assets were categorised as Stage 1 noting that all assets were matured during the year 2022 with no reported ECL. All US and EU treasury bills were valued as Amortised cost in 2023.

The movements during the year are summarised as follows:

US Treasury Bills	**2023**	**2022**
	£	**£**
Balance as at 1 January	-	**24,097,529**
Exchange differences on monetary assets	-	**2,861,162**
Acquisitions	-	**6,639,004**
Maturities	-	**(33,597,695)**
Balance as at 31 December	-	-

EU Treasury Bills	**2023**	**2022**
	£	**£**
Balance as at 1 January	-	**2,533,363**
Exchange differences on monetary assets	-	**121,504**
Maturities	-	**(2,654,867)**
Balance as at 31 December	-	-

15. Property and equipment

	Leasehold Right of Use £	Leasehold improvements £	Fixtures, fittings and equipment £	Land and Buildings £	Total £
Cost					
At 1 January 2022	**1,032,383**	**39,488**	**1,978,814**	**19,427,060**	**22,477,745**
Additions	**-**	**-**	**637,487**	**7,569**	**645,056**
Disposals	-	-	-	-	-
Translation difference	-	-	-	-	-
At 31 December 2022	**1,032,383**	**39,488**	**2,616,301**	**19,434,629**	**23,122,801**
Additions	**45,737**	**55,278**	**76,032**	**93,426**	**270,473**
Disposal	**(81,341)**	**-**	**-**	**-**	**(81,341)**
Translation difference					
At 31 December 2023	**996,779**	**94,766**	**2,692,333**	**19,528,055**	**23,311,933**
Depreciation					
At 1 January 2022	**301,613**	**39,480**	**1,595,291**	**626,845**	**2,563,229**
Charge for the year	**122,571**	**-**	**165,811**	**159,080**	**447,462**
Disposals	-	-	-	-	-
Translation difference	-	-	-	-	-
At 31 December 2022	**424,184**	**39,480**	**1,761,102**	**785,925**	**3,010,691**
Charge for the year	**122,831**	**6,584**	**280,503**	**159,148**	**569,066**
Disposal	**(81,341)**	**-**	**-**	**-**	**(81,341)**
Translation difference					
At 31 December 2023	**465,674**	**46,064**	**2,041,605**	**945,073**	**3,498,416**
Net Book Value					
At 31 December 2023	**531,105**	**48,702**	**650,728**	**18,582,982**	**19,813,517**
At 31 December 2022	**608,199**	**8**	**855,199**	**18,648,704**	**20,112,110**

Property and equipment depreciation is applied on a straight basis. This depreciation is included within the administrative expenses line item in the Income Statement.

16. Intangible assets

	Computer software
Cost	**£**
At 1 January 2022	**1,692,220**
Additions	**124,089**
Translation difference	**-**
Foreign Exchange	**-**
At 31 December 2022	**1,816,309**
Additions	**130,240**
Translation difference	**-**
Foreign Exchange	**-**
At 31 December 2023	**1,946,549**
Amortisation	
At 1 January 2022	**1,488,696**
Charge for the year	**194,169**
Disposals	**-**
Foreign Exchange	**-**
At 31 December 2022	**1,682,865**
Charge for the year	**180,600**
Disposals	**-**
Foreign Exchange	**-**
At 31 December 2023	**1,863,465**
Net book value	
At 31 December 2023	**83,084**
At 31 December 2022	**133,444**

Intangible assets consist of computer software which is amortised over a period of three years on a straight basis. The amortisation of intangible assets is included within the administrative expenses line item in the Income Statement.

17. Leases

The Curzon Street premises and the high value printers under lease agreements are recognised under IFRS 16 Leases.

Summary of the impact on the financial statement:

Income statement year ended 31 December	2023 £	2022 £
Depreciation	**122,831**	**122,571**
Finance cost	**32,246**	**37,612**
	155,077	**160,183**

Summary of statement of financial position	2023 £	2022 £
Non-current assets (right-of-use)	**531,105**	**608,199**
Non-current liabilities	**443,363**	**507,307**
Current liabilities	**144,860**	**147,792**

Future minimum lease payments	Curzon St £	Printers £	Total £
Not later than 1 year	**120,861**	**15,200**	**136,061**
Greater than 1 year and less than 5 years	**483,444**	**34,200**	**517,644**
Greater than 5 years	**-**	**-**	**-**
	604,305	**49,400**	**653,705**

As a result of recognising the leases in the year 2023, the assets have decreased by £77,094 (2022 - £608,199). The lease liability at the end of the year is £588,223(2022 - £655,100) and the lease asset is less than lease liability by £57,118 (2022 - £46,900).

18. Deposits by banks

	2023 £	2022 £
Repayable on demand	**69,751,738**	**42,757,695**
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	**19,364,195**	**32,916,057**
Between three months and one year	**-**	**4,922,102**
	89,115,933	**80,595,854**

Included in the above are amounts due to parent undertakings of £1,564,015 (2022 - £6,256,775).

19. Customer accounts

	2023 £	2022 £
Repayable on demand	**44,287,754**	**66,109,700**
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	**76,979,166**	**91,674,106**
Between three months and one year	**16,120,522**	**17,662,112**
	137,387,442	**175,445,918**

20. Other liabilities

	2023 £	2022 £
Other taxes and social security costs	**43,530**	**7,486**
Other liabilities	**1,842,088**	**1,946,740**
	1,885,618	**1,954,226**

21. Deferred tax

The movement on the deferred income tax account is as follows:

	2023 £	2022 £
At beginning of year	**(657,256)**	**(450,150)**
Fixed asset temporary differences	**(6,596)**	**(172,753)**
Short term temporary differences	**(34,827)**	**(34,353)**
At end of year	**(698,679)**	**(657,256)**

The deferred tax (liability) is attributable to temporary differences arising in respect of the following items:

Deferred income tax (liability)

	2023 £	2022 £
Fixed asset temporary differences	**(657,256)**	**(450,150)**
Short term temporary differences	**(41,423)**	**(207,106)**
Net deferred tax liability	**(698,679)**	**(657,256)**

22. Subordinated Loan

The Bank signed an agreement for the issue of a 10-year Subordinated loan of USD 20 million on 19 March 2007 with Bank of Beirut Sal, its immediate and ultimate parent company which was drawn down on 29 May 2007. Interest was initially payable at 3 Month LIBOR + 1%, paid annually but amended at a Board meeting on 10 September 2012 to increase the margin payable on the loan to 2% and extend the maturity date to 29 May 2027. Effective 1 January 2022, in line with regulatory review of reference rates, the Bank agreed an amendment to the interest reference rate to be 3 Month Term SOFR + 2%.

Effective 1 January 2018 the Bank signed a second agreement for the issue of a 15-year Subordinated loan for GBP 16 million to Bank of Beirut Sal, its immediate and ultimate parent company with drawdown on 2 January 2018 and interest payable at GBP 1 Year LIBOR + 4%, paid annually. Effective from 1 January 2022 the Bank agreed with Bank of Beirut Sal to reflect an amendment in the nominated reference rate from GBP 1 Year LIBOR to 1 Year Term SONIA (Term Sterling Overnight Index Average).

At its Board Meeting held on 13 December 2022, it was resolved that the 15 Year GBP 16 Million Subordinated Loan, be repaid in one lump sum instalment together with any interest due contingent upon the written authorisation of the Prudential Regulation Authority (PRA) received on 10 January 2023. The GBP 16 million Subordinated Loan was repaid effective 11 January 2023, whilst at the same time the USD 20 Million Subordinated Loan maturity was extended by a further 3 years to 29 May 2030.

	2023 £	2022 £
As at 1 January	**33,548,775**	31,424,011
Repayments	**(16,000,000)**	-
Accrued interest	**(491,193)**	1,201,264
Foreign exchange movements	**(916,667)**	923,500
As at 31 December	**16,140,915**	33,548,775

23. Called up share capital

	2023 £	2022 £
Authorised		
50,000,000 ordinary shares of £1 each at beginning and end of the year	**50,000,000**	50,000,000
Called up, allotted and fully paid		
34,150,000 (2022 - 34,150,000) ordinary shares of £1 each at beginning of the year	**34,150,000**	34,150,000
34,150,000 ordinary shares of £1 each at end of the year	**34,150,000**	34,150,000

24. Reconciliation of movements in shareholders' funds and movements on reserves

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2023	**34,150,000**	**73,934,182**	**108,084,182**
Dividends paid	**-**	**(1,987,942)**	**(1,987,942)**
Profit for the year	**-**	**8,899,095**	**8,899,095**
Other comprehensive income for the year	-	**-**	**-**
As at 31 December 2023	**34,150,000**	**80,845,335**	**114,995,335**

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2022	**34,150,000**	**70,758,200**	**104,908,200**
Dividends paid		**(802,055)**	**(802,055)**
Profit for the year		**3,975,883**	**3,975,883**
Other comprehensive income for the year	-	**2,154**	**2,154**
As at 31 December 2022	**34,150,000**	**73,934,182**	**108,084,182**

25. Contingent liabilities

ECL for Contingent liabilities of £97,737 (2022 - £156,732) is included within Other Liabilities:

	2023 £	2022 £
Irrevocable letters of credit	**53,842,568**	**73,814,237**
Guarantees	**897,438**	**1,230,341**
	54,740,006	**75,044,578**

26. Commitments

	2023 £	2022 £
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	**130,344,038**	**123,677,431**
One year and over	**392,619**	**5,755,003**
	130,736,657	**129,432,434**

	2023 £	2022 £
Of which undrawn commitments are shown below and includes an ECL of £13,209 (2022 - £4,904).	**29,626,900**	**45,903,648**

27. Related party transactions

During the year, the Bank entered into the following transactions with its holding company, Bank of Beirut, Sal:

	2023 £	2022 £
Interest received from holding company	**-**	**2,539**
Interest paid to holding company	**(1,277,202)**	**(1,379,240)**
Fees paid to holding company	**(499,636)**	**(473,925)**

Balances of the holding company as at the balance sheet date are as follows:

	2023 £	2022 £
Deposits from:		
Current /call accounts	**1,564,015**	**6,256,775**
Fixed Deposits	**-**	**-**
Exposures to:		
Current/call accounts	**-**	**-**
Letters of Credit	**-**	**-**
Acceptances	**-**	**-**

The interest rates charged to/from the holding company are at market rate. Any Letter of Credit and Acceptance balances are fully secured by cash collaterals held. All other balances are unsecured.

Directors' transactions

The following transactions have taken place with directors:

The Bank gave to two of its executive directors in 2023 unsecured non-interest bearing loans payable within 12 months. These amounted to £2,580 (2022 - £2,484) in respect of personal travel costs and £2,809 (2022 - £2,577) related to private healthcare costs.

Additionally, the Bank provided a non-interest bearing overdraft facility to one of its non-executive directors. The balance outstanding as at 31 December 2023 was £90,110 (2022 - £36,728).

	2023 £	2022 £
Deposits from Directors	**7,608,267**	**11,586,066**

All deposits are paid interest according to prevailing market rates as appropriate.

27. Related party transactions (continued)

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Bank, is set out below in aggregate for each of the categories specified in IAS 24	2023 £	2022 £
Short-term employee benefits	**1,077,683**	**815,188**
Post-employment benefits	**29,275**	**22,714**
	1,106,958	**837,902**

Other Related Party Transactions

These balances include persons or a close member of that person's family who have control or joint control over Bank of Beirut (UK) Ltd, significant influence over Bank of Beirut (UK) Ltd, or are a member of the key management personnel of Bank of Beirut (UK) Ltd or Bank of Beirut Sal (Lebanon).

	2023 £	2022 £
Deposits from other related parties	**12,285,369**	**27,763,770**
Loans to other related parties	**1,804,562**	**1,800,077**

Interest received or paid on both Deposit and Loans is according to prevailing market rates as appropriate.

28. Ultimate parent and controlling party

The ultimate parent and controlling party as at 31 December 2023 are Bank of Beirut Sal, which is incorporated in Lebanon. All of the Bank's issued share capital is wholly owned by Bank of Beirut Sal, which is the parent company of the smallest and largest groups into which the results of the Bank are consolidated. Copies of the group accounts can be obtained from 66 Cannon Street, London EC4N 6AE.

29. Dividends

The Board approved payment of a dividend to its shareholder in 2023 of £1,987,942 being 50% of the Profit after Tax for the year 2022, which equates to £0.05821206 per share. The payment of this dividend had no tax consequences for the Bank.

30. Financial instruments and risk management

The Bank holds and issues financial instruments for three main purposes:

- to earn an interest margin or a fee;
- to finance its operations; and
- to manage the interest rate and currency risks arising from its operations and from its sources of finance.

The Bank does not have a trading book.

As at the end of 31 December 2023, the carrying value of the financial assets and liabilities of the Bank approximates to its fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties in an arm's length transaction.

Market values are used to determine fair values.

Fair values of financial assets and liabilities

The carrying amount of financial assets and liabilities approximates their fair value due to the short-term maturity of the majority of the financial assets and liabilities.

All loans and advances to customers are offered at floating rates and are recorded in the balance sheet using the effective interest rate method, less provision for impairment loss. This value is considered to be a good approximation for fair value.

The fair value of derivatives held for non-trading purposes is determined by market prices, or, where market prices are not available, by applying current market information to pricing or valuation models. The fair value hierarchy for the valuation of derivatives is level 2 – inputs other than quoted prices that are observable for the asset or liability which are derived indirectly (i.e. derived from prices).

As well as using derivatives to hedge foreign exchange exposure, the Bank may take exchange rate contract orders from customers and will cover these by entering into similar positions with approved counterparties.. For the years 2023 and 2022 the Bank has not entered into any exchange related contracts.

Valuation hierarchy

The Bank holds financial instruments that are measured at fair value subsequent to initial recognition which consist of European Government securities as well as US government securities and derivative liabilities. These instruments have been categorised within one of the three levels using fair value hierarchy that reflects the significance of the inputs used in making the measurements. These levels are based on the degree to which the fair value is observable and are defined as follows:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide on going pricing information,

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

Investments classified as Level 1 comprise of European government securities (EU Treasury Bonds) and US government securities (US Treasury Bonds). Investments classified as Level 2 comprise of over the counter derivatives.

30. Financial instruments and risk management (continued)

	Quoted Market prices (Level 1)	Valuation techniques using observable data (Level2)	Valuation techniques using non-observable market data (Level3)
	£	£	£
Financial assets			
Derivative assets	-	47,396	-
As at 31 December 2023	-	47,396	-

	Quoted Market prices (Level 1)	Valuation techniques using observable data (Level2)	Valuation techniques using non-observable market data (Level3)
	£	£	£
Financial assets			
Derivative liabilities	-	17,261	-
As at 31 December 2022	-	17,261	-

The key risks arising from the Bank's financial instruments are:

1. credit risk;
2. liquidity risk;
3. interest rate risk; and
4. Foreign currency risk.

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Management Committee to develop and monitor the Bank's risk management policies in their specified areas.

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. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which employees understand their roles and obligations.

The Board have established a Board Audit, Risk & Compliance Committee which is constituted to ensure that the Executive Management has established and maintains an effective system of internal controls on behalf of the Board. It is also responsible for providing a channel of communication between the Board, the Management Committee, the Risk and Compliance functions, and Internal and External Audit.

30. Financial instruments and risk management (continued)

The Board Audit, Risk & Compliance Committee also monitors compliance with the Bank's risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Committee is assisted in these functions by Internal Audit and the Risk and Compliance departments. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, whilst Risk and Compliance provide quarterly reports the results of which are reported to the Board Audit, Risk & Compliance Committee.

30.1 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. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, sector and country concentration risk).

The Board of Directors has delegated responsibility for the management of credit risk to its Board Credit Committee and Management Committee. Their main duties include the approval of credit applications and credit provisions, the approval of credit policy and subsequent amendments.

The Bank's maximum exposure to credit risk after taking account of any collateral and other credit risk mitigations, by class of financial instrument is shown in the table below:

	2023		2022	
	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
Placement with banks:	£	£	£	£
Loans and receivables	84,957,369	84,957,369	85,207,005	85,207,005
Loans and advances to customers:				
Loans and receivables	121,214,222	114,232,104	161,651,346	156,294,198
Net letters of credit and guarantees	54,642,271	47,348,090	75,044,578	55,168,953
Loan commitments (unutilised)	29,626,900	23,035,505	45,903,648	38,795,603
	290,440,762	269,573,068	367,806,577	335,465,759

Net impairment losses recognised in profit or loss consist of impairment in relation to more than one asset class. The following table shows a breakdown of the impairment charge for the year by class of financial asset.

Net Impairment Loss	2023 £	2022 £
Cash and balances at banks	411	(568)
Placements with banks	(337)	231
Loans and advances to customers	781,362	2,646,024
Debt securities at amortised cost	88	728
Financial assets at FVTOCI	-	(606)
Acceptances	(4,502)	(22,090)
Contingent liabilities	(49,114)	45,027
Outstanding facilities	8,305	483
Net impairment losses	736,213	2,669,229

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

All the financial assets held by the Bank are classified as Stage 1 at inception and then all loans and advances together with other financial assets, including to customers are categorised into 3 stages upon review of the portfolio for significant increase in credit risk or default.

The assets are classified as follows:

	Loans and receivables at amortised cost	Other amortised cost	Fair value to pl	Non-financial assets	Total
	£	£	£	£	£
As at 31 December 2023					
Assets					
Cash and due from banks	**97,312,901**	-	-	-	**97,312,901**
Placements with banks	**84,957,369**	-	-	-	**84,957,369**
Loans and advances to customers	**121,214,222**	-	-	-	**21,214,222**
Customers' acceptances	-	**4,492,125**	-	-	**4,492,125**
Financial assets at amortised cost	-	**38,550,817**	-	-	**38,550,817**
- US Treasury bonds	-	**33,422,710**	-	-	**33,422,710**
- EU Treasury bonds	-	**5,128,107**	-	-	**5,128,107**
Land & Buildings	-	-	-	**18,582,982**	**18,582,982**
Property and equipment	-	-	-	**699,430**	**699,430**
Intangible assets	-	-	-	**83,084**	**83,084**
Right-of-use lease assets	-	-	-	**531,105**	**531,105**
Derivative Assets	-	-	**47,396**		**47,396**
Prepayments and accrued income	-	-	-	**1,057,213**	**1,057,213**
Total assets	**303,484,492**	**43,042,942**	**47,396**	**20,953,814**	**367,528,644**

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

	Loans and receivables at amortised cost	Other amortised cost	FVTOCI	Non-financial assets	Total
	£	£	£	£	£
As at 31 December 2022					
Assets					
Cash and due from banks	**97,866,118**	**-**	**-**	**-**	**97,866,118**
Placements with banks	**85,207,005**	**-**	**-**	**-**	**85,207,005**
Loans and advances to customers	**161,651,346**	**-**	**-**	**-**	**161,651,346**
Customers' acceptances	**-**	**4,088,592**	**-**	**-**	**4,088,592**
Financial assets at amortised cost	**-**	**35,784,024**	**-**	**-**	**35,784,024**
- US Treasury bonds	**-**	**30,492,458**	**-**	**-**	**30,492,458**
- EU Treasury bonds	**-**	**5,291,566**	**-**	**-**	**5,291,566**
Land & Buildings	**-**	**-**	**-**	**18,648,703**	**18,648,703**
Property and equipment	**-**	**-**	**-**	**855,208**	**855,208**
Intangible assets	**-**	**-**	**-**	**133,444**	**133,444**
Right-of-use lease assets	**-**	**-**	**-**	**608,200**	**608,200**
Prepayments and accrued income	**-**	**-**	**-**	**1,161,165**	**1,161,165**
Total assets	**344,724,469**	**39,872,616**	**-**	**21,406,720**	**406,003,805**

Movements in provision for the year provided below:

Movement in provisions	**12 month ECL (Stage 1) 2023**	**Lifetime ECL (Stage 2) 2023**	**Lifetime ECL (Stage 3) 2023**	**Total 2023**
	£	**£**	**£**	**£**
At 1 January 2023 per IFRS 9	**695,595**	**267,693**	**9,339,515**	**10,302,803**
Movement in Stage 1 ECL	**(304,812)**	**-**	**-**	**(304,812)**
Movement in Stage 2 ECL	**-**	**(183,676)**	**-**	**(183,676)**
Movement in Stage 3 ECL	**-**	**-**	**1,224,702**	**1,224,702**
Foreign exchange and other movements	**-**	**-**	**(497,838)**	**(497,838)**
Interest suspense	**-**	**-**	**(325,998)**	**(325,998)**
At 31 December 2023	**390,783**	**84,017**	**9,740,381**	**10,215,181**

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

Movement in provisions

	(Stage 1) 2022 £	(Stage 2) 2022 £	(Stage 3) 2022 £	2022 £
At 1 January 2022 per IFRS 9	416,998	301,286	5,959,685	6,677,969
Movement in Stage 1 ECL	278,597	-	-	278,597
Movement in Stage 2 ECL	-	(33,593)	-	(33,593)
Movement in Stage 3 ECL	-	-	2,424,225	2,424,225
Foreign exchange and other movements	-	-	661,652	661,652
Interest suspense	-	-	293,953	293,953
At 31 December 2022	695,595	267,693	9,339,515	10,302,803

Movement in gross carrying amount of loans

	Loans £	Loans £	Loans £	Total 2023 £
At 1 January 2023	159,945,171	2,049,949	9,795,375	171,790,495
Movement in Stage 1	(45,649,405)	-	-	(45,649,405)
Movement in Stage 2	-	5,013,339	-	5,013,339
Movement in Stage 3	-	-	156,468	156,468
At 31 December 2023	114,295,766	7,063,288	9,951,843	131,310,897

	Loans £	Loans £	Loans £	Total 2022 £
At 1 January 2022	118,696,274	8,389,376	8,437,576	135,523,226
Movement in Stage 1	41,248,897	-	-	41,248,897
Movement in Stage 2	-	(6,339,427)	-	(6,339,427)
Movement in Stage 3	-	-	1,357,799	1,357,799
At 31 December 2022	159,945,171	2,049,949	9,795,375	171,790,495

The Bank's Stage 2 loan exposures increased year on year by £5.01m to £7.06m, on account of a credit downgrade being applied to Ghana resulting in the re-classification of all Ghanaian loan exposures from Stage 1 to Stage 2. Ghana accounted for £6.17m of the total Stage 2 exposures being a combination of both corporate (fully secured) and financial institution risk (part cash covered). Direct Lebanese risk i.e. that which is not considered as offshore is also included within Stage 2 and accounts for two counterparties only. Lebanese offshore exposures, where the source of funds remains from outside Lebanon and where there is no evidence of significant increase in credit risk or delays in repayment continue to be classified as Stage 1.

Net movement in Stage 3 exposures increased by £156k in the year which included the re-classification of one unsecured corporate exposure from Stage 2 to Stage 3 in the sum of £597k offset by the near 6% movement in the counter value of our USD assets against GBP. All classified Stage 3 exposures are fully provided against with the exception of one corporate client which is partially provided for but is also covered by legal charges held in our favour.

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

ECL sensitivity

The Bank has adopted three macro-economic scenarios in calculating its Probability of Default (PD) and ECL charge, namely Good, Base and Bad. The Bank has considered the impact of a general deterioration in the macro-economic factors as a means of applying a stress scenario to the overall ECL charge as at 31st December 2023. This has been modelled by applying different weightings to the scenarios used to calculate the charge. Gross exposures allocated to Stage 3 do not change as the criteria rely only on observable evidence of default and not on macro-economic scenarios. However, PD of the counterparty is the key source of estimation of ECL rather than macroeconomic factors.

For Stage 1 and 2 exposures, a worsening in PD due to an unfavourable economic scenario factor would lead to an increase in the ECL charge by 13.7% - £65,074 (2022 – 15.3% - £108,863) and is not considered material. Conversely, an improvement in PD due to a good economic scenario factor to the same exposures would reduce the ECL charge by 11.4% - £53,898 (2022 –12.32% - £87,582).

Allowances for impairment

The calculation of the Bank's expected credit loss (ECL) allowances and provisions against loan commitments and guarantees under IFRS 9 requires the Bank to make a number of judgements, assumptions and estimates. The main component is a specific loss provision that relates to individually significant exposures and represents the amount remaining after deducting the expected discounted cash flows from the outstanding loan principal and accrued interest at the balance sheet date. The level of impairment allowance will also be impacted by the staging applied to individual contracts under IFRS 9.

Write-off policy

The Bank writes off a loan balance (and any related allowances for impairment losses) when the Board determines that the loans are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

Credit risk concentration

The Bank manages credit risk concentration by setting exposure limits to groups/individual counterparties and countries. The Bank monitors credit risk concentration against limits daily. Any excesses, actual or potential, are notified by the Credit Department to the MD / CEO for ratification, approval and/or recommendation to the Management Committee / Board for direction as to remedial action.

The Bank's principal financial assets are placements with banks, loans and advances to customers and held to maturity investments, all of which are held at amortised cost.

The Bank's credit risk is primarily attributable to its loans and advances to customers. The amount presented in the balance sheet is net of impairment losses. Impairment losses are recognised if there is objective evidence that an event or events since initial recognition of an asset have adversely affected the amount or timing of future cash flows from the asset.

The Bank is exposed to concentration risk due to its customer base being largely financial institutions predominantly located in the Middle East and Africa. In this respect the Bank undertakes regular reviews of its lending portfolio and in an effort to mitigate such risk considers other opportunities both within the MEA region and externally.

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

The table below summarises the sector and location of concentration risk for the Bank at the year-end.

	Loans and advances to customers 2023 £	Loans and advances to customers 2022 £
Concentration by risk location		
UK	**33,223,149**	**17,116,149**
Europe	**901,274**	**11,369,946**
Africa	**77,672,459**	**127,032,123**
Rest of the world	**9,417,340**	**6,133,128**
Total	**121,214,222**	**161,651,346**

30.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities. The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The liquidity position of the Bank is monitored daily, and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

The Bank's Treasury Department is responsible for maintaining sufficient liquidity to meet the Bank's obligations and to meet the specific liquidity requirements of the UK supervisory authorities. Daily liquidity reports are reviewed by Risk for adherence to Board approved internal liquidity parameters and metrics are reported to the Management Committee on a monthly basis and the Audit, Risk & Compliance Committee quarterly. The key measure used by the Bank for managing liquidity risk is the ratio of behaviourally adjusted net liquid assets (maturing in less than one month) to total deposits.

In the unlikely event of a liquidity crisis impacting the Bank, the Treasury Department in accordance with instructions from the Bank's respective Committees would immediately endeavour to sell the Bank's liquid assets, or if more expedient, seek additional funds from the shareholder or borrow in the market to alleviate the shortfall.

The table below shows the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, demand deposits from customers are expected to maintain a stable or increasing balance, and unrecognised loan commitments are not all expected to be drawn down immediately.

30. Financial instruments and risk management (continued)

30.2 Liquidity risk (continued)

Residual contractual maturities of financial liabilities

	Carrying amount	Less than one month	More than one month but not more than three months	More than three months but not more than one year	More than one year	Total
As at 31 December 2023	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non-derivative liabilities						
Deposits by banks	**89,116**	**72,893**	**16,223**	**-**	**-**	**89,116**
Customer accounts	**137,387**	**88,909**	**32,357**	**16,121**	**-**	**137,387**
Subordinated loan	**16,141**	**-**			**16,141**	**16,141**
	242,644	**161,802**	**48,580**	**16,121**	**16,141**	**242,644**
As at 31 December 2022	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non-derivative liabilities	-	-	-	-	-	-
Deposits by banks	**80,596**	**45,688**	**29,986**	**4,922**	**-**	**80,596**
Customer accounts	**175,446**	**111,143**	**46,641**	**17,662**	**-**	**175,446**
Subordinated loan	**33,799**	**-**	**-**	**-**	**33,799**	**33,799**
	289,841	**156,831**	**76,627**	**22,584**	**33,799**	**289,841**

30.3 Interest rate risk

Interest rate risk is the risk that changes in interest rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of interest rate risk management is to manage and control interest rate risk exposure within acceptable parameters while optimising the return on risk.

The policy of the Bank is to price all placements/exposures at variable rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market. The tables shown below summarise the repricing mismatches on the Bank's assets and liabilities as at 31 December 2023 and 31 December 2022.

Items are allocated to time bands by reference to the earlier of the next contracted interest rate repricing date and the maturity date. Exposure to interest rate movements arise where there is an imbalance between variable rate and fixed rate and non-rate sensitive assets and liabilities. The table below shows the interest rate sensitivity gap exposures for the Bank as at 31 December 2023. Assets and liabilities are analysed in time bands according to the earlier of the time to the next interest re-pricing date or the maturity date.

30. Financial instruments and risk management (continued)

30.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2023

	Not more than 3 months £'000	In more than three months but not more than six months £'000	In more than six months but not more than twelve months £'000	In more than one year but not more than five years £'000	In more than five years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at banks	97,313	-	--	-	-	-	97,313
Placements with banks	83,364	1,594	-	-	-	-	84,958
Loans and advances to customers	87,280	11,726	12,446	9,763	-	-	121,215
Customers' acceptances	-	-	-	-	-	4,492	4,492
Financial assets at amortised cost:	6,479	17,759	14,313	-	-	-	38,551
- US Treasury Bonds	3,889	17,759	11,775	-	-	-	33,423
- EU Treasury bonds	2,590		2,538	-	-	-	5,128
Land & Buildings	-	-	-	-	-	18,583	18,583
Property and equipment	-	-	-	-	-	699	699
Intangible assets	-	-	-	-	-	83	83
Right-of-use lease assets	-	-	-	-	-	531	531
Derivative assets	47	-	-	-	-	-	47
Prepayments and accrued income	-	-	-	-	-	1,057	1,057
Total assets	274,483	31,079	26,759	9,763	-	25,445	367,529
Liabilities							
Deposits by banks	89,116	-	-	-	-	-	89,116
Customers' accounts	121,268	8,220	7,900	-	-	-	137,388
Acceptances payable	-	-	-	-	-	4,497	4,497
Accruals and deferred income	-	-	-	-	-	833	833
Right-of-use lease liabilities	-	-	-	-	-	588	588
Other liabilities	-	-	-	-	-	1,886	1,886
Current tax liability	-	-	-	-	-	1,386	1,386
Deferred tax liability	-	-	--	-	-	699	699
Subordinated loan	16,141	-	-	-	-	-	16,141
Equity	-	-	-	-	-	114,995	114,995
Total liabilities and equity	226,525	8,220	7,900	-	-	124,884	367,529
Interest rate sensitivity gap	47,957	22,860	18,859	9,763	-	(99,439)	-
Cumulative gap	47,957	70,817	89,676	99,439	99,439		

30. Financial instruments and risk management (continued)

30.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2022

	Not more than 3 months £'000	In more than three months but not more than six months £'000	In more than six months but not more than twelve months £'000	In more than one year but not more than five years £'000	In more than five years £'000	Non-interest bearing £'000	Total £'000
Assets							
Cash and balances at banks	97,866	-	-	-	-	-	97,866
Placements with banks	85,111	96	-	-	-	-	85,207
Loans and advances to customers	120,142	25,605	7,875	8,030	-	-	161,652
Customers' acceptances	-	-	-	-	-	4,089	4,089
Financial assets at amortised cost:	11,587	21,555	2,642	-	-	-	35,784
Financial assets at FVTOCI:							
- UK Treasury Bonds	-	-	-	-	-	-	-
- US Treasury bonds	-	-	-	-	-	-	-
Land & Buildings	-	-	-	-	-	18,649	18,649
Property and equipment	-	-	-	-	-	855	855
Intangible assets	-	-	-	-	-	133	133
Right-of-use lease assets	-	-	-	-	-	608	608
Prepayments and accrued income	-	-	-	-	-	1,161	1,161
Total assets	314,706	47,256	10,517	8,030	-	25,495	406,004
Liabilities							
Deposits by banks	45,688	29,986	1,457	3,465	-	-	80,596
Customers' accounts	111,143	46,641	9,674	7,988	-	-	175,446
Acceptances payable	-	-	-	-	-	4,099	4,099
Accruals and deferred income	-	-	-	-	-	530	530
Right-of-use lease liabilities	-	-	-	-	-	655	655
Other liabilities	-	-	-	-	-	1,954	1,954
Current tax liability	-	-	-	-	-	417	417
Derivative liabilities	-	-	-	-	-	17	17
Deferred tax liability	-	-	-	-	-	657	657
Subordinated loan	33,549	-	-	-	-	-	33,549
Equity	-	-	-	-	-	108,084	108,084
Total liabilities and equity	190,380	76,627	11,131	11,453	-	116,413	406,004
Interest rate sensitivity gap	124,326	(29,371)	(614)	(3,423)	-	(90,918)	-
Cumulative gap	124,326	94,955	94,341	90,918	90,918	-	-

The tables above provide only an indication of the sensitivity of the Bank's earnings to movements in interest rates and are consistent with the position throughout the accounting period.

30. Financial instruments and risk management (continued)

30.3 Interest rate risk (continued)

A liability (or negative) gap position exists when liabilities reprice more quickly than assets during a given period and tends to benefit net interest income in a declining interest rate environment. An asset (or positive) gap position exists when assets reprice more quickly than liabilities during a given period and tends to benefit interest income in a rising interest rate environment. The Bank's off-balance sheet items carry no interest repricing risk. The table below shows the weighted average interest rates received and paid for each class of financial asset and financial liability exposed to interest rate risk.

	2023	2022
Financial assets		
Placements with banks	**4.53%**	**0.91%**
Loans and advances to customers	**8.72%**	**6.41%**
Financial liabilities		
Deposits by banks	**3.50%**	**0.69%**
Customer Accounts	**3.56%**	**0.67%**

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The table below shows the impact on annual profit of a 100 basis point rise or fall in the base rate, and assumes a constant balance sheet position:

		2023		2022
	100 basis points increase £'000	100 basis points decrease £'000	100 basis points increase £'000	100 basis points decrease £'000
Increase/(decrease) in annual profit	**451**	**(471)**	**248**	**(252)**

30.4 Foreign exchange risk

Foreign exchange risk is the risk that changes in foreign currency rates will affect the Bank's income or the value of its holdings of financial instruments. The objective of foreign currency risk management is to manage and control foreign currency risk exposure within acceptable parameters while optimising the return on risk.

Foreign exchange exposure arises from normal banking activities, primarily from the receipt of deposits and the placement of funds. Future open positions in any currency are managed by means of forward foreign exchange contracts. It is the policy of the Bank that it will, at all times, adhere to the limits laid down by CRDIV in respect of the "overall net open position". It is not the Bank's intention to take open positions on its own account (proprietary trading) but rather to maintain square or near square positions in all currencies.

The Bank does not currently deal, and has no plans to deal, in Foreign Exchange Futures, Foreign Exchange Options or Options on Foreign Exchange Futures.

30. Financial instruments and risk management (continued)

30.4 Foreign exchange risk (continued)

The tables shown below give details of the Bank's assets and liabilities as at 31 December 2023 and 31 December 2022, in sterling, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Bank are matched.

	Sterling £'000	US dollars £'000	Euros £'000	Other currencies £'000	Total £'000
As at 31 December 2023					
Assets					
Cash and balances at banks	**56,507**	**29,125**	**1,964**	**9,717**	**97,313**
Placements with banks	**19,019**	**52,717**	**13,126**	**96**	**84,958**
Loans and advances to customers	**39,651**	**75,610**	**5,954**	**-**	**121,215**
Customers acceptances	**-**	**2,898**	**1,594**	**-**	**4,492**
Financial assets at amortised cost:	**-**	**33,423**	**5,128**	**-**	**38,551**
Land & Buildings	**18,583**	**-**	**-**	**-**	**18,583**
Property and equipment	**699**	**-**	**-**	**-**	**699**
Intangible assets	**83**	**-**	**-**	**-**	**83**
Right-of-use lease assets	**531**	**-**	**-**	**-**	**531**
Derivative assets	**47**	**-**	**-**	**-**	**47**
Prepayments and accrued income	**1,057**	**--**	**-**	**-**	**1,057**
Total assets	**136,177**	**193,773**	**27,766**	**9,813**	**367,529**
Liabilities					
Deposits by banks	**5,307**	**67,749**	**7,470**	**8,590**	**89,116**
Customer accounts	**21,525**	**96,872**	**18,990**	**1**	**137,388**
Acceptances payable	**-**	**2,903**	**1,594**	**-**	**4,497**
Accruals and deferred income	**667**	**109**	**57**	**-**	**833**
Right-of-use lease liabilities	**588**	**-**	**-**	**-**	**588**
Other liabilities	**1,886**	**-**	**-**	**-**	**1,886**
Current tax liability	**1,386**	**-**	**-**	**-**	**1,386**
Derivative liabilities	**-**	**-**	**-**	**-**	**-**
Deferred tax liability	**699**	**-**	**-**	**-**	**699**
Subordinated loan		**16,141**	**-**	**-**	**16,141**
Total liabilities	**32,057**	**183,774**	**28,111**	**8,591**	**252,534**
Net assets/(liabilities)	**104,119**	**9,999**	**-345**	**1,222**	**114,995**

30. Financial instruments and risk management (continued)

30.4 Foreign exchange risk (continued)

	Sterling £'000	US dollars £'000	Euros £'000	Other currencies £'000	Total £'000
As at 31 December 2022					
Assets					
Cash and balances at banks	**62,476**	**31,373**	**3,102**	**915**	**97,866**
Placements with banks	**22,048**	**36,348**	**26,770**	**41**	**85,207**
Loans and advances to customers	**40,582**	**110,894**	**10,176**	**-**	**161,652**
Customers acceptances	**60**	**3,900**	**129**	**-**	**4,089**
Financial assets at amortised cost:	**-**	**30,492**	**5,292**	**-**	**35,784**
Land & Buildings	**18,649**	**-**	**-**	**-**	**18,649**
Property and equipment	**855**	**-**	**-**	**-**	**855**
Intangible assets	**133**	**-**	**-**	**-**	**133**
Right-of-use lease assets	**608**	**-**	**-**	**-**	**608**
Prepayments and accrued income	**1,081**	**78**	**2**	**-**	**1,161**
Total assets	**146,492**	**213,085**	**45,471**	**956**	**406,004**
Liabilities					
Deposits by banks	**6,494**	**60,984**	**12,171**	**947**	**80,596**
Customer accounts	**18,780**	**124,945**	**31,719**	**2**	**175,446**
Acceptances payable	**60**	**3,909**	**129**	**-**	**4,098**
Accruals and deferred income	**372**	**85**	**73**	**-**	**530**
Right-of-use lease liabilities	**655**	**-**	**-**	**-**	**655**
Other liabilities	**1,954**	**-**	**-**	**-**	**1,954**
Current tax liability	**417**				**417**
Derivative liabilities	**17**				**17**
Deferred tax liability	**657**	**-**	**-**	**-**	**657**
Subordinated loan	**16,507**	**17,042**	**-**	**-**	**33,549**
Total liabilities	**45,913**	**206,965**	**44,092**	**949**	**297,919**
Net assets/(liabilities)	**100,580**	**6,120**	**1,379**	**7**	**108,085**

30. Financial instruments and risk management (continued)

30.4 Foreign exchange risk (continued)

The carrying amounts of derivative assets and liabilities represent fair values and have been included in the heading of sterling currency. Foreign exchange risk on these instruments has been reflected through the currency swaps off balance sheet line, which represents the notional principal amounts in respect of forward foreign exchange derivatives utilised for managing the foreign exchange risk position of the Bank. The net currency assets and liabilities positions are actively managed during business operations. Financial liabilities including deposits by bank, customer accounts, acceptance payable and subordinated loan are carried at amortised cost as at the balance sheet date. Derivative liabilities are carried at fair value to profit and loss at the balance sheet date. The Bank finances its operations by a mixture of shareholders' funds, customer deposits and inter-bank deposits. The deposits raised may be in a range of currencies at floating or fixed rates of interest. The Bank's lending is usually in Sterling, Euros or US dollars and may be either floating or fixed rate. The Bank uses forward foreign exchange contracts to hedge foreign exchange exposures resulting from customer facilitation. All forward foreign exchange contracts for customers are matched with corresponding contracts with banks.

31. Capital risk management

The Bank's Capital consists of Pillar 1 and Pillar 2 requirements as per the regulatory guidelines.

The Pillar 1 requirement is the higher of

(a) the base capital requirement; and
(b) the variable capital requirement which is the sum of:

i. The credit risk capital requirements based on the risk weighted assets
ii. The market risk capital requirement
iii. The Operational capital requirement

The credit risk capital requirements are calculated as the sum of the risk weighted components of credit risk, counterparty risk and concentration risk capitals. The market risk capital requirement is calculated as the sum of the interest rate position risk and the foreign currency position risks. The operational risk capital is calculated under the 'Basic Indicator' approach in accordance with Capital Requirements Regulations (CRR) Article 315. The Bank complied with all regulatory capital adequacy requirements stipulated within the CRR during 2023.

Pillar 2 requirement is the capital required for the risks not covered in Pillar 1 and the Bank follows the Pillar 1 plus approach as set out in the regulatory guidelines. In addition, the regulatory capital requirement determined by the regulators is also included in the capital structure of the Bank.

As at 31 December 2023 the total capital resources of the Bank is £131.1m (2022 - £141.6m).

Capital of the Bank is managed through the documentation of Individual Capital Adequacy Assessment process arriving at the risk weighted credit exposure, the market risk and the operational risk and the corresponding capital required. This is reviewed periodically.

There are no changes in the business objectives of the Bank in comparison to the previous year and in the process of arriving at the capital requirement of the Bank. The capital resources of the Bank have increased by the addition to the retained earnings in the year 2023.

Any breach of the regulatory capital requirements will be dealt with extant rules and regulations of the regulator. The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Bank's overall strategy remains unchanged.

The capital structure of the Bank consists of shareholders' equity comprising issued capital and retained earnings as disclosed in note 23 and 24 as well as subordinated loans as disclosed in note 22.

32. Collateral

Of the total amount of loans classified as Stage 3, the Bank holds collateral valued at £1,103,730 (2022 - £1,166,473) in the form of property located in Lebanon on a loan with a gross carrying value of £493,076

(2022 - £455,859). We expect that this collateral will cover the exposure but have also raised an additional sum of £281,614 as Specific Provision in light of the prevailing market conditions that may impact the sale process.

33. Events after the audit reporting period

33.1 Payment of Final Dividend

The Board agreed and resolved at its Board Meeting of 16 April 2024 to the payment of a final dividend in 2024 to the Bank's shareholder equal to £4,449,548 (2023 - £1,987,942) representing 50% of the Bank's Annual Profit after Tax for 2023.