بنك بيروت
Bank of Beirut (UK) Ltd
Banking Beyond Borders

Annual Report 2019

Company Registration No. 4406777

Bank of Beirut (UK) Ltd

Annual Report and Financial Statements
31 December 2019

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Officers and professional advisers

Directors

Salim G Sfeir (Chairman)

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Fawaz H Naboulsi

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Antoun Samia

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Auditor
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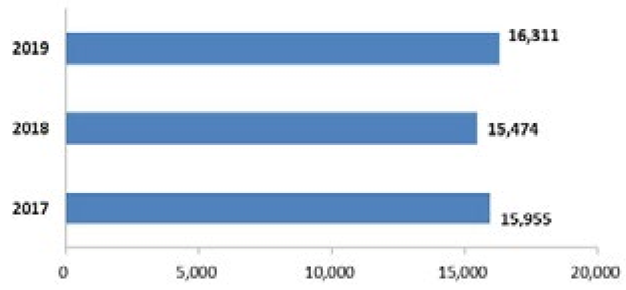
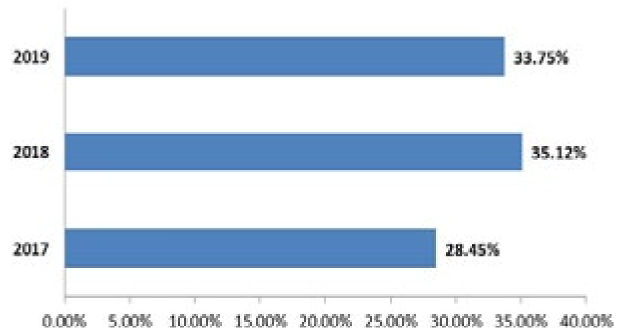
Statutory Auditor
London,
United Kingdom

Financial Highlights

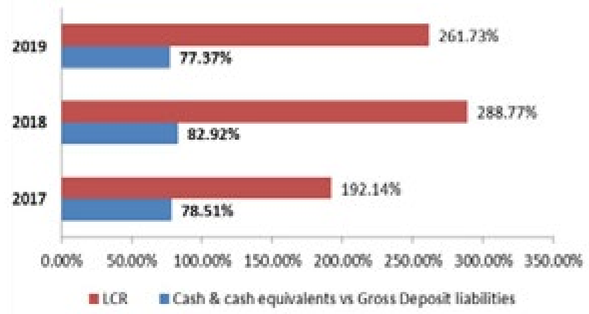
Operating income (GBP '000s)



Capital Adequacy



Liquidity Strength



Capital Adequacy refers to Shareholders Funds being Total Equity (Tier 1) plus qualifying subordinated debt (Tier 2) divided by 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)	2019	2018	2017
Operating Income	16,311	15,474	15,955
Loan Impairments & Provisions	2,999	1,029	500
Profit before Tax	3,297	6,393	8,472
Profit after Tax	1,751	5,566	6,821
Total Assets	491,979	607,982	427,359
Total Loans & Advances	190,072	191,403	166,387
Total Equity	102,434	100,815	96,604
Total Shareholders Funds (inc. Subordinated Debt)	134,542	133,354	111,431
Capital Adequacy Ratio	33.75%	35.12%	28.45%
LCR Ratio	261.73%	288.77%	192.14%
Administrative expenses to Operating Income Ratio	56.56%	52.04%	40.07%
Cash & Cash equivalents / Total Assets	54.22%	63.00%	60.21%
Cash & Cash equivalents / Gross Deposit liabilities	77.37%	82.92%	78.51%

Chairman's Statement

The bank entered 2019 with Brexit on the horizon and a withdrawal process delayed by discussion between the UK and EU on a likely exit date. Those delays and uncertainties across markets and within the wider business community impacted upon the bank and its ability to make informed, strategic and measured decisions. As a result in February 2019 the board of the bank took definitive action by announcing the closure of our Frankfurt branch which was licenced under an EU Passport. This was a strategically difficult decision for the bank impacting not only our business but our trusted colleagues in Germany, for whom we thank for their support and dedication during the preceding 10 years of operation. The doors to our Frankfurt branch were finally closed in September 2019.

In October 2019 the social and economic situation in Lebanon deteriorated with a series of non-sectarian protests and demonstrations held against the Lebanese Government's handling of the economy, culminating in a period since then of uncertainty and instability for the Lebanese market and economy. It was important that our bank in London, alongside other bank of Beirut Group foreign subsidiaries and branches, remained shielded and autonomous to any potential spill over risks arising from the prolonged situation occurring in Lebanon. As a stand-alone UK authorised entity, the bank is required to meet and maintain specific regulatory Capital and Liquidity ratios sufficient to absorb market impacts and shocks potentially affecting the bank's business during times of stress or uncertainty. As such the UK entity bank does not have reliance on its parent group for either liquidity or funding for its day to day operations and has been able to demonstrate throughout this period its ability to manage capital, credit and liquidity risk across its portfolios. Indeed, as at 31 December 2019 the bank has been able to report a healthy Total Capital Ratio of 33.75% (2018 - 35.12%) and Common Equity Tier 1 (CET1) Capital Ratio of 25.99% (2018 – 26.36%) whilst our liquidity coverage ratio closed the year at 261.73% (2018 – 288.77%).

The ongoing disruption in Lebanon, led the board to consider the further impact on its Lebanese exposures at year end and the effects of its IFRS9 ECL charges. This review also considered a small portfolio of Lebanese Eurobonds, where the market had witnessed trading prices below 70% of face value and to which it was determined that the bank would allocate an additional adjustment of £1.71m to reflect their mark to market carrying values as at 31 December 2019. Total impairment losses for 2019 were £2.99m against £1.02m in 2018.

The bank had a strong year in Total Income terms generating £16.3m (2018 - £15.4m) which enabled the absorption of the write down in goodwill of £0.75m plus the Discontinued Operating Loss of Frankfurt of £1.24m together with the additional adjustment of £1.71m attributed to the write down of our small Lebanese Eurobond Portfolio. These charges led the bank to report a Profit after Tax of £1.75m (2018 - £5.56m). The bank's total shareholders' funds including subordinated loans and retained earnings now stand at £134.5m (2018 - £133.3m).

With the advent of the Covid-19 pandemic now growing across the globe and further disrupting business and economies, we can reflect on our achievements in 2019 which would not have been possible without the support and dedication of the bank's board, management, staff, customers and shareholders to whom we are truly thankful.

S. G. Sfeir
Chairman
24 June 2020

Dr. Salim G. Sfeir

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 trade finance boutique 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 just below £50m and at the same time, under our UK deposit taking license, manages a customer deposit base of £178m. All eligible deposits, £33.3m, are covered by the Deposit Protection Scheme which is overseen by the Financial Services Compensation Scheme (FSCS).

Developments in Operating & Market Environment

Frankfurt Closure

At the end of February 2019, the board took the decision to close down the Bank's Frankfurt branch and wind down its operations due to uncertainties created by Brexit and the prolongation of an application process we were following in parallel with the German Authorities for the re-licensing of our Frankfurt branch under the relevant German Banking laws. The branch had operated for the past 10 years under an EU passport licence providing specialised trade finance products and services to the German market and other neighbouring countries. The closure process was concluded by the end of September 2019. During this period the branch had to operate with varying degrees of staff whilst at the same time running down part of the book maturing by end of June. To this extent we incurred an operating loss of £1.24m (2018 -£0.26m) in closing down our Frankfurt branch which is recognised as a separate line in our Income Statement as Discontinued Operations after Profit after Tax from continuing operations. By closing down the Frankfurt branch the bank lost a material part of its EURO deposits which it held as Bundesbank placements. These bank deposits included balances maintained by our Middle Eastern and African trade finance correspondent banks as well as our parent, Bank of Beirut Sal, for the purpose of funding their nostro accounts to facilitate Target 2 EURO payment services that the Frankfurt branch was providing to them. We note that these bank deposits being nostro balances and placements held for terms less than 30 days were treated as 100% outflows as far as our Liquidity Coverage Ratio calculation requirements were concerned and as such there was no impact on the liquidity of the Bank.

Lebanon Political & Economic Crisis

In mid-October 2019, Lebanon entered into a period of social and economic disruption including non- sectarian protests and demonstrations. These arose from the culmination of many years of underlying tension and dissatisfaction primarily with the Lebanese Government's failure to find economic solutions and eradicate perceived corruption. The initial impact of these protests forced banks and other businesses to close temporarily and finally led, at the end of October, to the resignation of the Prime Minister and his government. The banks reopened for business but the continuing civil unrest and the erosion of confidence in the county and its economy had led to the Lebanese banks restricting access to and transfer of foreign currency abroad to safeguard their liquidity and the banking system. In parallel, the Banque du Liban, the Central Bank of Lebanon, had put in place and enforced a series of policies and directives on local banks and their operations in order to further protect the banking sector. A new government subsequently gained the confidence of the Lebanese parliament and was approved in February 2020.
Following its appointment and facing a spiralling economic crisis depleting its foreign currency reserves, the new government decided to default on US$1.2bn worth of Eurobonds that matured on 9 March 2020 and on all its outstanding Eurobonds of US$30bn and announced its intention to enter into restructuring negotiations with all creditors alongside seeking an IMF bailout. This was the first time that Lebanon had defaulted on its debt in its history. On 1 May 2020, and in the midst of the Covid-19 pandemic and the ensuing lockdown adding to the economic problems of the country, the Lebanese government referred to the IMF for approval of a Funding Program of US$10bn supported by an Economic Reform Plan for the restructuring of the economy and government debt as well as that of the wider Banking System. The Lebanese Government has announced

Strategic Report

Strategic Positioning (continued)

that it hopes that approval of the IMF program and implementation of the supporting Economic Reform Plan will also lead to the release of a further US$11bn in loans and grants that the international community pledged at the CEDRE Conference for Lebanon in Paris in April 2018 but which were contingent on economic reforms. At the time of writing, negotiations with the IMF were ongoing and communication and negotiations with Lebanon government debt holders had yet to start.

As a consequence of the evolving social and economic disruption in Lebanon the board and the bank adopted a cautious and conservative approach towards our Lebanese Financial Institution (FI) credit exposures by revising the bank's risk appetite not to accept additional risk and trading down and not replacing the maturing trade finance exposures. As at 31 December 2019 our Lebanese FI gross credit exposure was US$60m, of which US$43m was gross exposure to our parent, Bank of Beirut Sal, and its Cyprus branch against which we held cash margins of US$11m. At the time of writing, in mid-June, our exposure to 3rd party banks was reduced to just over US$23k and our gross exposure to our parent Bank of Beirut Sal and its Cyprus branch to US$17.8m gross which is made up of Euro nostro balances of EUR 2.3m to facilitate our Target2 payments, a weekly EUR 12m placement that we hold with them, a separate short dated US$2.2m loan 100% secured by specific cash margin and a balance of US$3.4m in trade finance liabilities expiring in early August 2020. For the record, our parent has maintained approximately US$30m in placements with us at the same levels for the last 12 months and which underpin an historical undertaking given to the UK regulators to maintain £15m deposits with our bank. A further action that our board had taken was to revise our risk appetite to Lebanese Sovereign risk and to book no additional risk and adjust the carrying values of our portfolio of Lebanese Government Eurobonds of USD$7m and take an IFRS9 adjustment charge to our Profit & Loss of £1.71m as at 31 December 2019 and a further £1.68m as at 31 March 2020. This has led to our Lebanese Government Eurobonds having a carrying value as at 31 March 2020 of £1.98m representing a market value of 35% of their face value. We believe this to be a conservative approach given the historic recoverability ratios on restructuring values of Emerging Market Bonds and that an IMF programme was sought to support the restructuring negotiations with creditors.

Covid-19

The current strain of the Coronavirus bug known as Covid-19, has rapidly spread across the globe being designated a "pandemic" by the World Health Organisation on 11 March 2020. Globally countries and governments have introduced a number of varying measures in an effort to slow the spread, minimise impact on local health authorities and ultimately deaths. In order to be able to continue its operations both from its premises and with workers based at home, the Bank put in place a series of business continuity plans involving actions to meet the changing messages and guidance delivered from the government, Public Health England (PHE) and regulators in order to limit the spread of the infection. These actions included segregation of departmental human resources within both of the Bank's offices at Curzon Street and Cannon Street and facilitating working from home via secured remote access. Improvements to the bank's data centre following relocation to new offices in December 2018, combined with significantly enhanced network infrastructure and network security solutions undertaken, has enabled the Bank to better meet the challenges faced by the recent Covid-19 pandemic. As a result, during this period the Bank has been able to manage its operations from both London offices and at the same time ensure at least one third of the Bank's staff was able to work from home and access their desktops securely. This has resulted in the Bank being able to maintain its operations in full without any downtime and demonstrated its capacity to meet operational resilience requirements without any significant disruptions. During this period the Bank has also configured and tested availability to utilise workspace at its Disaster Recovery site.

The Bank continues to monitor the unfolding impact of the Covid-19 pandemic and the related macroeconomic turbulence and its effects on the Bank's business model, capital and liquidity position. As such the Bank's risk appetite was adapted accordingly to revise downwards exposure limits to countries where it was felt the disruption and impact of Covid-19 on their economies could be material. Despite the lockdowns that ensued and disrupted international supply chains which had an effect on the levels of trade over the 2nd quarter of 2020, the Bank has continued to see good trade finance business referrals, albeit at reduced levels, both from its trade finance Sub-Saharan African bank correspondents as well as from exporters with whom it enjoys long standing associations. This is testament to the durability of the niche wholesale export trade finance franchise that the Bank has built over the past 15 years. In selecting which Letter of Credit transactions to process and finance the Bank has adopted a cautious and conservative approach in booking short term transactions, typically in their great majority sight to 90 days, but with exceptions to terms not exceeding 180 days where it has good knowledge of the underlying subject matter and the beneficiaries and applicants involved. Although adverse economic conditions stemming from the effects and the impact from Covid-19 are expected to continue for the rest of 2020 and into 2021 the Directors expect that the Bank's business model will keep it in good stead but possibly experience lower volumes of business which will still nevertheless allow the Bank to operate profitably.

Strategic Report

Performance highlights

The 12 month period to 31 December 2019 was a period of adjustment for Bank of Beirut (UK) Ltd. Despite the disruption in our business experienced in trading down and closing our Frankfurt branch during the 2nd and 3rd quarter of the year, and our conscious decision to trade down and not replace our trade finance exposure to Lebanon in the 4th quarter 2019, the Bank was able to maintain its operating income generating capability from continuing operations to £16.3m for the year ended 31 December 2019 as opposed to £15.4m for 2018. The Bank recorded a small decrease in its Net Interest Income of 2.9% to £7.3m (2018 - £7.5m) notwithstanding an increase in Customer Account deposits to £178m as at December 2019 (2018 - £104m) and a reduction in average 3 month USD Libor rates, the reference rate for the majority of our trade finance assets, from 2.774% in January 2019 to 1.908% in December 2019. Net Fees and Commission Income recorded an increase of 12.8% to £8.4m (2018 - £7.4m) and this demonstrated the ability of our continuing operations in London to absorb aspects of the trade finance business which would have passed through Frankfurt. This achievement was down to the Bank's strong franchise with trade finance correspondent banks in the Sub-Saharan Africa and the Middle East as well as close affinity with exporters around the world.

Leading on to Profit before Tax of £3.3m (2018 - £6.4m), this was further affected by increased Net Impairment Losses of £3m for the year ended 31 December 2019 as opposed to £1m in 2018. This increase was down predominantly to an adjustment of £1.71m which emanated from the decision of the Board to mark to market the Bank's portfolio holding in Republic of Lebanon Eurobonds that had a face value of US$7.04m as at 31 December 2019. The Lebanon sovereign had been downgraded twice during 2019 and the continuing social unrest and uncertainty was affecting the values of Lebanese Eurobonds which were consistently trading at less than 70% of face value for 2020 maturities and below 50% for longer maturities. Our Profit before Tax was also impacted by the decision to write down goodwill of £0.75m which related to a deposit book acquisition dating from 2006 after being satisfied that no carrying value remained in our books.
Our final Profit for the year was reduced further to £1.75m for the year ended 31 December 2019 (2018 - £5.56m) from the loss we incurred through our Discontinued Operations in Frankfurt of £1.24m. The Frankfurt branch loss was after net revenues incurred in Frankfurt of £0.5m (2018 - £1.8m), which were generated in their majority during the 1st Quarter of 2019, and against expenditure and closing overheads of £1.75m (2018 - £1.55m) of which £0.7m were staff related costs and other administrative costs including depreciation accounted for £1.05m.

As at 31st December 2019 the Bank reported Total Equity of £102.4m (2018 - £100.8m) and total capital resources of £134.5m (2018 - £133.3m) which resulted in a total capital adequacy ratio of 33.75%, a slight decrease from the 35.12% reported as at 31 December 2018. We note that as at 31 December 2019, our Tier 1 Capital headroom amounted to £78m and Total Capital headroom GBP to £55m. Total Asset Balances displayed a decrease of 19%, £492m vs £608m for 31 December 2019 and 2018 respectively, but just 5.4% as compared with our Total Balance Sheet Assets as at 31 December 2017 of £521m. This reduction in Total Asset balances is attributed to reduced cash and balances and placements with banks which were partly attributed to the loss of EURO bank deposits maintained at our Frankfurt branch by our Middle Eastern and African trade finance correspondents as well as our parent, Bank of Beirut Sal. The reduction is further attributed to our decision to consciously unravel during the 4th quarter of 2019 deposit and placement structures of circa US$40m with Lebanese banks in order to reduce our exposure to Lebanon. Finally, the reduction in bank deposits between 31 December 2018 and 2019 is further attributed to inflated nostro bank balances of just over EUR 60m that our parent placed with our Frankfurt branch a few days before 31 December 2018 and which were withdrawn subsequently a few days later in January 2019. By way of explanation, some of our parent group European correspondents, where they maintained part of their Euro balances, imposed end of year punitive charges as part of their drive to dis-inflate end of year Balance Sheets which resulted in surplus Euro deposits of the parent group placed with us through the Frankfurt branch to reduce costs.

In contrast, with a reduction in deposit by banks, customer account balances increased to £178m as at 31 December 2019 from £105m in 2018.This substantial increase was down to Lebanese group customers diversifying their deposit holdings outside Lebanon and was the continuation of a trend noted from mid- 2018. This shift may be explained by the deteriorating economic conditions and uncertainty in Lebanon which culminated to the civil unrests of October 2019. It is important to note that as at 31 December 2019 the bank held in cash and cash equivalents, the combination of cash and balances and placements with banks as well as debt securities at amortised cost which were all Level 1 UK Gilts and US Treasuries, 77.4% of its Deposits by Banks and Customer Accounts as opposed to 82.92% as at 31 December 2018. This is despite the fact that Deposits by Banks were down 19% year on year and loans and advances to customers remained relatively unchanged year on year at £190m (2018 - £191m). This demonstrates the conservative approach by the Bank in managing it liabilities and its strong liquidity position going forward. The bank's Liquidity Coverage Ratio (LCR), which is required by the PRA to be a minimum 100% at all times, was 261.73% as at 31 December 2019 as opposed to 288.77% as at 31 December 2018. The reduction in LCR is attributed to the loss of the Euro balances our Frankfurt branch maintained with the Bundesbank which qualified as High Quality Liquid

Strategic Report

Performance highlights (continued)

Assets (HQLA) in the calculation of LCR. It is fair to say that as the Bank hold such a great tpart of our bank deposit and customer liabilities in cash and balances and placements at banks that we could utilise this to increase our HQLA by increasing our GBP balances with the Bank of England or increasing our Level 1 Debt securities which will increase our LCR further.

Looking forward

Our overall strategic objective for the next 12 months is to continue to maintain high levels of liquidity and capital adequacy whilst at the same time ensuring good levels of operating profitability. We aim to achieve this by exploring our wholesale export trade finance franchise that we have built over the years with our network of correspondents and exporters around the world, and by processing and managing selective short term and good credit quality letter of credit transactions. We have a reduced appetite for any corporate and personal lending credit risk on any transactions straddling over 1 year. We will be employing a rigorous credit risk management process which we have amended and upgraded over the last 12 months both in terms of introducing additional expert human capital as well as in terms of processes and procedures fed by enhanced access to market leading country economic and industry intelligence. We believe that our cautious strategic direction will keep us in good stead given the passing of the Covid-19 pandemic and resulting market turbulence as overlaid by the impact on the oil price hovering at or below US$30 a barrel for a prolonged period of time, as well as on reduced US$ liquidity in emerging markets and specifically in the major economies of Sub-Saharan African countries that we cover given the direction of major currency policy interest rates towards zero.

Payment of Dividends

The Directors have not recommended the payment of any dividend.

The financial statements for the reporting year ended 31 December 2019 are shown on pages 30 to 33.

Key performance indicators and ratios

The financial performance for the year to 31 December 2019 is summarised in the following table (All figures are quoted in GBP '000s):

Income Statement	2019	2018
Net interest income	7,313	7,534
Fees and other income	8,997	7,939
Total operating income	16,311	15,474
Administrative expenses	9,226	8,052
Profit before Tax	3,297	6,393

Balance Sheet	2019	2018
Loans and advances to customers	190,072	191,403
Total assets	491,979	607,982
Total deposits	344,758	461,925
Shareholders' funds*	134,542	133,354

Key performance indicators	2019	2018
Capital Adequacy Ratio	33.75%	35.12%
Liquidity Coverage Ratio	261.73%	288.77%
Net Interest Margin	1.59%	1.33%
Administrative expenses to Income ratio	56.56%	52.04%

* Includes Bank of Beirut Group Term Subordinated Term Loans

Strategic Report

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, West Africa and Lebanon. 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. 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 develop and 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.

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 comply with the requirements of Section 172 Companies Act 2006 in considering in good faith, what will promote the success of the Bank for the benefit of the stakeholders as a whole having due regard to the likely consequences of such decisions in the long-term.

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 against 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

Strategic Report

Section 172 Statement (continued)

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 defined across our business and operations.

- Understanding the importance of our clients and customers. The bank promotes 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 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 critical suppliers to monitor their activities and supply chain.

- The Banks 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.

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 three independent Non- Executive Directors (INEDs). 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 Credit Committee
- Board Audit, Risk & Compliance Committee (ARCC)
- Board Remuneration and Nomination Committee
- Management Committee (including ALCO and Operational Resilience)

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 has been 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.

Strategic Report

Corporate Governance (continued)

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 engages a dedicated Risk Manager reporting to the Head of Risk & Compliance. The Risk Manager 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.

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

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

Management Committee
The Management Committee ("ManCo") is 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. It 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 Committees 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.

Strategic Report

Risk Governance (continued)

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 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 maintains 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 its legal and regulatory obligations in respect of both AML and conduct of business issues. Such policies and procedures are designed to detect and minimize 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.

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.

Strategic Report

Risk Management (continued)

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. 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 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.

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 is able to transition to a low carbon world.

The commitment is articulated in a separate Climate Change Policy and Action Plan adopted in 2019 that sets out an overarching appetite for climate change risk; ensures that senior management arrangements are in place to deliver on this commitment whilst upholding regulatory expectations; embeds climate change assessments in credit and stress testing processes; and commits to make greater disclosure, including via this section of the Strategic Report.

Employees

The Bank has given considerable attention in selecting suitable employees to conduct its business operations and to meet the strategic objectives of the Bank. The Bank has a flat organisation structure but all departments are headed by persons with long experience in the industry in the relevant area.

By order of the Board

Sophoklis Argyrou
Managing Director & CEO

24 June 2020

Directors´ Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2019. 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 £1,750,505 (2018: £5,565,723) was transferred to reserves. The directors do not recommend the payment of a dividend for the year 2019 (2018: £nil).

Subsequent events

Please refer to Note 34 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 crisis in Lebanon and Covid-19. 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 starting capital, £134.5m in Total Capital resources and capital adequacy ratio of 33.75% depicting a total capital headroom of £55m vs Total Risk Exposures of £391m, and liquidity, an LCR ratio of 262% underpinned by a 77% cash and cash equivalent ratio to Gross Deposit liabilities, positions of the Bank as at 31 December 2019 underpinned the Banks ability to absorb and deal with these stresses over the forecasted periods.

Consequently, the Directors having also considered possible effects from the Lebanon and Covid-19 crisis 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.

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 in due course 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 on a daily basis 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 on a daily basis 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 will take collateral when required; this may be security over a customer's assets, or more commonly, cash.

Effective from 1 January 2018 the Bank adopted the International Financial Reporting Standard IFRS9 to calculate and

Directors´ Report

Risk management objectives and policies (continued)

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 2019.

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 select 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' 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 were as follows:
Salim G Sfeir
Sophoklis Argyrou
Fawaz H Naboulsi
Marcus John S Trench
Anthony J Bush
Ramzi Saliba
Martin J Osborne
Antoun Samia

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 he ought to have taken as a director in order to make himself 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.

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed 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 June 2020

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 International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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

INDEPENDENT AUDITOR’S REPORT TO THE MEMBERS OF BANK OF BEIRUT (UK) LTD

Report on the audit of the financial statements

1. Opinion

In our opinion the financial statements of Bank of Beirut (UK) Limited (the ‘company’):

- give a true and fair view of the state of the company’s affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union; 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 other comprehensive income;
- the balance sheet;
- the statement of changes in equity;
- the cash flow statement; and
- the related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union.

Independent Auditor's Report

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 company 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 the non-audit services prohibited by the FRC’s Ethical Standard were not provided to the company.

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: • Use of the going concern basis of accounting; • Lebanese government bond carrying values; • Loan impairment and provisioning; and • Revenue recognition. 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 £1.032m which was determined on the basis of 1% of closing 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	We have shifted the basis on which we determined materiality from one based on opening net assets to one based on closing net assets in the current year. In the prior year, the adoption of IFRS 9 resulted in a significant adoption charge on transition; now that application of IFRS 9 is in its second year, we deemed it appropriate to base materiality on closing net assets. Lebanese government bond carrying values and the use of the going concern basis of accounting are new key audit matters this year as a result of the ongoing economic crisis in Lebanon.

4. Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:
- the directors’ use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company’s ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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.

Independent Auditor´s Report

5.1. Lebanese government bond carrying values

Key audit matter description	As a result of the significant levels of uncertainty and volatility that has been, and continues to be, experienced in Lebanon the carrying values of the Bank's exposures to Lebanese government bonds was identified as a key audit matter for our 2019 audit. Political unrest and breakdown in the Lebanese government, among other factors, resulted in the prices of these government bonds experiencing a sharp decline in the last quarter of 2019. The Bank's exposure to Lebanese government bonds are carried on the balance sheet are amortised cost, which is net of an Expected Credit Loss ("ECL") determined in accordance with IFRS 9. Due to the fact that the fair values of Lebanese government bonds were significantly below par as at 31 December 2019, judgement was required in respect of whether an additional adjustment was required to the standard ECL methodology. Whilst fair values of bonds can be driven by a number of factors, management concluded that in this scenario, the fair values provided an indication of probability of default and loss given default expectations. As a result the carrying values were written down to the fair values as at 31 December 2019. Management discloses information about their Lebanese government bonds in note 13 and note 3 to the financial statements.
How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to the Lebanese government bond carrying values: • We obtained an understanding of the relevant controls over management's treasury and operations business cycles; • We obtained an understanding of the ECL raised, including the determination of a post model adjustment applied by management; and • We performed an independent valuation of the company's exposures using observable market prices, given bonds are actively traded, to challenge the ECL calculation computed by management.
Key observations	We concluded that the ECL raised against the company exposures to Lebanese government bonds is reasonable and in compliance with IFRS 9.

Independent Auditor´s Report

5.2. Use of the going concern basis of accounting

Key audit matter description	The use of the going concern basis of accounting has become a key audit matter as a result of the ongoing crisis in Lebanon, culminating in a government default in March 2020 and subsequent involvement of the International Monetary Fund. The Bank is a separate legal entity in the UK regulated by the Prudential Regulation Authority ("PRA"). Our consideration of its ability to continue as a going concern is primarily focused on the level of liquidity and capital of this entity, with reference to future profitability, cashflows and the ability to meet regulatory requirements. In addition to write downs noted due to exposures to Lebanese bonds, there are wider going concern considerations associated with the slowdown of the Lebanese economy and wider countries of operation as a result of the COVID-19 pandemic. These have an impact on the company's profitability, capital, liquidity and operations. In response, management have applied measures and prepared in-depth going concern analysis, including: • Preparing profit forecasts with updated growth assumptions; • Performing severe stress tests to evaluate the capital and liquidity positions in critically downturned scenarios, including the potential effects of COVID-19; and • Implementing COVID-19-specific measures to safeguard business continuity. Given the continuing uncertainty in Lebanon, there is also a need to consider the relationship between the parent ("Bank of Beirut s.a.l", the "Parent") and the Bank. The results of these procedures indicate sufficient headroom in the company's financial position in the event of downturn scenarios. Therefore, management have concluded that the use of the going concern basis of accounting is appropriate. Management discloses information about going concern in the accounting policies in note 3 to the financial statements.
How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to use of the going concern basis of accounting: • Assessed the profit forecasts for the business, including looking at growth assumptions, management's historical forecasting accuracy and performed a comparison of actual results to date; • Assessed the level of liquidity and the capital resources available to the company; • Reviewed management stress tests and downturn scenarios to assess the ability of the company to continue to trade; and • Assessed the ability of the business to continue operating under new ways of working through operational changes made by management.
Key observations	At the date of this report, the Bank has liquidity and capital in excess of regulatory requirements and management's forecasts, including the effects of stress scenarios do not indicate concerns in this respect. Whilst the Bank is a subsidiary of the Bank of Beirut s.a.l, it has relatively limited level of deposits from the Parent and is not reliant on the Parent for its day to day operations. Therefore whilst there remains a reputational risk on the Bank from the ongoing economic uncertainty in Lebanon, given the type of relationship it has with the Parent, the fact that it is a separate legal entity in the UK regulated by the PRA and its own levels of capital and liquidity, we concluded that the disclosure of the going concern basis of preparation is reasonable.

Independent Auditor´s Report

5.3. Loan impairment and provisioning

Key audit matter description	The 2019 financial year was the second year that the company reported under IFRS9. As at 31 December 2019, the total provision balance was £4.74m (2018: £3.88m), of which £3.36m related to stage 3 ECLs (2018: £2.47m). There are a number of key elements that drive the IFRS 9 calculation, including the determination of the staging of exposures. The staging of exposures will affect the level of provisioning calculated for a given exposure, as stage 1 loans recognise 12 month ECLs, whereas stage 2 and 3 loans recognise lifetime ECLs. The judgements involved in determining the above staging involve a level of subjectivity and, therefore, we have identified loan impairment and provisioning as a key audit matter. This key audit matter contains a risk of fraud as a result of the ability of management to affect ECLs recognised in the year by making judgements that directly affect the income statement. Specifically, we classified the following judgemental areas as key risk: • the level of provisioning against stage 3 exposures; • the staging associated to exposures on the excess, problem and watchlist reports; • the stage classification of corporate and high net worth individual exposures; and • the stage classification of Lebanese exposures as well as an assessment of the appropriateness of company's provisioning methodology for these Lebanese exposures given the current political and economic environment. Management disclose information about credit risk 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.
How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to the loan impairment and provisioning balances: • We obtained an understanding of the relevant controls over management's lending and loan loss provisioning business cycles. • We reassessed the reasonableness of the overall IFRS 9 methodology used by the company, including an assessment of the appropriateness of the key assumptions used. • 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. • For our sample of exposures to Lebanese counterparties, we considered the appropriateness of the probability of default rating and the loss given default rating in light of the current economic and political climate in Lebanon, including the appropriateness of any notching down of the ratings and additional haircuts applied. • We tested a sample of Stage 3 impaired loans and assessed the judgements and calculations made in determining the level of provisions.
Key observations	We concluded that the loan impairment and provisioning balance was appropriately stated and in compliance with IFRS 9.

Independent Auditor´s Report

5.4 Revenue recognition

Key audit matter description	For the year ended 31 December 2019, the company recognised fee and commission income of £8.55m (2018: £9.12m), which is received from trade finance and loan arrangements. We have focussed our key audit matter on the occurrence and accuracy of the recognition of fee and commission income. The booking of this fee and commission income is manual in nature and therefore there is potential for error and fraud through manipulation of these assertions in the balance. Therefore, we have identified revenue recognition as a key audit matter. The company applies a simplified approach to the booking of fee and commission income as a result of the short term nature of the majority of the company's business and, especially, the trade finance book. This simplified approach is followed on materiality grounds. Management disclose information about revenue recognition in notes 3 and 5 to the financial statements.
How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to revenue recognition: • We obtained an understanding of the relevant controls over management's revenue and trade business cycles. • We performed sample testing on fee and commission income, including recalculation of amounts and verification to supporting documents to assess whether the recognition is in line with accounting standards. • We assessed the effect on the financial statements of the simplified approach used to estimate fees.
Key observations	We concluded that the fee and commission income balance was appropriately stated.

Independent Auditor´s Report

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	£1.032m (2018: £0.95m)
Basis for determining materiality	1% of closing net assets (2018: 1% of opening net assets)
Rationale for the benchmark applied	Materiality has been based on closing net assets given our assessment of this being the most stable metric, and the most applicable to the operations of the company.

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 2019 audit (2018: 70%). In determining this lower percentage of performance materiality, we considered the quality of the company's control environment in the context of its size and the nature of its business as well as the 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 £51,600 (2018: £45,700), 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

Our audit was scoped by obtaining an understanding of the company and its environment, including internal control, and assessing the risks of material misstatement. Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.
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.

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Independent Auditor´s Report

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 company'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 company 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.

Details of the extent to which the audit was considered capable of detecting irregularities, including fraud and non-compliance with laws and regulations are set out below.

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

We identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and then design and perform audit procedures responsive to those risks, including obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion.

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 company's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Audit Risk and Compliance Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the company'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 involving relevant internal specialists, including tax and IT specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

Independent Auditor´s Report

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: Lebanese government bond carrying values, loan impairment and provisioning, and revenue recognition. 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 frameworks that the company 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 the 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 company's ability to operate or to avoid a material penalty. These included the company'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 Lebanese government bond carrying values, loan impairment and provisioning, and revenue recognition 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;
- enquiring of management, the Audit, Risk and Compliance Committee and 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 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 company 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. Matters on which we are required to report by exception

13.1. 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.

Independent Auditor´s Report

13.2. 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.

14. Other matters

14.1. Auditor tenure

Following the recommendation of the Audit, Risk and Compliance Committee, we were appointed by the board of directors of the Company on 10 December 2002 to audit the financial statements for the year ending 31 December 2002 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 18 years, covering the years ending 31 December 2002 to 31 December 2019.

14.2. 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).

15. Use of our report

This report is made solely to the company'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 company'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 company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Alan Chaudhuri (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
London, United Kingdom
24 June 2020

Income Statement
Year ended 31 December 2019

	Notes	2019 £	2018 £
Continuing operations			
Interest income	5	14,196,450	12,635,455
Interest expense	6	(6,883,013)	(5,101,136)
Net interest income		7,313,437	7,534,319
Net fees and commission income		8,432,462	7,472,243
Foreign exchange income	8	565,000	467,211
Total non-interest income		8,997,462	7,939,454
Total income		16,310,899	15,473,773
Administrative Expenses	7	(9,226,203)	(8,051,970)
Goodwill impairment	18	(751,540)	-
Finance cost	17	(36,688)	-
Net impairment losses	30	(2,999,490)	(1,028,650)
Profit before taxation	8	3,296,978	6,393,153
Taxation	9	(452,952)	(1,093,649)
Prior year tax adjustments		144,323	-
Profit for the year from continuing operations		2,988,349	5,299,504
Discontinued operations			
Profit / (Loss) for the year from discontinued operations (Frankfurt Branch)	33	(1,237,844)	266,219
Profit for the year		**1,750,505**	**5,565,723**

Comparative represented for 2018 to reflect the discontinued operations of Frankfurt Branch.

Statement of other comprehensive income
Year ended 31 December 2019

Statement of Other Comprehensive Income	Notes	2019 £	2018 £
Profit for the year		1,750,505	5,565,723
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income			
(Loss) / Gains arising during the year		(112,300)	4,119
Exchange difference on translating foreign operations, net of tax		(18,963)	25,261
Income tax relating to items that may be reclassified	9	-	(783)
Other Comprehensive income for the year net of tax		(131,263)	28,597
Total Comprehensive income for the year		**1,619,242**	**5,594,320**

Balance sheet
Year ended 31 December 2019

	Notes	2019 £	2018 £
Assets			
Cash and balances at banks		68,480,164	180,059,533
Placements with banks	10	149,550,425	162,304,830
Loans and advances to customers	11	190,072,010	191,402,726
Customers' acceptances	12	9,075,007	9,843,804
Debt securities at amortised cost	13	3,381,421	1,585,826
Financial assets at FVTOCI	14	48,714,705	40,683,260
Prepayments and accrued income		826,857	805,423
Current tax assets		325,007	-
Amounts due from HMRC		107,835	-
Land and Buildings	15	19,028,900	19,068,117
Right-of-use lease assets	15	940,913	-
Property and equipment	15	1,000,504	967,527
Intangible assets	16	474,954	445,848
Deferred tax asset	22	-	63,961
Goodwill	18	-	751,540
Total assets		**491,978,702**	**607,982,395**
Liabilities			
Deposits by banks	19	166,609,600	357,332,819
Customer accounts	20	178,148,012	104,592,475
Acceptances payable	12	9,131,498	9,914,706
Accruals and deferred income		778,004	449,396
Lease liabilities	17	941,415	-
Other liabilities	21	1,584,477	1,694,689
Provision for liabilities and charges		-	95,000
Current Tax liabilities		-	549,349
Deferred tax liability	22	243,598	-
Subordinated loan	23	32,108,072	32,539,176
Total liabilities		**389,544,675**	**507,167,610**
Equity			
Called up share capital	24	34,150,000	34,150,000
Retained earnings	25	68,284,027	66,664,785
Total equity		**102,434,027**	**100,814,785**
Total liabilities and equity		**491,978,702**	**607,982,395**

These financial statements were approved by the board of directors and authorised for issue on 24 June 2020. They were signed on its behalf by:

Sophoklis Argyrou
Managing Director & CEO
24 June 2020

Statement of changes in equity
Year ended 31 December 2019

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2018	34,150,000	62,454,076	96,604,076
Adjustment on adoption of IFRS9	-	(1,383,611)	(1,383,611)
Profit for the period	-	5,565,723	5,565,723
Other comprehensive income for the period	-	28,597	28,597
As at 31 December 2018	**34,150,000**	**66,664,785**	**100,814,785**

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2019	34,150,000	66,664,785	100,814,785
Profit for the period	-	1,750,505	1,750,505
Other comprehensive expense for the period	-	(131,263)	(131,263)
As at 31 December 2019	**34,150,000**	**68,284,027**	**102,434,027**

Bank of Beirut (UK) Ltd | Report and Financial Statements 2019

Cash Flow Statement
Year ended 31 December 2019

	Notes	2019 £	2018 £
Cash flows from operating activities			
Profit for the year		1,750,505	5,565,723
Adjustments for :			
Taxation	9	308,629	1,093,649
Depreciation	15	900,582	617,428
Goodwill impairment	18	751,540	-
Net impairment losses	30	2,999,490	1,029,052
Finance cost on lease liabilities	17	36,688	-
Taxation on discontinued operations	33	-	131,319
Operating cash flows before movements in working capital		**6,747,434**	**8,437,170**
(Increase) / decrease in prepayments and accrued income		(21,434)	12,755
Increase in accruals and deferred income		328,608	137,298
Net decrease in loans and advances to banks and customers		14,085,122	6,577,650
(Decrease) in provisions for liabilities and charges		(95,000)	(60,000)
(Decrease) / Increase in deposits by banks and customers		(117,167,682)	62,556,329
(Decrease) / Increase in other liabilities		(110,213)	1,681,971
Cash used from operations		(96,233,165)	79,343,174
Corporation tax paid		(968,900)	(1,441,300)
Net cash used in operating activities		**(97,202,065)**	**77,901,874**
Cash flows from investing activities			
Purchase of equipment and intangible assets	15	(475,380)	(865,087)
Purchase of land and building	15	(116,820)	(3,923,544)
Proceeds on maturity of treasury bills and other eligible bills		155,154,323	169,220,123
Purchase of treasury bills and other eligible bills		(168,060,606)	(183,341,643)
Net cash used in investing activities		**(13,498,483)**	**(18,910,151)**
Cash flows from financing activities			
Lease payments under Finance Lease		(81,996)	-
Subordinated borrowing	23	-	16,000,000
Increase / (Decrease) in cash and cash equivalents		**(110,782,544)**	**74,991,723**
Cash and cash equivalents at the beginning of the year		180,059,533	105,686,182
Effect of exchange rate changes on cash and cash equivalents		(796,825)	(618,372)
Cash and cash equivalents at the end of the year		**68,480,164**	**180,059,533**
Cash and cash equivalents comprised of:			
Cash and balances at banks		**68,480,164**	**180,059,533**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Notes to the financial statements
Year ended 31 December 2019

1. General information

Bank of Beirut (UK) Ltd ("the Bank") is a company incorporated in the United Kingdom 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 8 to 17 and the Directors' Report on pages 18 to 19.

These financial statements are presented in pounds sterling being the currency of the primary economic environment in which the Bank operates.

2. Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board (IASB) as adopted by the European Union.
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 takes into account 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.

Adoption of new and revised standards

New and amended IFRS Standards effective for the current year

IFRS 16 Leases

The Bank has adopted IFRS 16 on Leases with effect from 1 January 2019.

IFRS 16 replaces IAS 17 on leases and is effective from 1 January 2019, requiring lessees to recognise a lease liability reflecting the present value of the future lease payments and corresponding right-of-use lease assets, comprising the lease liability and unavoidable costs of the lease transactions. Assets of value less than US$5,000 and leases of period less than one year are excluded from the purview of this new standard.

IFRS 16 envisages a finance lease, if the contract conveys the right-to-use the assets for a period of time. The Curzon Street premises were taken on new lease from 1 January 2019, for a period of ten years. There are six printers on lease, with a new lease agreement started from 1 September 2019, for 31 months. These two transactions have come under the purview of IFRS 16 Leases and recognised accordingly.
There are no other tangible assets within the Bank of Beirut that can be considered under IFRS 16 purview. The Cannon Street premises is owned by the Bank; the Frankfurt branch operations are discontinued and closed; the high value IT equipment, like servers are purchased and only subject to service and maintenance contracts.

The implicit rate of interest for these lease transactions, is considered as the incremental borrowing cost, which the Bank identified as the rate at which the tier 2 bonds subscribed by the parent bank in 2018, to facilitate the purchase of the Cannon Street premises.

Notes to the financial statements
Year ended 31 December 2019

2. Basis of preparation (continued)

The lease liability is recognised as the present value of the future lease rental payments discounted at the incremental borrowing cost and the lease assets is considered as lease liability plus the unavoidable legal costs and stamp duty. The lease assets are amortised over the period of the lease through depreciation of the asset and the lease liability will be measured at amortised cost, after recognising the finance costs on the lease liabilities and making periodic principal payments to the lessor.
In the cash flow statement, finance cost reflecting interest on lease liability is presented as an operating cash flow and the principal payment to the lessor from the lease liability is presented as a financing activity.
As the lease of the Curzon Street premises and the new leases of the printers commenced only during 2019, there is no retrospective approach for accounting treatment of the finance leases. The implementation of finance lease standards has increased the assets by £940,913 as at 31 December 2019 The Frankfurt Branch of the Bank discontinued its operations and was closed on 19 September 2019. The necessary disclosure in this regard, as per IFRS 5 is made in Note 33.

Amendment to IFRS 9 standards effective on or after 1 January 2019

Amendment to IFRS 9 Financial Instruments:

A narrow scope amendment relating to prepayment features with negative compensation and on accounting issues subsequent to modifications of a financial liability, when the liabilities are not de-recognised.
IFRS 9 replaced IAS 39 and addresses classification, measurement and de-recognition of financial assets and liabilities, the impairment of financial assets measured at amortised cost or fair value through other comprehensive income, expected credit loss provisions for loan commitments and financial guarantee contracts and general hedge accounting.

Classification and measurement: IFRS 9 requires financial assets to be classified into one of the following measurement categories: fair value through profit or loss, fair value through other comprehensive income or amortised cost. Classification is made on the basis of the objectives of the entity's business model for managing its financial assets and the contractual cash flow characteristics of the instruments.

In the first part, the amendment to IFRS 9 identifies some pre-payable financial assets with negative compensation that may be measured at amortised cost now, than under the previous version of IFRS 9.
The pre-payment option may be triggered contingent upon certain events, like fall in the value of the collateral or it may be required in particular circumstances. Under the earlier dispensation the affected assets, some loans and debt securities would otherwise have been measured at fair value through profit or loss,

In the second part of the amendment, it re-defines the accounting treatment of modifications to financial liabilities; when a financial liability measured at amortised cost is modified without this resulting in de-recognition, a gain or loss should be recognised in profit or loss. This is a change from the existing common practice under IAS 39.

The above two amendments have no impact on the Bank.

Annual Improvements to IFRS Standards 2014 – 2016 Cycle:

Amendments to IAS 28 'Investments in Associates and Joint Ventures' clarifying the accounting treatment of long-term interests in an associate or joint venture, effective from 1 January 2019. The amendment clarifies that long-term interest in an associate or joint venture, where equity method is not applied, should be accounted and impairment recognised under IFRS 9 standards.

This amendment to IAS 28 accounting standard is not applicable to the Bank.

Amendment to IAS 19 Employee benefits effective 1 January 2019 but not yet endorsed

This amendment requires an entity to use updated assumptions to determine current service cost and net interest for the remainder of the period after a plan amendment, curtailment or settlement and also to recognise in profit or loss as part of service cost or a gain or loss on settlement and any reduction in surplus.
The Bank is not impacted by this amendment

Notes to the financial statements
Year ended 31 December 2019

2. Basis of preparation(continued)

Annual Improvements to IFRS Standards 2015 – 2017 Cycle effective from 1 January 2019:

IFRS 3 Business combinations effective from 1 January 2019
The amendments clarify that obtaining control of a joint operation business, is a business combination achieved in stages. The acquirer should re-measure its previously held interest in the joint operation at fair value at the acquisition date.

IFRS 11 Joint arrangement effective from 1 January 2019
The amendments clarify that the party obtaining joint control of a business that is a joint operation should not re-measure its previously held in the joint operation.

IAS 12 Income taxes effective from 1 January 2019
The amendment clarifies the income tax consequences of dividends on financial instruments classified as equity should be recognised according to where the past transactions or events that generated distributable profits were recognised.

IAS 23 Borrowing costs on or after 1 January 2019
The amendment clarify that if a specific borrowing remains outstanding after the related qualifying asset is ready for its intended use or sale, it forms part of general borrowings.

The above amendments to accounting standards have no impact on the Bank.

New and revised IFRS Standards in issue but not yet effective

At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRS Standards that have been issued but are not yet effective and, in some cases, had not yet been adopted by the EU:

IFRS 3 Business Combinations	Definition of a business
IAS 1	Presentation
IFRS 10 Consolidated Financial Statements and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
IFRIC 23	Uncertainty over Income Tax Treatments

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Bank in future periods.

Notes to the financial statements
Year ended 31 December 2019

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 8 to 17 and the Directors' report on pages 18 to 19 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 were considered in response to the crisis in Lebanon and Covid-19. 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 starting capital, £134.5m in Total Capital resources and capital adequacy ratio of 33.75% depicting a total capital headroom of £55m vs Total Risk Exposures of £391m, and liquidity, an LCR ratio of 262% underpinned by a 77% cash and cash equivalent ratio to Gross Deposit liabilities, positions of the Bank as at 31 December 2019 underpinned the Banks ability to absorb and deal with these stresses over the forecasted periods

Goodwill
Goodwill on the acquisition is recognised as an asset, initially measured at cost, being the excess of the fair value of the consideration transferred, the fair value of any existing interest in the subsidiary and the amount of any non-controlling interest measured either at fair value or at its share of the net assets over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Goodwill is not amortised, but is reviewed for impairment at least annually and any impairment or write off decisions by the Board are recognised in the books immediately. For the purpose of impairment testing, goodwill is allocated to the cash-generating unit expected to benefit from the synergies of the combination. Since the acquisition, the business has been integrated into the wider business of the Bank, which is considered to be the cash generating unit for goodwill impairment testing. Review of the Goodwill is described in Note 18 to the accounts.

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 is applied to the net carrying amount after deducting the allowance for expected credit losses.

Notes to the financial statements
Year ended 31 December 2019

3. Significant accounting policies (continued)

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.
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 Lease 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 generally considered as the rate of the sub-ordinated loan provided by the parent bank. 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.

Derivative financial instruments and hedge accounting
As permitted by IFRS 9, the Bank applies the requirements of IAS 39 to its hedging relationships as and when they arise. All derivatives are recognised at their 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.

Financial assets and liabilities
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 when and only when its business model for managing those assets changes. A reclassification will only take place when the change is significant to the Bank's operations 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 liabilities are derecognised when the obligation is discharged, cancelled or 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 liabilities are measured at amortised cost.

Financial assets measured at fair value through other comprehensive income - Financial assets that are held to collect

Notes to the financial statements
Year ended 31 December 2019

3. Significant accounting policies (continued)

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.

Financial assets measured at fair value through profit and loss - The Bank does not have any assets that are designated at fair value.

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 includes 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 take into account a range of possible future economic scenarios, and applying this to the estimated exposure of the Bank at the point of default after taking into account 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 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

Notes to the financial statements
Year ended 31 December 2019

3. Significant accounting policies (continued)

the remaining exposures are performing, the Bank will determine on a case by case basis that there has not been a material deterioration in credit risk. 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 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 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.

Derivative financial instruments
The Bank's activities expose it primarily to the financial risks of changes in currency exchange rates. The Bank uses 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.

The Bank does not apply hedge accounting to its derivative financial instruments.

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into, and subsequently measured, at fair value.

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:

Notes to the financial statements
Year ended 31 December 2019

3. Significant accounting policies (continued)

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.

Differences arising from property and equipment held with our Frankfurt Branch in Euros are shown as translation differences.

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.

Derecognition 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 tax currently payable and deferred tax.

Notes to the financial statements
Year ended 31 December 2019

3. Significant accounting policies (continued)

The tax currently payable 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.

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 estimates 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.

Allowance for impairment losses on loans and advances to customers

At 31 December 2019 the Bank's impairment losses on loans and advances to customers and banks was £4.75 million (2018 - £3.87million). The calculation of the Bank's expected credit loss (ECL) allowances and provisions against loan commitments

Notes to the financial statements
Year ended 31 December 2019

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

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

Definition of default and credit impaired assets
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. 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 above under caption 'Impairment of financial assets'.

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

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.

5. Interest income

Interest income comprises interest from:

	2019 £	2018 £
Loans and advances to banks	8,808,300	7,345,009
Loans and advances to customers	4,075,078	4,602,505
Debt securities at amortised cost	383,661	155,504
Financial assets at FVOCI	929,411	532,437
	14,196,450	**12,635,455**

The amount of interest income attributable to group companies is £330,176 (2018 - £290,386). Comparative represented for 2018 to reflect the discontinued operations of Frankfurt Branch.

Notes to the financial statements
Year ended 31 December 2019

6. Interest expense

Interest expense comprises interest incurred on:	2019 £	2018 £
Deposit by banks	1,269,182	1,209,872
Customers' accounts	2,511,076	1,058,734
Deposits by group companies	3,102,755	2,832,530
	6,883,013	**5,101,136**

Comparative represented for 2018 to reflect the discontinued operations of Frankfurt Branch.

7. Administrative expenses

	2019 £	2018 £
Staff costs during the year (including directors):		
Wages and salaries	4,360,377	3,449,174
Social security costs	469,514	399,179
Other staff costs	391,427	332,617
	5,221,318	4,180,970
Pension costs	285,368	252,979
Total staff costs	5,506,686	4,433,949
Occupancy costs	408,756	1,025,204
Administrative costs	2,410,179	2,000,403
Depreciation	900,582	592,414
Total administrative expenses	**9,226,203**	**8,051,970**

The average monthly number of employees during the current and prior year was as follows:

	2019 No.	2018 No.
Commercial and retail banking activities	71	65

Directors' emoluments	2019 £	2018 £
Directors' remuneration during the year consists of:		
Salaries and other emoluments	753,346	777,317
Pension costs	27,963	40,838
	781,309	**818,155**

The emoluments of the highest paid director for the year ended 31 December 2019 were £447,460 (2018 - £466,307). The highest paid director is a member of the Bank's pension scheme. There were two directors (2018 - two directors) who were part of the Bank's pension scheme.

Comparative represented for 2018 to reflect the discontinued operations of Frankfurt Branch.

8. Profit before taxation

The profit is stated after (crediting) / charging:

	2019 £	2018 £
Net foreign currency gains	(565,000)	(467,211)
Auditor's remuneration		
Audit services	134,996	98,000
Non-audit services	2,500	30,000
Operating lease rentals – Land and buildings	-	482,293
Depreciation (Includes finance lease depreciation)	900,582	617,428
Goodwill amortisation	751,540	-

Notes to the financial statements
Year ended 31 December 2019

8. Profit before taxation(continued)

The analysis of non-audit services is as follows:	2019 £	2018 £
Professional services	-	30,000
Other services	2,500	-
Total non-audit fees	2,500	30,000

Comparatives represented for 2018 to reflect the discontinued operations of Frankfurt Branch.

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	2019 £	2018 £
Current year	312,548	1,238,915
Double tax relief	-	(75,802)
Prior year adjustment	(167,155)	2,090
Overseas tax	-	
Total Current tax charge	145,393	1,327,452
Deferred tax charge / (credit)	307,559	(102,845)
Total tax expense	**452,952**	**1,224,967**

The charge for tax is based upon a UK corporation tax rate of 19% from 1 January 2019 to 31 December 2019.

Factors affecting the tax charge for the year	2019 £	2018 £
Profit before taxation	2,059,134	6,790,690
Tax charge at UK Corporation tax rate of 19% (2018: 19%)	391,236	1,290,231
Effects of:		
Fixed asset differences	120,880	96,446
Expenses not deductible for tax purposes	22,549	4,121
Income not taxable for tax purposes	(27,674)	(3,539)
Adjustment to brought forward values	-	(262,643)
Adjustment to prior periods	(167,155)	2,090
Foreign tax credits not used	-	86,447
Adjustment to tax charge in respect of previous periods deferred tax	133,584	-
Adjust closing deferred tax to average rate 19%	(28,659)	
Adjust opening deferred tax to average rate of 19%	8,191	4,507
Deferred tax not recognised	-	(218)
Tax expense for the year	**452,952**	**1,224,967**

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:	2019 £	2018 £
Financial assets at FVTOCI		
Gains/(Losses) arising during the year	(112,300)	4,119
Exchange difference on translating foreign operations	(18,963)	25,261
Total income tax recognised in other comprehensive income	-	**(783)**

Comparative represented for 2018 to reflect the discontinued operations of Frankfurt Branch.

Notes to the financial statements
Year ended 31 December 2019

10. Placements with banks

	2019 £	2018 £
Maturing in three months or less	**149,550,425**	**162,304,830**

Amounts in respect of group companies included in placements with banks is £10,190,449 (2018 - £Nil). ECL's are included in these balances as per IFRS9. The ECL amount as at 31 December 2019 was £23,691 for placements (2018 - £3,356).

11. Loans and advances to customers

	2019 £	2018 £
Repayable:		
On demand or at short notice	25,653,175	25,676,329
Remaining maturity:		
Three months or less excluding on demand	109,841,472	121,038,770
One year or less but over three months	41,868,495	17,841,667
Three years or less but over one year	16,614,427	27,755,621
Five years or less but over three years	840,493	2,966,507
Over five years	-	-
	194,818,062	195,278,894
Impairment loss allowance	(4,746,052)	(3,876,168)
	190,072,010	**191,402,726**

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 £9,075,007 and includes an ECL amount of £56,491. 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 the acceptances payable are 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.

Notes to the financial statements
Year ended 31 December 2019

13. Debt securities at amortised cost

	2019		2018	
	Book Value £	Market Value £	Book Value £	Market Value £
Lebanese Eurobonds	3,381,421	3,381,421	1,585,826	1,472,891
	3,381,421	**3,381,421**	**1,585,826**	**1,472,891**

The investments in Lebanese Eurobonds are measured at amortised cost. The significant increase in credit risk during the current year is recognised and the investment is now classified as stage 2. The ECL for the year 2019 is £2,028,712 (2018 - £18,317) which includes an IFRS9 post model adjustment of £1,716,492. The movements during the year are summarised as follows:

	2019 £	2018 £
Balance as at 1 January	1,585,826	3,014,495
Acquisitions	4,622,255	10,393
Maturities	(767,969)	(1,608,671)
Provisions	(2,028,712)	-
Exchange differences on monetary assets	(29,979)	169,609
Balance as at 31 December	3,381,421	1,585,826

	2019 £	2018 £
Remaining maturity:		
Three months or less excluding on demand	-	-
One year or less but over three months	1,251,263	773,326
Three years or less but over one year	2,130,158	812,500
Five years or less but over three years	-	-
Five years or more	-	-
	3,381,421	**1,585,826**

14. Financial assets at fair value through other comprehensive income

The UK and US treasury bills are classified as 'Financial assets at fair value through other comprehensive income' as they are purchased for holding as Liquid Asset Buffer and are categorised as Stage 1. The ECLs for the year 2019 are £433 (2018 - Nil).

The movements during the year are summarised as follows:

UK Treasury Bills	2019 £	2018 £
Balance as at 1 January	7,991,730	5,992,640
Acquisitions	62,000,000	20,050,000
Maturities	(52,991,466)	(18,041,723)
Discount received	-	(8,534)
Revaluation	(12,660)	-
Movement in fair value	(473)	(653)
Balance as at 31 December	**16,987,131**	**7,991,730**

Notes to the financial statements
Year ended 31 December 2019

14. Financial assets at fair value through other comprehensive income (continued)

US Treasury Bills	2019 £	2018 £
Balance as at 1 January	32,691,530	19,917,886
Exchange differences on monetary assets	(994,319)	1,130,719
Acquisitions	101,515,152	163,281,250
Maturities	(101,394,888)	(149,569,730)
Discount received	-	(120,263)
Revaluation	(90,384)	(1,953,125)
Movement in fair value	483	4,793
Balance as at 31 December	**31,727,574**	**32,691,530**

15. Property and equipment

	Leasehold Right of use £	Leasehold improvements £	Fixtures, fittings and equipment £	Land and Buildings £	Total £
Cost					
At 1 January 2018	-	509,104	947,889	15,297,529	16,754,522
Additions	-	-	865,087	3,923,544	4,788,631
Disposals	-	-	-	-	-
Translation difference	-	58	2,818	-	2,876
At 31 December 2018	-	509,162	1,815,794	19,221,073	21,546,029
Additions	1,023,411	5,190	470,190	116,820	1,615,611
Disposal	-	(9,365)	(327,334)	-	(336,698)
Translation difference	-	(224)	(11,388)	-	(11,612)
At 31 December 2019	1,023,411	504,763	1,947,262	19,337,893	22,813,330
Depreciation					
At 1 January 2018	-	438,762	652,635	30,575	1,121,972
Charge for the year	-	70,313	193,081	122,381	385,775
Disposals	-	-	-	-	-
Translation difference	-	58	2,580	-	2,638
At 31 December 2018	-	509,133	848,296	152,956	1,510,385
Charge for the year	82,498	5,190	435,698	156,037	679,423
Disposal	-	(9,364)	(327,334)	-	(336,698)
Translation difference	-	(225)	(9,872)	-	(10,097)
At 31 December 2019	82,498	504,734	946,788	308,993	1,843,013
Net book value					
At 31 December 2019	940,913	29	1,000,475	19,028,900	20,970,317
At 31 December 2018	-	29	967,498	19,068,117	20,035,644

Notes to the financial statements
Year ended 31 December 2019

16. Intangible Assets

	Computer software £
Cost	
At 1 January 2018	706,005
Additions	448,449
Translation difference	(38,646)
Foreign Exchange	1,263
At 31 December 2018	1,117,071
Additions	407,323
Translation difference	(52,375)
Foreign Exchange	(9,172)
At 31 December 2019	1,462,847
Amortisation	
At 1 January 2018	476,805
Charge for the year	231,653
Disposals	(38,645)
Foreign Exchange	1,410
At 31 December 2018	671,223
Charge for the year	374,388
Disposals	(52,374)
Foreign Exchange	(5,344)
At 31 December 2019	987,893
Net book value	
At 31 December 2019	474,954
At 31 December 2018	445,848

The intangible assets are computer software and are amortised over a period of three years on straight line basis

17. Leases

The Curzon Street premises and the high value printers under lease agreements are recognised under leases during the year 2019. The standard is adopted prospectively as the new lease of the Curzon Street branch commenced on 1 January 2019 and the printers on 1 September 2019.

Summary of the impact on the financial statement:

Income statement year ended 31 December 2019	2019 £	2018 £
Depreciation	82,498	-
Finance charge	36,688	-
	119,186	-

Summary of statement of financial position	2019 £	2018 £
Non-current assets (right-of-use)	940,913	-
Non-current liabilities	790,822	-
Current liabilities	150,593	-

Notes to the financial statements
Year ended 31 December 2019

17. Leases (continued)

Future minimum lease payments	Curzon St £	Printers £	Total £
Not later than 1 year	120,861	29,731	150,592
Greater than 1 year and less than 5 years	483,444	39,642	523,086
Greater than 5 years	453,229	-	453,229
	1,057,534	69,373	1,126,907

As a result of recognising the leases in the year 2019, the assets have increased by £940,913. The lease liability at the end of the year is £941,415 and the lease asset is less than lease liability by £502.

18. Goodwill

	2019 £	2018 £
Carrying value as at 1 January	751,540	751,540
Impairment	(751,540)	-
Carrying value as at 31 December	-	751,540

Goodwill arose on the acquisition of the Bank of Nova Scotia Private Banking portfolio of assets and liabilities ("the Business") in 2006. Following its annual assessment and impairment test the value in use was determined to be less than the carrying value in use. Accordingly the full value of goodwill has been written down in 2019.

19. Deposits by banks

	2019 £	2018 £
Repayable on demand	69,036,471	218,691,869
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	65,611,728	98,517,661
Between three months and one year	31,961,401	40,123,289
	166,609,600	**357,332,819**

Included in the above are amounts due to parent undertakings of £56,647,166 (2018 - £132,829,747).

20. Customer accounts

	2019 £	2018 £
Repayable on demand	48,736,668	36,452,942
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	95,782,963	47,887,777
Between three months and one year	33,628,381	20,251,756
Between one year and five years	-	-
	178,148,012	**104,592,475**

21. Other liabilities

	2019 £	2018 £
Other taxes and social security costs	4,429	48,599
Other liabilities	1,580,048	1,646,090
	1,584,477	**1,694,689**

Notes to the financial statements
Year ended 31 December 2019

22. Deferred tax

The components of taxes are as follows:

2019 £

	Assets	Liabilities
Deferred tax		(243,598)
United Kingdom	-	
	-	**(243,598)**

2018 £

	Assets	Liabilities
Deferred tax		
United Kingdom	63,961	-
	63,961	**-**

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

	2019 £	2018 £
At beginning of year	63,961	(38,524)
Income statement (charge)/credit	(307,559)	102,485
At end of year	**(243,598)**	**63,961**

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

Deferred income tax assets/ (liability)

	2019 £	2018 £
Accelerated tax depreciation	(243,598)	63,961
Net deferred tax asset / (liability)	**(243,598)**	**63,961**

Notes to the financial statements
Year ended 31 December 2019

23. Subordinated Loan

The Bank signed an agreement for the issue of a 10 Year Subordinated Loan ("the Loan") of USD 20 million on 19 March 2007 with Bank of Beirut Sal, its immediate and ultimate parent company. Drawdown was on 29 May 2007 with interest payable at 3 Month LIBOR + 1%, paid annually. At its meeting on 10 September 2012 the Board of Directors agreed to the following amendments of the Subordinated Loan Agreement:

- Interest payable on the loan at 3 Month LIBOR + 2% effective 30 November 2012
- Extension of the Loan maturity date to 29 May 2027

The Bank signed a second agreement for the issue of a 15 Year Subordinated Loan ("the Loan") of GBP 16 million on 28 December 2017 with an effective date of 1 January 2018 to Bank of Beirut Sal, its immediate and ultimate parent company. Drawdown was on 2 January 2018 with interest payable at GBP 1 Year LIBOR + 4%, paid annually, the first interest payment date being 16 Jan 2019.

As part of the Banks review and usage of IBOR (Inter Bank Offer Rate) as referencing rates, consideration will be given to changing the reference rate from LIBOR to SONIA (Sterling Overnight Index Average) in respect of the debt denominated in GBP and to SOFR (Secure Overnight Financing Rate) for the debt denominated in USD

	2019 £	2018 £
As at 1 January	32,539,176	14,826,705
Additions	-	16,000,000
Accrued interest	1,206,556	1,164,175
Foreign exchange movements	(1,637,660)	548,296
As at 31 December	**32,108,072**	**32,539,176**

24. Called up share capital

	2019 £	2018 £
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 (2018: 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

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

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2019	34,150,000	66,664,785	100,814,785
Comprehensive income for the year	-	1,750,505	1,750,505
Other comprehensive expense for the year	-	(131,263)	(131,263)
As at 31 December 2019	34,150,000	68,284,027	102,434,027

26. Contingent liabilities

ECL for Contingent liabilities of £286,026 (2018 - £147,914) is included in the current account exposure:

	2019 £	2018 £
Irrevocable letters of credit	85,960,152	119,132,263
Guarantees	5,139,421	4,600,743
	91,099,573	**123,733,006**

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Year ended 31 December 2019

27. Commitments

	2019 £	2018 £
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	56,129,095	80,003,203
One year and over	37,481,230	22,233,397
	93,610,325	**102,236,600**

	2019 £	2018 £
Of which undrawn commitments are shown below and includes an ECL of £1,916 (2018 - £330).	9,049,791	17,364,617

There are no operating lease arrangements recognised during the year 2019

	2019 £	2018 £
Minimum lease payments under operating leases recognised as an expense in the year	-	482,293

At the balance sheet date, the Bank had no outstanding commitments for future minimum lease payments under non-cancellable operating leases. The lease arrangements during the year 2019 have all come under the purview of a Finance Lease and separate disclosures are made in Note 17.

	2019 £	2018 £
Not later than one year	-	176,346
Later than one year and not later than five years	-	604,320
More than 5 years	-	483,456

28. Related party transactions

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

	2019 £	2018 £
Interest received from holding company	310,700	279,507
Interest paid to holding company	(3,097,316)	(2,829,738)
Fees paid to holding company	(239,180)	(233,318)

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

	2019 £	2018 £
Deposits from:		
Current /call accounts	10,739,885	96,120,891
Fixed Deposits	45,907,280	47,257,254
Exposures to:		
Loans	10,190,449	-
Bills Discounted	9,718,378	9,365,413
Current/call accounts	3,616,568	363,655
Letters of Credit	4,849,254	2,295,270
Acceptances	692,968	1,130,481
Guarantees, Bid & Performance Bonds	3,636,364	2,722,408

The interest rates charged to/from the holding company are at market rate and the balances are unsecured.

Notes to the financial statements
Year ended 31 December 2019

28. Related party transactions (continued)

Directors' transactions
The following transactions have taken place with directors:

The Bank gave to two of its executive directors in 2019 unsecured non-interest bearing loans payable within 12 months. These amounted to £1,960 (2018 - £2,248) in respect of personal travel costs and £2,569 (2018 - £2,380) 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 2019 was £34,586 (2018 - £32,575).

	2019 £	2018 £
Deposits from Directors	8,399,622	8,095,175

Deposits are paid interest according to prevailing market rates as appropriate.

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.

	2019 £	2018 £
Short-term employee benefits	753,346	777,317
Post-employment benefits	27,963	40,838
	781,309	**818,155**

Other Related Party Transactions
These balances include persons or 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).

	2019 £	2018 £
Deposits from other related parties	5,732,094	3,193,558

Deposits are paid interest according to prevailing market rates as appropriate.

29. Ultimate parent and controlling party

The ultimate parent and controlling party at 31 December 2019 was 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.

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.

Notes to the financial statements
Year ended 31 December 2019

30. Financial instruments and risk management (continued)

The Bank does not have a trading book.

As at the end of 31 December 2019, the carrying value of the financial assets and liabilities of the Bank approximates 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 takes exchange rate contract orders from customers and will cover these by entering into similar positions with the head office. For the years 2018 and 2019 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 UK government securities (UK Treasury Bonds) 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 UK government securities (UK Treasury Bonds) and US government securities (US Treasury Bonds). Investments classified as Level 2 comprise of over the counter derivatives.

Notes to the financial statements
Year ended 31 December 2019

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			
UK Treasury Bonds – FVTOCI	7,991,730	-	-
US Treasury Bonds – FVTOCI	32,691,530	-	-
As at 31 December 2018	40,683,260	-	-

	Quoted Market prices (Level 1) £	Valuation techniques using observable data (Level2) £	Valuation techniques using non- observable market data (Level3) £
Financial Assets			
UK Treasury Bonds – FVTOCI	16,987,131	-	-
US Treasury Bonds – FVTOCI	31,727,674	-	-
As at 31 December 2019	48,714,805	-	-

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.

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.

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30. Financial instruments and risk management (continued)

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:

	2019		2018	
	Carrying Value £	**Maximum Exposure** £	**Carrying Value** £	**Maximum Exposure** £
Placement with banks:				
Loans and receivables	149,550,425	149,550,425	162,304,830	162,304,830
Loans and advances to customers:				
Loans and receivables	190,072,010	180,889,504	191,402,726	171,461,068
Net letters of credit and guarantees	91,099,573	59,029,746	113,889,203	83,320,406
Loan commitments (unutilised)	9,049,791	7,351,578	17,364,617	15,750,278
	439,771,799	**396,821,253**	**484,961,376**	**432,836,582**

Net Impairment Loss	**2019** £	**2018** £
Cash and balances at banks	(33,968)	1,169
Placement with banks	(20,335)	1,388
Loans and advances to customers	(809,071)	(1,038,510)
Debt securities at amortised cost	(2,010,395)	18,844
Financial assets at FVTOCI	(433)	300
Acceptances	14,411	(34,825)
Contingent liabilities	(138,112)	22,159
Outstanding facilities	(1,587)	423
Net impairment losses	**(2,999,490)**	**(1,029,052)**

Notes to the financial statements
Year ended 31 December 2019

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 the loans and advances to customers are categorised into 3 stages on review of the portfolio for significant increase in credit risk.

Net impairment losses recognised in profit or loss consist of impairment in relation to more than one asset class, the majority of which relate to loans and advances to customers.

The following table shows a breakdown of the impairment charge for the year by class of financial asset.
The assets are classified as follows:

	Loans and receivables £	Amortised cost £	FVTOCI £	Non-financial assets £	Total £
As at 31 December 2018					
Assets					
Cash and due from banks	180,059,533	-	-	-	180,059,533
Placements with banks	162,304,830	-	-	-	162,304,830
Loans and advances to customers	191,402,726	-	-	-	191,402,726
Customers' acceptances	9,843,804	-	-	-	9,843,804
Debt securities at amortised cost	-	1,585,826	-	-	1,585,826
Financial assets at FVTOCI					
- UK Treasury bonds	-	-	7,991,730	-	7,991,730
- US Treasury bonds	-		32,691,530	-	32,691,530
Land & Buildings	-	-	-	19,068,117	19,068,117
Property and equipment	-	-	-	967,527	967,527
Intangible assets	-	-	-	445,848	445,848
Goodwill	-	-	-	751,540	751,540
Deferred tax assets	63,961	-	-	-	63,961
Prepayments and accrued income	-	-	-	805,423	805,423
Total assets	**543,674,854**	**1,585,826**	**40,683,260**	**22,038,455**	**607,982,395**

	Loans and receivables £	Amortised cost £	Fair value through profit and loss £	Non-financial assets £	Total £
As at 31 December 2019					
Assets					
Cash and due from banks	68,480,164	-	-	-	68,480,164
Placements with banks	149,550,425	-	-	-	149,550,425
Loans and advances to customers	190,072,010	-	-	-	190,072,010
Customers' acceptances	9,075,007	-	-	-	9,075,007
Debt securities at amortised cost	-	3,381,421	-	-	3,381,421
Financial assets at FVTOCI					
- UK Treasury bonds	-		16,987,131	-	16,987,131
- US Treasury bonds	-	-	31,727,574	-	31,727,574
Current Tax assets	325,007	-	-		325,007
Due from HMRC	107,835	-	-		107,835
Land & Buildings	-	-	-	19,028,900	19,028,900
Property and equipment	-	-	-	1,000,504	1,000,504
Intangible assets	-	-	-	474,954	474,954
Right-of-use lease assets	-	-	-	940,913	940,913
Goodwill	-	-	-	-	-
Deferred tax assets	-	-	-	-	-
Prepayments and accrued income	-	-	-	826,857	826,857
Total assets	**417,610,448**	**3,381,421**	**48,714,705**	**22,272,128**	**491,978,702**

Notes to the financial statements
Year ended 31 December 2019

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

Movements in provision for the year provided below

2018

Movement in provisions	**12-month ECL (Stage 1) 2018** £	**Lifetime ECL (Stage 2) 2018** £	**Lifetime ECL (Stage 3) 2018** £	**Total 2018** £
At 1 January per IAS 39	-	-	1,477,209	1,477,209
Adoption of IFRS 9	1,373,327	10,285	-	1,383,612
At 1 January per IFRS 9 sub-total	1,373,327	10,285	1,477,209	2,860,821
Movement in Stage 1 ECL	117,993	-	-	117,993
Movement in Stage 2 ECL	-	(2,634)	-	(2,634)
Movement in Stage 3 ECL	-	-	913,693	913,693
Foreign exchange and other movements	-	-	80,744	80,744
At 31 December 2018	**1,491,320**	**7,651**	**2,471,646**	**3,970,617**

2019

Movement in provisions	**(Stage 1) 2019** £	**(Stage 2) 2019** £	**(Stage 3) 2019** £	**Total 2019** £
At 31 December 2018	1,491,320	7,651	2,471,646	3,970,617
Movement in Stage 1 ECL	(204,211)	-	-	(204,211)
Movement in Stage 2 ECL	-	2,231,459	-	2,231,459
Movement in Stage 3 ECL	-	-	972,242	972,242
Foreign exchange and other movements	-	-	(81,002)	(81,002)
At 31 December 2019	**1,287,109**	**2,239,110**	**3,362,886**	**6,889,105**

Movement in gross carrying amount of loans

2018

Movement in gross carrying amount of loans	**(Stage 1) 2018** £	**(Stage 2) 2018** £	**(Stage 3) 2018** £	**Total 2018** £
At 1 January 2018	172,658,187	3,884,237	2,680,353	179,222,777
Movement in Stage 1	15,740,036	-	-	15,740,036
Movement in Stage 2	-	(333,759)	-	(333,759)
Movement in Stage 3			649,840	649,840
At 31 December 2018	**188,398,223**	**3,550,478**	**3,330,193**	**195,278,894**

2019

Movement in gross carrying amount of loans	**(Stage 1) 2019** £	**(Stage 2) 2019** £	**(Stage 3) 2019** £	**Total 2019** £
At 1 January 2019	188,398,223	3,550,478	3,330,193	195,278,894
Movement in Stage 1	(29,211,806)	-	-	(29,211,806)
Movement in Stage 2	-	28,453,306	-	28,453,306
Movement in Stage 3			297,668	297,668
At 31 December 2019	**159,186,417**	**32,003,784**	**3,627,861**	**194,818,062**

A significant part of the increase being £28m in movement in Stage 2 gross carrying amounts for 2019 is attributed to the decision to re-classify Lebanese exposures to Stage 2 in the light of the credit downgrades of the sovereign and evolving Lebanese crises.

Within the Lebanese Stage 2 exposures, an amount of £6.3m related to a Lebanese FI that was in Voluntary Liquidation as at 31 December 2019. This represented exposure to Letters of Credit which we had confirmed, discounted and settled on their behalf and where funds for the settlement of the said Letters of Credit were received on their maturities but could not be applied as at 31 December 2019 pending consultation with the Liquidator and other relevant parties. Since year end 2019 consultations have been completed and the exposure has been cleared.

Notes to the financial statements
Year ended 31 December 2019

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 2019. 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 a Bad economic scenario factor would lead to an increase in the ECL charge by 9.58% - £166,283 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 9.13% - £158,394.

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 and 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 – debt securities.

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 continues to look at opportunities in an attempt to spread and grow its client base, both within the MEA region and externally, to mitigate this risk.

Notes to the financial statements
Year ended 31 December 2019

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

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

Loans and advances to customers	2019 £	2018 £
Great Britain	11,572,210	7,061,663
Europe	10,020,346	6,115,530
Africa	135,345,980	140,017,734
Rest of the world	33,133,473	38,207,799
Total	**190,072,009**	**191,402,726**

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 also reviewed by Risk for adherence to Board approved internal liquidity parameters. These figures are kept and reported to the Management Committee on a regular 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 the Treasury Department would immediately endeavour to sell the Bank's liquid assets, or if more expedient, seek additional funds from the shareholders 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.

Notes to the financial statements
Year ended 31 December 2019

30. Financial instruments and risk management (continued)

30.2 Liquidity risk (continued)

Residual contractual maturities of financial liabilities as at 31 December 2018	Carrying amount £'000	Less than one month £'000	More than one month but not more than three months £'000	More than three months but not more than one year £'000	More than 1 year £'000	Total £'000
Non-derivative liabilities						
Deposits by banks	357,333	218,692	62,028	36,490	40,123	357,333
Customer accounts	104,592	36,453	19,573	28,314	20,252	104,592
Subordinated loan	32,539	-	-	-	32,539	32,539
	494,464	**255,145**	**81,601**	**64,804**	**92,914**	**494,464**

Residual contractual maturities of financial liabilities as at 31 December 2019	Carrying amount £'000	Less than one month £'000	More than one month but not more than three months £'000	More than three months but not more than one year £'000	More than 1 year £'000	Total £'000
Non-derivative liabilities						
Deposits by banks	166,610	69,473	63,193	33,944	-	166,610
Customer accounts	178,148	50,351	94,188	33,609	-	178,148
Subordinated loan	32,108	-	-	-	32,108	32,108
	376,866	**119,824**	**157,381**	**67,553**	**32,108**	**376,866**

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 2019 and 31 December 2018.

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 2019. 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.

Notes to the financial statements
Year ended 31 December 2019

30. Financial instruments and risk management (continued)

30.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2018	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	159,408	-	-	-	-	20,651	180,059
Placements with banks	162,305	-	-	-	-	-	162,305
Loans and advances to customers	144,142	12,917	4,368	29,976	-	-	191,403
Customers' acceptances	-	-	-	-	-	9,844	9,844
Debt securities at amortised cost:							
- Eurobonds	-	773	-	-	813	-	1,586
Financial assets at FVTOCI:							
- UK Treasury Bonds	7,992	-	-	-	-	-	7,992
- US Treasury bonds	21,826	10,865		-	-	-	32,691
Land & Buildings	-	-	-	-	-	19,068	19,068
Property and equipment	-	-	-	-	-	968	968
Intangible assets	-	-	-	-	-	446	446
Goodwill	-	-	-	-	-	751	751
Derivative assets	-	-	-	-	-	-	-
Deferred tax assets	-	-	-	-	-	64	64
Prepayments and accrued income	-	-	-	-	-	805	805
Total assets	**495,673**	**24,555**	**4,368**	**29,976**	**813**	**52,597**	**607,982**
Liabilities							
Deposits by banks	217,552	40,123	-	-	-	99,658	357,333
Customers' accounts	56,566	19,080	-	-	-	28,946	104,592
Acceptances payable	-	-	-	-	-	9,915	9,915
Accruals and deferred income	-	-	-	-	-	449	449
Derivative liabilities	-	-	-	-	-	-	-
Other liabilities	-	-	-	-	-	1,695	1,695
Provision for liabilities and charges	-	-	-	-	-	95	95
Tax liabilities	-	-	-	-	-	549	549
Subordinated loan	32,539	-	-	-	-	-	32,539
Equity	-	-	-	-	-	100,815	100,815
Total liabilities and equity	**306,657**	**59,203**	**-**	**-**	**-**	**242,122**	**607,982**
Interest rate sensitivity gap	189,016	(34,648)	4,368	29,976	813	(189,525)	
Cumulative gap	189,016	154,368	158,736	188,712	189,525		

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Year ended 31 December 2019

30. Financial instruments and risk management (continued)

30.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2019	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	52,608	-	-	-	-	15,872	68,480
Placements with banks	149,550	-	-	-	-	-	149,550
Loans and advances to customers	153,531	6,009	16,440	13,252	840	-	190,072
Customers' acceptances	-	-	-	-	-	9,075	9,075
Debt securities at amortised cost:							
- Eurobonds	-	1,251	-	2,130	-	-	3,381
Financial assets at FVTOCI:							
- UK Treasury Bonds	16,987	-	-	-	-	-	16,987
- US Treasury bonds	20,425	11,303		-	-	-	31,728
Land & Buildings	-	-	-	-	-	19,029	19,029
Property and equipment	-	-	-	-	-	1,001	1,001
Intangible assets	-	-	-	-	-	475	475
Right-of-use lease assets	-	-	-	-	-	941	941
Current tax assets	325	-	-	-	-	-	325
Due from HMRC	-	-	-	-	-	108	108
Goodwill	-	-	-	-	-	-	-
Prepayments and accrued income	-	-	-	-	-	827	827
Total assets	**393,426**	**18,563**	**16,440**	**15,382**	**840**	**47,328**	**491,979**
Liabilities							
Deposits by banks	63,630	24,098	9,842	-	-	69,036	166,609
Customers' accounts	96,324	23,207	10,402	-	-	48,215	178,148
Acceptances payable	-	-	-	-	-	9,132	9,132
Accruals and deferred income	-	-	-	-	-	778	778
Right-of-use lease liabilities	-	-	-	941	-	-	941
Other liabilities	-	-	-	-	-	1,584	1,584
Deferred tax liability	-	-	-	-	-	244	244
Subordinated loan	32,108	-	-	-	-	-	32,108
Equity	-	-	-	-	-	102,434	102,434
Total liabilities and equity	**192,062**	**47,305**	**20,247**	**941**	**-**	**231,423**	**491,979**
Interest rate sensitivity gap	201,364	(28,742)	(3,807)	14,441	840	(183,771)	-
Cumulative gap	201,364	172,622	168,815	183,256	183,771	-	-

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.

Notes to the financial statements
Year ended 31 December 2019

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.

	2019	**2018**
Financial assets		
Placements with banks	1.84%	1.23%
Loans and advances to customers	6.86%	6.36%
Treasury bills	2.24%	1.83%
Financial liabilities		
Deposits by banks	1.03%	0.89%
Customer Accounts	0.63%	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:

	2019		**2018**	
	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	364	(354)	409	(423)

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.

The table in Note 30 gives details of the notional principal amounts and fair values as at 31 December 2019 and 31 December 2018.

Notes to the financial statements
Year ended 31 December 2019

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 2019 and 31 December 2018, 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 2018					
Assets					
Cash and due from banks	4,290	29,312	145,862	595	180,059
Placements with Banks	89,996	50,781	21,528	-	162,305
Loans and advances to customers	22,779	160,778	7,846	-	191,403
Customers' acceptances	1,308	6,860	1,676	-	9,844
Debt securities at amortised cost:					
- Eurobonds	-	1,586	-	-	1,586
Financial assets at FVTOCI					
- UK Treasury bonds	7,992	-	-	-	7,992
- US Treasury bonds	-	32,691	-	-	32,691
Goodwill	751	-	-	-	751
Land & Building	19,068	-	-	-	19,068
Property and equipment	938	-	30	-	968
Intangible assets	371	-	75	-	446
Deferred tax assets	64	-	-	-	64
Prepayments and accrued income	625	9	171	-	805
Total assets	**148,182**	**282,017**	**177,188**	**595**	**607,982**
Deposits by banks	13,971	185,068	157,908	386	357,333
Customer accounts	15,475	74,321	14,589	207	104,592
Acceptances payable	1,308	6,931	1,676	-	9,915
Accruals and deferred income	140	235	74	-	449
Other liabilities	1,695	-	-	-	1,695
Provision for liabilities and charges	95	-	-	-	95
Tax liabilities	534	-	15	-	549
Subordinated loan	16,509	16,030	-	-	32,539
Total liabilities	**49,727**	**282,585**	**174,262**	**593**	**507,167**
Net assets/(liabilities)	**98,455**	**(568)**	**2,926**	**2**	**100,815**

Notes to the financial statements
Year ended 31 December 2019

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 2019					
Assets					
Cash and balances at banks	33,404	24,191	10,201	684	68,480
Placements with banks	33,000	99,551	16,999	-	149,550
Loans and advances to customers	41,265	138,655	10,152	-	190,072
Customers acceptances	-	7,385	1,690	-	9,075
Debt securities at amortised cost:					
- Eurobonds	-	3,381	-	-	3,381
Financial assets at FVTOCI:					
- UK Treasury bonds	16,987	-	-	-	16,987
- US Treasury bonds		31,728	-		31,728
Land & Buildings	19,029		-	-	19,029
Property and equipment	1,001	-	-	-	1,001
Intangible assets	475	-	-	-	475
Right-of-use lease assets	941	-	-	-	941
Current tax assets	325	-	-	-	325
Due from HMRC	108	-	-	-	108
Goodwill	-	-	-	-	-
Prepayments and accrued income	562	53	76	136	827
Total assets	**147,097**	**304,944**	**39,118**	**820**	**491,979**
Liabilities					
Deposits by banks	6,405	135,796	23,776	633	166,610
Customer accounts	17,404	149,856	10,752	136	178,148
Acceptances payable	-	7,437	1,694	-	9,131
Accruals and deferred income	197	187	394	-	778
Right-of-use lease liabilities	941	-	-	-	941
Other liabilities	218	904	463	-	1,585
Deferred Tax Liability	244	-	-	-	244
Subordinated loan	16,823	15,285			32,108
Total liabilities	**42,232**	**309,465**	**37,079**	**769**	**389,545**
Net assets/(liabilities)	**104,865**	**(4,521)**	**2,039**	**51**	**102,434**

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.

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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

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 2019 the total capital resources of the Bank is £134.5m (2018 - £133.3m).

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 2019.

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 24 and 25 as well as subordinated loans as disclosed in note 23

32. Collateral

Of the total amount of loans classified as Stage 3, the Bank holds collateral valued at £1,641,796 (2018 - £1,641,796) in the form of property on a loan with a carrying value of £262,723 (2018 - £229,111). We expect that this collateral will cover the exposure

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33. Frankfurt Branch

On 26 February 2019, the Board of Directors decided to close the Frankfurt branch in Germany due to the then on going uncertainties and delays with Brexit issues and to follow all the legal requirements for closure of the branch. Frankfurt branch was an operational branch and a component of Bank of Beirut (UK) Ltd, representing a separate geographical area of operations. As an operational branch, its operations are well defined and distinct from the parent Bank in UK and generated its own cash inflows with assets and liabilities of the branch readily identifiable from the parent bank and accounted for its own Profit or Loss account periodically. Within the group structure, Frankfurt branch has identifiable assets that generate cash inflows independent of the group's assets, thus constituting a separate operating unit. The branch discontinued all its operation on 19 September 2019 and was closed.

The results of the discontinued operations, which have been included in the profit or loss for the year of the parent Bank, were as follows:

Frankfurt branch - Discontinued operations	**2019** **£**	**2018** **£**
31 December		
Interest income	162,494	619,180
Interest expense	(128,206)	(338,160)
Net interest income	34,288	281,020
Net fees and commission income	476,622	1,537,361
Total income	510,910	1,818,381
Admin expenses	(1,748,753)	(1,420,843)
(Loss) / Profit before Tax	(1,237,843)	397,558
Attributable tax expense	-	(131,319)
Discontinued operations		
Profit / (Loss) on operations of the branch	(1,237,843)	266,219

The amount of interest income attributable to group companies is £22,570 (2018 - £79,266). The amount of interest expense attributable to group companies is £128,206 (2018 - £338,160).

34. Events after the audit reporting period

34.1 Lebanese Eurobonds

On 7 March 2020, the Lebanese Ministry of Finance announced its decision to default on its March 2020 Eurobonds due to mature on 9 March 2020. This decision was taken in order to safeguard its foreign currency reserves. In furtherance of this objective, the Government decided to discontinue payments on all of its outstanding US$ denominated Eurobonds and entered into restructuring negotiations with the bondholders in addition to seeking an IMF funding programme. Going forward the Lebanese Government is taking all measures necessary to prudently manage Lebanon's limited foreign currency reserves. The Government remains firmly committed to its three-pronged economic reform initiative and is developing a sustainable macroeconomic plan to redress the Lebanese economy.

The impacts of the above situation in respect of Bank of Beirut (UK) Ltd are more clearly outlined within the Strategic Report sub-section "Lebanon Political & Economic Crisis". This led to a decision by our Board to revise our risk appetite to Lebanese Sovereign risk and to book no additional risk and to mark to market our portfolio of Lebanese Government Eurobonds of USD$7m and take an adjustment charge to our Profit & Loss of £1.71m as at 31 December 2019 and a further £1.68m as at 31 March 2020. This has led to our Lebanese Government Eurobonds having a carrying value of £1.98m and being marked to market to 35% of their face value. We believe this to be a conservative approach given the historic recoverability ratios on restructuring values of Emergent Market Bonds and that an IMF Programme was sought to support the restructuring negotiations with creditors.

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Year ended 31 December 2019

34. Events after the audit reporting period (continued)

34.2 Covid-19

The current strain of the Coronavirus bug known as Covid-19, established itself in Wuhan, China and rapidly spread across the globe being designated a “pandemic” by the World Health Organisation on 11 March 2020.

Globally countries and governments have introduced a number of varying measures in an effort to slow the spread, minimise impact on local health authorities and ultimately deaths.

In order to be able to continue its operations both from its premises and with workers based at home, the Bank put in place a series of business continuity plans involving actions to meet the changing messages and guidance delivered from the Government, Public Health England (PHE) and Regulators in order to limit the spread of the infection. These actions included segregation of departmental human resources within both of the Banks offices at Curzon Street and Cannon Street and facilitating working from home via secured remote access. Improvements to the Banks data centre following relocation to new offices in December 2018, combined with significantly enhanced network infrastructure and network security solutions undertaken, has enabled the Bank to better meet the challenges faced by the recent Covid-19 pandemic. As a result, during this period the Bank has been able to manage its operations from both London offices and at the same time ensure at least one third of the Banks staff was able to work from home and access their desktops securely. This has resulted in the Bank being able to maintain its operations in full without any downtime and demonstrated its capacity to meet operational resilience requirements without any significant disruptions. During this period the Bank has also configured and tested availability to utilise workspace at its Disaster Recovery site.

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