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

Annual Report 2020

Company Registration No. 4406777

Bank of Beirut (UK) Ltd

Annual Report and Financial Statements
31 December 2020

CONTENTS PAGE

Officers and Professional Advisers

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SOLICITORS

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EC2V 7WS

AUDITOR

Deloitte LLP

Statutory Auditor

1 New Street Square

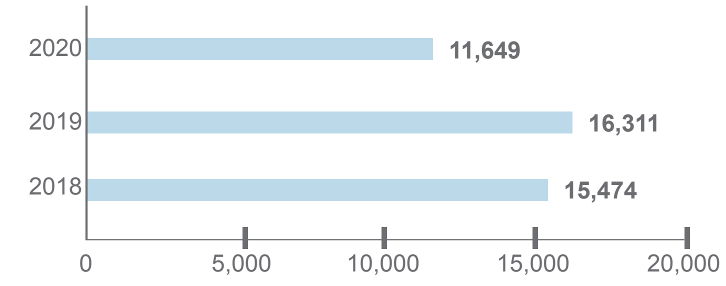
London

EC4A 3HQ

Financial Highlights

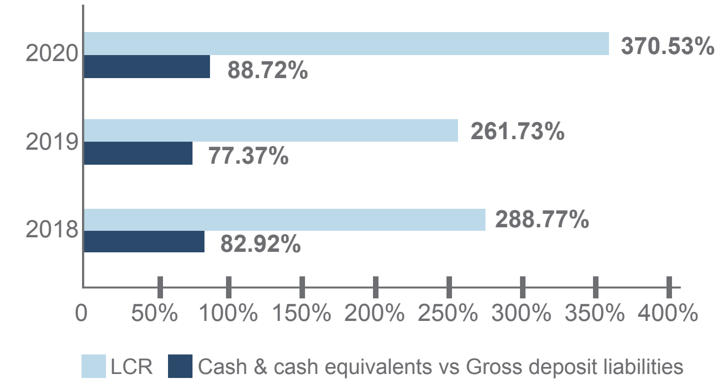
Operating Income

(GBP'000s)

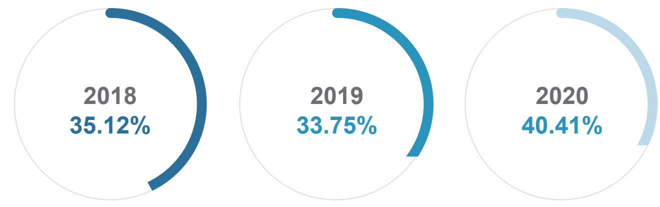


Liquidity Strength

(GBP 000s)



Capital Adequacy



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)	2020	2019	2018
Operating Income	11,649	16,311	15,474
Loan Impairments & Provisions	1,644	2,999	1,029
Profit before Tax	1,074	3,297	6,393
Total Comprehensive income	1,044	1,619	5,594
Total Assets	420,885	491,979	607,982
Total Loans & Advances	147,086	190,072	191,403
Total Equity (inc. shareholders funds)	103,478	102,434	100,815
Capital Adequacy Ratio	40.41%	33.75%	35.12%
LCR Ratio	370.53%	261.73%	288.77%
Administrative expenses to Operating Income Ratio	76.26%	56.56%	52.04%
Cash & Cash equivalents / Total Assets	57.57%	54.22%	63.00%
Cash & Cash equivalents / Gross Deposit liabilities	88.72%	77.37%	82.92%

Chairman's Statement

The year of 2020 will undoubtedly be forever marked as the year coronavirus emerged and the world was struck by the Covid-19 pandemic. We cannot escape this fact, neither fail to consider the impact of this devastating virus economically and, more importantly, upon our people and the wider global population. In time, with the combined support and effort of all parties be it individuals, health organisations or governments we will suppress this virus and find solutions to protect our future generations.

Regrettably, the advent of this pandemic coincided with the already deteriorating social and economic situation in Lebanon which had commenced in late 2019. Demonstrations and protests ensued and a new government was elected in early 2020, but against tight liquidity restrictions and depleting foreign currency reserves the new government took the decision to default on its March 2020 USD Eurobonds and all outstanding Eurobonds and announced its intention to enter negotiations with its creditors alongside seeking support from the IMF. Sadly, the position became yet more precarious following the Beirut port explosion in August resulting in the unnecessary loss of lives including one of our own employees in Lebanon. With public distrust and morale at its lowest ebb, the Government resigned en bloc, yet as we stand now a new government is still to be formed.

Given these difficult circumstances it remains more important than ever that we continue to support our customers and franchise whilst at the same time maintaining a strong liquidity and capital position. With this direction in mind Bank of Beirut (UK) Ltd has continued to meet and far exceed its specific minimum regulatory Capital and Liquidity ratios demonstrating a responsible and conservative approach to business in sacrificing short term profitability for long term resilience.

Throughout 2020 our UK bank has had no reliance on its parent group to support its day to day business operations, adequately managing its capital, credit and liquidity risk across all portfolios. Indeed, as at 31 December 2020 the bank has been able to report increased Total Capital Ratio of 40.41% (2019 – 33.75%) largely on account of the de-leveraging of Lebanese risk during the year, whilst our liquidity coverage ratio closed the year at 370.53% (2019 – 261.73%) as we increased our stock of cash and cash equivalent assets. Our highly liquid stance combined with close to zero reference interest rates for USD and GBP has meant that our cash and cash equivalent assets, at 57.5% of our total balance sheet assets, had generated a significantly lower level of income than in 2019.

In light of the deteriorating situation in Lebanon and default on the Government Eurobonds, the Board took the decision during the year to further increase its provisions against its own portfolio of Lebanese Government Eurobonds. As a consequence, the bank allocated a further £1.68m to the provision of £1.71m taken in 2019. Subsequent to the year ended 31st December 2020, and not included in these accounts, we have been able to secure a sale of our Lebanese Government Eurobond portfolio recovering part of our provisions and releasing back funds employed in Non-Performing Assets to liquid funds.

Despite the difficult trading conditions, our bank was able to continue delivery of its trade services across its important trade finance regions and generate a profitable performance with total comprehensive income for year of £1.04m (2019 - £1.61m) after deductions for impairment losses of £1.64m (2019 - £2.99m). Ultimately, the bank's total shareholders' funds including subordinated loans and retained earnings have strengthened its position to now stand at £134.8m (2019 - £134.5m). The bank's solid capital and liquidity positions and the conservative stance we have adopted act as solid foundations for the successful continuation of our UK operations into 2021 and beyond.

Throughout this long and challenging period we must not forget those without whom we could not continue. Your unremitting support, commitment, perseverance, determination and solidarity will enable us to meet our challenges head on and drive us forward.

To the bank's board, management, staff, customers and shareholders we are truly thankful.

Salim. G. Sfeir, Chairman
27 April 2021

Strategic Report

Strategic Positioning

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

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

To supplement its trade activities, the Bank also provides traditional lending services to its retail and corporate clients with a modest loan book of just below £40m and at the same time, under our UK deposit taking license, manages a customer deposit base of £150m. All eligible deposits, £37.5m (2019 - £33.3m), are covered by the Deposit Protection Scheme which is overseen by the Financial Services Compensation Scheme (FSCS).

Developments in Operating & Market Environment

Lebanon Political & Economic Crisis

By a way of a background, it was in October 2019 that Lebanon entered into a period of social and economic disruption including non-sectarian protests and demonstrations. 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. The Saad Hariri led government at the time resigned and a new government led by Hassan Diab 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.

By June 2020, when we reported in our Annual Report for the year ended 31 December 2019 on the political and economic crisis that engulfed Lebanon, we were hoping that politicians across all sects would come together and act in the best interests of the country and of the Lebanese people in support of a government of national unity which could seek financial aid and support from the IMF and other international agencies to restructure the country's faltering economy, government debt and the wider banking system. Unfortunately, and despite the tragic August 2020 Beirut port explosion which caused the death of over 200 people and decimated a great part of the downtown and central Beirut leaving over 300,000 people homeless, we are now in April 2021 and Lebanon still has no Government with politicians continuing to argue and procrastinate about its format since October 2020 when Saad Hariri was designated as Prime Minister to form such a government. As international pressure mounts on President Aoun and Prime Minister Designate Saad Hariri we expect that the political stalemate in forming a Government for the salvation of Lebanon is close to being bridged given the wider initiatives in play by Arab League countries, the EU led by France and the new US administration under President Biden.

Despite the political paralysis and the deteriorating economic conditions in Lebanon, as affected by the onset of the Covid-19 pandemic and exacerbated by the ever-depreciating local currency suffering from inadequate availability of US Dollars, the wider Lebanese banking system has, thus far, proven to be resilient in adapting to the severe economic challenges faced, albeit at the expense of informal foreign exchange controls restricting access to USD customer deposits and their transfer abroad to safeguard the liquidity of the banking system. At the direction of Banque du Liban (BDL), local Lebanese banks were required to submit and effect recapitalisation plans for an increase in their paid-up capital of 20% by 28 February 2021. We are pleased to report that our parent, Bank of Beirut s.a.l, successfully increased its equity by the regulatory required 20% of Common Tier 1 Equity (equity based on December 2018 balances) by the end of December 2020 using Eligible Tier 1 Equity instruments in the form of USD cash contributions as per BDL requirements under its recently amended Basic Circular 44.

In view of the continuing political and economic uncertainty in Lebanon and at the direction of the Board's risk appetite, during 2020 we reduced our credit risk exposure to 3rd party Lebanese Financial Institutions to zero and will continue to maintain such a stance throughout 2021. With regard to Bank of Beirut s.a.l and its Branches, we note that there is a net exposure to the Bank stemming from excess placements by the parent (please refer to Note 28) which continues at the time of writing. Further, the exposure we reported to Lebanese Government Eurobonds as at 31 December 2020 at £1.51m (please see Note 13) has now been reduced down to zero at

Strategic Report

Developments in Operating & Market Environment (continued)

the time of writing following the conclusion of a sale through our parent, Bank of Beirut Sal, on the 29 March 2021 which resulted in the full recovery of the balance sheet carrying value (please see note 34).

Covid-19

Whilst global supply chain contraction resulted from short-term shocks to markets served by the Bank this resulted in reduced business volumes rather than higher impairments. Detailed risk assessments coupled with changes to working practices – notably via increased home working – enabled the Bank to continue to meet its contractual arrangements with no dilution in risk management or governance arrangements and in accordance with Government guidelines.Reporting was instigated to track business resilience and the credit and capital impact of the pandemic. In both instances, these were immaterial with only two cases of forbearance granted without loss to the firm.

Although adverse economic conditions stemming from the effects and impact of Covid-19 are expected to continue for the rest of 2021 and likely beyond, the Directors expect that the Bank's business model will keep it in good stead allowing the Bank to build on what are already profitable income streams.

Performance Highlights

The 12-month period to 31 December 2020 would have been a challenging period for any Bank, given the onset of the Covid-19 pandemic and its economic impact which required substantial government interventions supported by increased borrowing and aggressive reductions in baseline interest reference rates to near zero both by the US Federal Reserve and the Bank of England. As Bank of Beirut (UK) Ltd, we faced additional challenges given the background of the Lebanese political and economic crisis and our trade finance focus as impacted by disruption in the international supply chains. Despite all of this, the Bank was able to maintain its operating income generating capacity albeit at the reduced level of £11.6m for the year ended 31 December 2020 as opposed to £16.3m for 2019. The reduction of £4.7m was due predominantly to lower interest rate yields generated from cash and cash equivalent assets, impacting directly upon net interest income returns which at £3.86m (2019 - £7.31m) were down by £3.45m or 47% lower. Other reductions in Operating Income were down to fee and other income reducing to £7.8m (2019 - £8.9m) or by 13.46% as impacted by the bank processing lower volumes of trade finance. The reduction in commission income came about as a result of lower Export Letter of Credit volumes processed in 2020, down by some 28%, due to Covid-19 disruption but also as a result of more active risk management on our part in selecting a lower number of letter of credit transactions to finance. The impact of the reduction in our Letter of Credit commission income from lower trade finance volumes were in part mitigated through increased risk pricing we applied.

As a result of the reduction in our operating income our Profit before Tax for the year ended 31 December 2020 was down to £1.1m (2019 - £3.3m) after accounting for net impairment losses for the year of £1.64m (2019 - £2.99m). The net impairment loss recorded for the year included the allocation in March 2020 of a further specific provision of £1.68m to facilitate a write down on the mark to market value of our Republic of Lebanon Eurobond portfolio to 35% of its USD7.04m face value (portfolio since sold post financial year end – see note 34) and subsequent further allocations and write backs across the general portfolio of on and off-balance sheet exposures subject to IFRS9 throughout the year. With adjustments to prior years' taxation, including small recoveries related to the now discontinued operations of the Frankfurt Branch, and movements in other comprehensive income the Bank generated a total comprehensive income for the year of £1.04m (2019 - £1.61m).

We note that as at year end 2020, cash and cash equivalent assets stood at £242.3m (2019 - £266.7m) including High Quality Liquid Assets (HQLA), and accounted for 57.5% (2019 – 54.2%) of Total Assets. The high proportion of cash and cash equivalent assets as opposed to total assets was the result of a conscious decision that the Bank took during 2020 which, as already indicated by our Chairman in his statement, was to continue to support our customers and franchise whilst at the same time maintaining strong liquidity and capital positions. With this direction in mind our Bank maintained liquidity and capital resources that far exceeded its specific minimum regulatory requirements demonstrating a responsible and conservative approach to business in sacrificing short term profitability for long term resilience.

Following this conservative approach to risk appetite, as directed by our Board, we reduced our credit risk trade finance related exposure to Lebanese Financial Institutions to zero on both an On and Off -Balance Sheet basis. This de-leveraging combined with the disruptive impact of the Covid-19 pandemic on the international supply chain and the inevitable reduction in our trade finance business, resulted in a reduction and run off of loans and advances to customers, including banks, during the year ended 31 December 2020 from £190m in 2019 to £147m. Our deleveraging approach to Lebanese Financial Institution trade finance exposures and utilisation of bank deposits held as margin for Letters of Credit (LC) to this effect, saw deposits from banks fall from £166.6m to £123.5m during the

Strategic Report

Performance Highlights (continued)

year. We note that deposits from Bank of Beirut Sal, held as margin for LCs, were also utilised for settlement of such exposures and other deposits from the wider parent group were repatriated to meet local central bank regulatory requirements. Group deposits overall reduced from £56.6m to close at £25.1m.

Whilst the reduction in our year to year total asset balances to £421m (2019 - £492m) of 14.4% is in the most part attributed to reduced loans and advances to customers and banks and a reflection also upon the lower total deposits held, a significant variance can also be accounted for by the carrying values of USD denominated balances, where we have seen a strengthening of 3.4% in GBP / USD foreign exchange rates used from 1.32 in December 2019 to 1.3650 as at 31 December 2020.

In line with Bank deposits being utilised to settle trade finance LC exposures with our Bank, a similar practice but to a lesser degree, was evidenced with Lebanese customer deposits utilised to settle corporate and personal loan exposures. This utilisation of customer deposits combined with the need by Lebanese depositors to utilise deposits held with our Bank to support their personal and business requirements in and outside of Lebanon, where access to foreign currency deposits is still restricted due to informal foreign exchange controls employed by local banks, has resulted in a reduction in our customer deposits to £149.5m (2019 - £178.1m). We note that as at 31st March 2021, our customer deposits were at £148.6m and that in the past 6 months have fluctuated between £140m - £155m and have actually stabilised at around £150m as Lebanese depositors have adapted to the economic situation in Lebanon and have not been utilising their accounts held with our Bank to the same extent.

It is important to note that despite our combined customer and bank deposit liabilities reducing to £273.1m as at 31 December 2020 or by £71.6m as compared to 2019, our cash and balances at banks and placements with banks have remained practically at similar levels £215.6m (2019 - £218m). When you also add to the cash assets held with banks total, our holdings of US Treasuries held as Financial Assets to Fair Value (FVTOCI) of £26.7m, then the combined total of £242.3m accounts for 88.7% (2019 – 77.37%) of total Customer and Bank deposit liabilities being £273.1m. This serves as further evidence of the Bank's strategic direction towards maintaining increasing levels of liquidity, despite close to zero returns on cash and cash equivalent assets, and sacrificing short term profitability for long term resilience. As at 31 December 2020 the Bank reported a Liquidity Coverage Ratio (LCR) of 370.53% up from 261.73% in 2019 and substantially ahead of the regulatory PRA minimum of 100%. The bank continues to maintain average HQLA balances of almost £80m, reporting £78.7m (2019 - £78.7m) including £52m with the Bank of England.

With regard to the capital position of our Bank, we note that as at 31 December 2020 total equity of £103.4m (2019 - £102.4m) was reported. This combined with our PRA approved Tier 2 capital qualifying subordinated loans by Bank of Beirut Sal resulted in total capital resources of £134.8m (2019 - £134.5m) which together with a reduction in our total assets have generated an increased total capital adequacy ratio of 40.41% (2019 - 33.75%). When compared to our regulatory capital reporting requirements as at 31 December 2020 our Total Capital headroom was £75m (2019 - £55m). Again, this reinforces our strategic direction of a conservative appetite towards risk and our drive to maintain strong capital positions for the long-term resilience of our Bank.

Looking Forward

Given the continuing effects of Covid-19, especially on our Sub-Saharan African country trade finance markets where vaccination is not sufficiently advanced to allow for the unrestricted opening of their economies, and the continuing uncertainties surrounding the Lebanon political and economic situation, 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 will continue to service our existing customers and traditional trade finance markets with a view to maintaining our franchise which we have successfully built over the years with our network of correspondent banks and exporters around the world. Furthermore, we will continue to adopt a conservative stance towards risk appetite following a dynamic and rigorous approach to credit risk management employed to process and manage selective short term and good credit quality letter of credit transactions. With regard to loans to customers we have some limited appetite in financing well secured trade finance working capital facilities and low leveraged unregulated short-term UK based property financing transactions. In adopting this strategy our Board acknowledges the direction set by our Chairman and the Board of consciously sacrificing marginal short-term profitability for the long-term sustainable resilience of our Bank in the UK.

We believe that our strong liquidity and capital positions, as overlaid by our cautious strategic direction and risk appetite, will keep us in good stead and well placed in dealing with any negative customer sentiment stemming from the as yet unresolved Lebanese crisis and in managing any Covid-19 led deterioration in credit risk from our traditional trade finance markets.

Strategic Report

Payment of Dividends

The Directors have not recommended the payment of any dividend.

The financial statements for the reporting year ended 31 December 2020 are shown on pages 28 to 31.

Key Performance Indicators and Ratios

The financial performance for the year to 31 December 2020 is summarised in the following table
(All figures are quoted in GBP '000s):

Income Statement	2020	2019
Net interest income	3,862	7,313
Fees and other income	7,787	8,997
Total operating income	11,649	16,311
Administrative expenses	8,883	9,226
Profit before Tax	**1,074**	**3,297**

Balance Sheet	2020	2019
Loans and advances to customers	147,086	190,072
Total assets	**420,885**	**491,979**
Total deposits	273,128	344,758
*Shareholders' funds	134,878	134,542

Key Performance Indicators	2020	2019
Capital Adequacy Ratio	40.41%	33.75%
Liquidity Coverage Ratio	370.53%	261.73%
Cash & cash equivalents / Gross deposits	88.72%	77.37%
Net Interest Margin	0.99%	1.59%
Administrative expenses to income ratio	76.26%	56.56%

*Includes Bank of Beirut Group Term Subordinated Term Loans

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 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.

Strategic Report

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. Following receipt of its regulatory approval to provide Regulated Mortgage Loans to its non-resident customers in 2019, a first transaction was concluded during the year. 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 and performance analysis against the Bank's strategic plan are provided to the Board from the Executive Management periodically throughout the year and at Board meetings.
- The Board undertakes annually an evaluation and assessment of its performance. These reviews are not limited to board self-assessment but include engagement with and contributions from other employees within the business. The aim of engagement with employees is to develop and build a collaborative culture to enhance employees' engagement. Members of management are invited to present at meetings of the Board and its sub-committees from time to time.
- The Board has a commitment to sustainability and the environment with a climate change policy clearly documented and defined across our business and operations and reviewed annually.
- 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 that the highest standards of business conduct are maintained throughout the lifecycle of our engagement and operations. Updates on the Bank's engagement with its clients and other strategic business development initiatives are included within the board papers.The Bank also addresses its relationships with suppliers, ensuring that where appropriate due diligence and assessments are undertaken on those designated critical suppliers to monitor their activities and supply chain.
- The 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.

Strategic Report

Corporate Governance

The Bank places a strong emphasis on internal governance and the maintenance of high ethical standards in its working practices.
The Bank's corporate governance framework is driven by the Board which comprises two Executive Directors, three Non-Executive Directors representing the shareholder and 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 is outsourced. The outsourcing partner has no executive role within the Bank and was engaged to undertake all internal audit services with effect from January 2019. Internal Audit reports to the ARCC via its Chairman and is the principal element of the Bank's 3rd Line of Defence.

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

Risk Governance

The Bank has 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.

Strategic Report

Risk Governance (continued)

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. 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 minimise any risk of failure by the Bank to comply with its regulatory obligations, as well as any associated risks.

Internal Audit

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

Strategic Report

Internal Audit (continued)

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 estimated Net Stable Funding Ratio) and the Bank's own internal stress testing model. The Bank has implemented a Board-approved risk management framework which covers both the high-level governance matters referred to in the preceding section and the day-to-day identification and management of risks. The control functions are responsible for maintaining a suite of risk management policies which give effect to the risk management framework and ensure compliance with the risk appetite set by the Board. On an annual basis the Bank undertakes a risk self-assessment programme which seeks to monitor developing risk trends and which supports the risk metrics produced through the Bank's management information systems. The Bank's financial risks, conduct of business and other operational risks are managed through the Management Committee and the BCC within authorities set down by ARCC. The control functions are responsible for providing financial risk metrics to the Committees for monitoring and high level risk management. Conduct of business and operational risk metrics are also collated to assist the Bank in delivering a high quality customer centric outcomes whilst maintaining appropriate fraud and AML controls.

The Bank has also implemented a range of portfolio level limits in order to diversify its credit and liquidity risks.

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

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. The Board is committed to ensuring 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 initially in 2019 and updated in 2020, 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. The Board considers that the Bank's response to the financial risks arising from climate change is proportionate to the nature, scale and complexity of its business.

Diversity and Culture

The Bank supports a strong and diverse workforce giving considerable attention to selecting suitable employees that reflect the diversity of the business and the communities within which the Bank conducts its business operations. In order to meet its strategic objectives, the Bank recognises the importance of ensuring its employees have access to a wide range of learning and development tools and training, whether online, through collaboration, workshops and seminars or one to one. Individual development includes wider training on all regulatory aspects including conduct. Supported by its Performance Management program, which is being enhanced for 2021, the Bank continues to work with employees towards a common goal to improve personal development and growth, combined with delivering excellent customer service for the Bank and ultimately helping the Bank and its shareholders to achieve overall improved performance and customer satisfaction.

By order of the Board
Sophoklis Argyrou, Managing Director & CEO
27 April 2021

Directors' Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2020. 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 £964,378 (2019: £1,750,505) was transferred to reserves. The directors do not recommend the payment of a dividend for the year 2020 (2019: £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 ongoing crisis in Lebanon and the extended impact from 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 capital position of £134.8m (2019 - £134.5m) in total capital resources, a capital adequacy ratio of 40.41% (2019 – 33.75%) generating a total capital headroom of £69m (2019 - £55m) vs total risk exposures of £330m (2019 - £391m), combined with an LCR ratio of 371% (2019 - 262%) underpinned by 88% (2019 - 77%) cash and cash equivalent ratio to Gross Deposit liabilities, positions of the Bank as at 31 December 2020 underpinned the Bank's 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 has adopted the International Financial Reporting Standard IFRS9 to calculate and measure expected credit losses ("ECL"s) that are over and above regulatory capital charges calculated in accordance with the Standardised approach to credit risk in accordance with the Basel methodology.

Directors' Report

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 2020.

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:

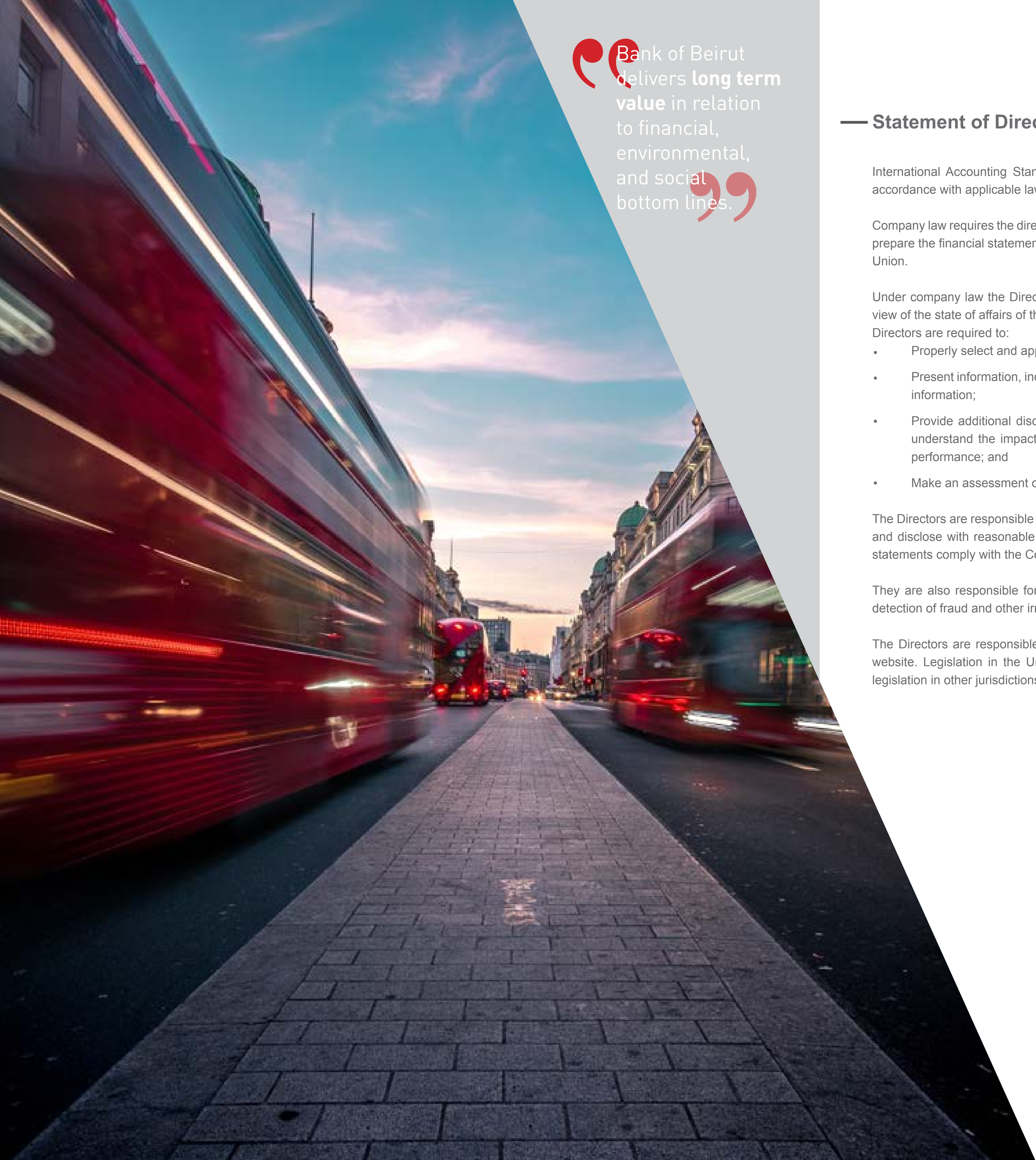
- So far as the director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- The Director has taken all the steps that he ought to have taken as a director in order to make himself aware of any relevant audit information and to establish that the Bank's auditor 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
27 April 2021



"Bank of Beirut delivers **long term value** in relation to financial, environmental, and social bottom lines."

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 entitys 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) LIMITED

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 2020 and of its profit for the year then ended;
- Have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- The income statement;
- The statement of comprehensive income;
- The balance sheet;
- The statement of changes in equity;
- The cash flow statement;
- The related notes 1 to 34.

The financial reporting framework that has been applied in their preparation is applicable law, international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as issued by the IASB.

2. Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor’s responsibilities for the audit of the financial statements section of our report.

We are independent of the 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: • Lebanese government bond carrying values; • Allowance for expected credit losses; 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 (2019: £1.032m).
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	The use of the going concern basis of accounting is no longer considered to be a key audit matter due to a decrease in uncertainty associated with the financial impact of the pandemic and Lebanese government bond default.

Independent Auditor’s Report

4. Conclusions Relating to Going Concern

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

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

- Assessed the years’ profit forecasts for the business, including looking at growth assumptions, management’s historical forecasting accuracy and performed a comparison of forecast to actual results for the first three months of the year;
- Assessed the level of liquidity and the capital resources available to the company, including evaluating the ILAAP and ICAAP; and
- Evaluated management’s stress tests and downturn scenarios to assess the ability of the company to continue to trade. Our assessment included challenging concentration risk to core geographies and that these were factored into the stress scenarios; and
- Engaged with an internal regulatory specialist to evaluate the directors’ assessment and our related analysis.

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

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

5. Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Lebanese Government Bond Carrying Values

Key audit matter description	Management discloses information about their Lebanese government bonds in note 13 and note 34 to the financial statements. Lebanon continues to experience political and economic unrest. In March 2020 the Lebanese government defaulted on Eurobonds maturing that month and have stopped servicing outstanding bonds, pending an economic recovery plan being developed and to be agreed with the International Monetary Fund. After this default the company moved the bonds into stage 3 under their amortised cost classification. At the year end the company held £5.49m of total exposure, with an expected credit loss (ECL) of £4.01m recognised against this amount determined in accordance with IFRS 9. The determination of recoveries for instruments which are no longer being actively traded involves significant levels of judgement. This has been compounded through the year in light of macroeconomic uncertainty as a result of the COVID-19 pandemic and the uncertainty surrounding the future financing of the Lebanese government, resulting in our identification of the valuation of Lebanese bonds as a key audit matter. This key audit matter contains a potential risk of fraud due to the inherent judgement and presence of bias associated with recognising ECLs in the year which directly adjust the income statement.

Independent Auditor's Report

5.1. Lebanese Government Bond Carrying Values (continued)

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 valuation of Lebanese bonds business cycles; • We obtained an understanding of the ECL recognised, including the determination of recovery scenarios identified by management; and • We performed an independent valuation of the company's carrying values using observable market prices and other information, to challenge the ECL calculation computed by management.
Key observations	We concluded that the ECL determined for Lebanese government bonds is materially correct and in compliance with IFRS 9.

Independent Auditor's Report

5.2. Allowance for Expected Credit Losses

Key audit matter description	Management discloses information about credit risk on note 30 on Financial Instruments and Risk Management. Critical accounting judgements and estimates and key sources of estimation uncertainty are covered in note 4 to the financial statements, with the related accounting policies in note 3 to the financial statements. As at 31 December 2020, the total allowance for expected credit losses (ECL) was £5.16m (2019: £4.74m), of which £4.12m related to loans classified as stage 3 (2019: £3.36m). There are a number of key elements that drive the IFRS 9 ECL calculation, some of which are mechanical in nature whilst other elements involve more judgement. These include: • The credit rating applied to each exposure and the change in credit rating is a significant determinant of whether an exposure is considered stage 1 or stage 2 and this can involve a high level of judgement. The movement from stage 1 to stage 2 results in the recognition of a lifetime ECL and so can have a significant effect on the level of allowance; • The actual probabilities of default ("PD") or loss given default ("LGD") applied to an exposure is an exercise which is largely mechanical in nature although there is some judgement in selection of historical default data and how Through the Cycle PDs are converted to Point in Time PDs as required by the standard; • For stage 3 loans, individual calculations are performed to determine the allowance, which is a complex and judgemental process. The judgements involved in determining the ECLs as noted above involve a high level of subjectivity and, therefore, we have identified the allowance for expected credit losses related to these areas as a key audit matter. This key audit matter contains a potential risk of fraud due to the inherent judgement and presence of bias associated with recognising ECLs in the year which directly adjust the income statement. Specifically, we classified the following populations as areas of 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 (HNWI) 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.
How the scope of our audit responded to the key audit matter	We completed the following procedures in relation to the allowance for expected credit losses: • We obtained an understanding of the relevant controls over management's lending and allowance for ECL business cycles. • We reassessed the reasonableness of the overall IFRS 9 methodology used by the company, including an assessment of the appropriateness of the key assumptions used. • For a sample of loans classified as Stage 1 and 2, including exposures to corporates and HNWI, 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 stage classification 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 individual provisions.
Key observations	We concluded that the allowance for expected credit losses was appropriately stated.

Independent Auditor's Report

5.3. Revenue Recognition

Key audit matter description	Management discloses information about revenue recognition in notes 3 and 5 to the financial statements. For the year ended 31 December 2020, the company recognised fee and commission income of £7.14m (2019: £8.55m), which is received from trade finance and loan arrangements. We have focused 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 fee recognition. 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.
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 tested a sample of fee and commission income, including recalculation of amounts and agreeing to supporting documents to assess whether the recognition is in line with accounting standards. • We assessed the effect on the financial statements of the simplified approach used to estimate fees.
Key observations	We concluded that the fees and comission income balance was materially correct.

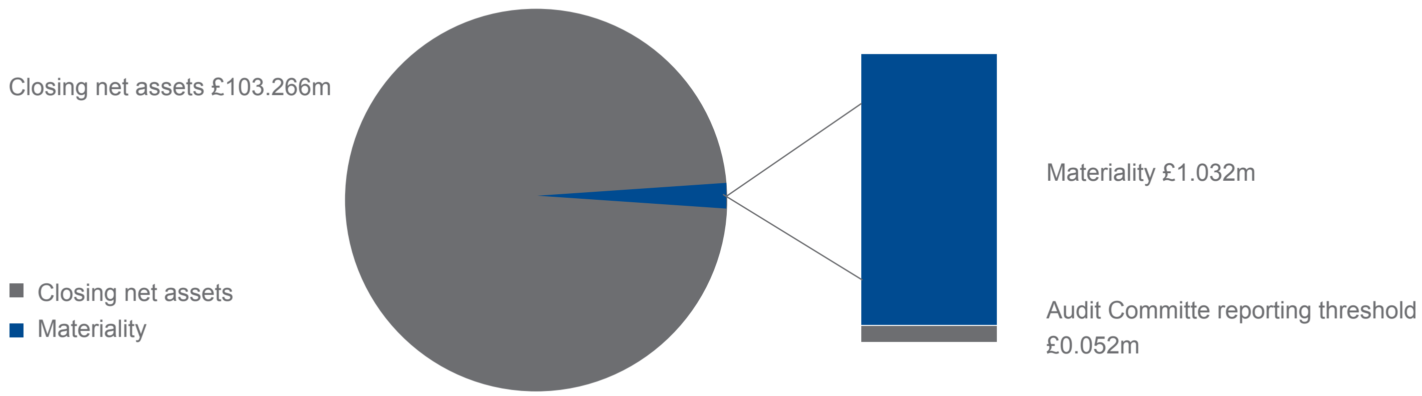
6. Our Application of Materiality

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 (2019: £1.032m)
Basis for determining materiality	1% of closing net assets (2019: 1% of closing 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.



Independent Auditor's Report

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 2020 audit (2019: 65%). In determining 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 (2019: £51,600), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit, Risk and Compliance Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the Scope of our Audit

7.1. Scoping

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.

7.2. Our Consideration of the Control Environment

The key IT systems used by the Company are:

- BankMaster – BankMaster is the Bank's core application and is used for the management of customer accounts, company general ledger and other office ledgers.
- IBS Net – This is the Bank's trade finance application.
- Branch Power – This is the Bank's front-end application which is used by tellers in branches. It is mainly used for cash in/out and other day-to-day activities with customers. It interfaces with BankMaster in order to receive and send back information.

We performed a fully substantive based audit with no controls reliance for the year ended 31 December 2020. However, with the involvement of IT specialists, we evaluated the design of relevant controls relating to significant risk areas, including the IT controls and determined whether they were properly implemented. This was performed over the key IT systems listed above to support an understanding of the controls environment.

8. Other Information

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

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

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

In preparing the financial statements, the directors are responsible for assessing the 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.

Independent Auditor's Report

10. Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

11. Extent to which the Audit was Considered Capable of Detecting Irregularities, Including Fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities

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

- The nature of the industry and sector, control environment and business performance including the design of the 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 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.

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, allowance for expected credit losses 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 and 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, allowance for expected credit losses 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

Independent Auditor's Report

11.2. Audit response to risks identified (continued)

- 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.

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 which we are required to address

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 19 years, covering the years ending 31 December 2002 to 31 December 2020.

14.2. Consistency of the audit report with the additional report to the audit 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.

Christopher Brough (Senior Statutory Auditor),
For and on behalf of Deloitte LLP
London, United Kingdom
27 April 2021

Income Statement - Year ended 31 December 2020

	Notes	2020 £	2019 £
Continuing operations			
Interest income	5	8,562,691	14,196,450
Interest expense	6	(4,700,447)	(6,883,013)
Net interest income		**3,862,244**	**7,313,437**
Net fees and commission income		7,136,129	8,432,462
Foreign exchange income	8	650,343	565,000
Total non-interest income		**7,786,472**	**8,997,462**
Total income		**11,648,716**	**16,310,899**
Administrative expenses	7	(8,883,489)	(9,226,203)
Goodwill impairment	18	-	(751,540)
Finance cost	17	(47,249)	(36,688)
Net impairment losses	30	(1,644,446)	(2,999,490)
Profit before taxation	8	**1,073,532**	**3,296,978**
Taxation	9	(329,631)	(452,952)
Prior year tax adjustments		97,799	144,323
Profit for the year from continuing operations		**841,700**	**2,988,349**
Discontinued operations			
Profit / (Loss) for the year from discontinued operations (Frankfurt Branch)	33	122,678	(1,237,844)
Profit for the year		**964,378**	**1,750,505**

Statement of Other Comprehensive Income - Year ended 31 December 2020

	Notes	2020 £	2019 £
Profit for the year		964,378	1,750,505
Items that may be reclassified subsequently to profit or loss			
Financial assets at fair value through other comprehensive income		-	-
Gains / (Loss) arising during the year		98,037	(112,300)
Exchange difference on translating foreign operations, net of tax		-	(18,963)
Income tax relating to items that may be reclassified	9	(18,627)	-
Other comprehensive income for the year net of tax		79,410	**(131,263)**
Total comprehensive income for the year		**1,043,788**	**1,619,242**

Balance sheet - Year ended 31 December 2020

	Notes	2020 £	2019 £
Assets			
Cash and balances at banks		118,590,209	68,480,164
Placements with banks	10	96,991,973	149,550,425
Loans and advances to customers	11	147,085,526	190,072,010
Customers' acceptances	12	8,314,009	9,075,007
Debt securities at amortised cost	13	1,514,787	3,381,421
Financial assets at FVTOCI	14	26,727,334	48,714,705
Prepayments and accrued income		802,021	826,857
Current tax assets		60,526	325,007
Amounts due from HMRC		-	107,835
Land and Buildings	15	18,959,279	19,028,900
Right-of-use lease assets	15	853,341	940,913
Property and equipment	15	677,795	1,000,504
Intangible assets	16	307,940	474,954
Total assets		**420,884,740**	**491,978,702**
Liabilities			
Deposits by banks	19	123,563,668	166,609,600
Customer accounts	20	149,564,207	178,148,012
Acceptances payable	12	8,371,891	9,131,498
Accruals and deferred income		297,795	778,004
Lease liabilities	17	869,986	941,415
Other liabilities	21	3,018,374	1,584,477
Deferred tax liability	22	321,097	243,598
Subordinated loan	23	31,399,907	32,108,072
Total liabilities		**317,406,925**	**389,544,675**
Equity			
Called up share capital	24	34,150,000	34,150,000
Retained earnings	25	**69,327,815**	**68,284,027**
Total equity		**103,477,815**	**102,434,027**
Total liabilities and equity		**420,884,740**	**491,978,702**

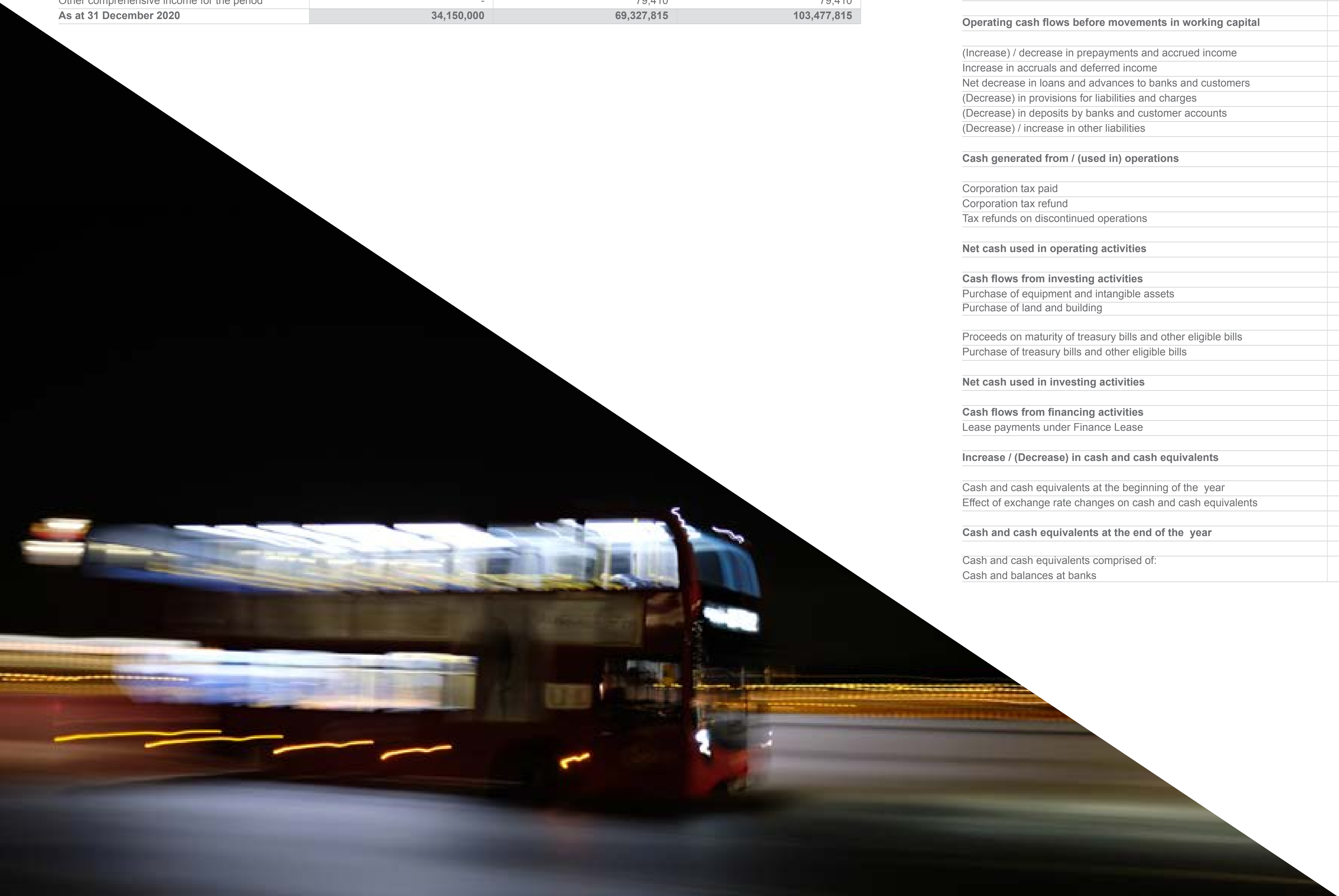
These financial statements were approved by the Board of Directors and authorised for issue on 27 April 2021. They were signed on its behalf by:

S Argyrou
Managing Director & CEO
27 April 2021

Statement of Changes in Equity - Year ended 31 December 2020

	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 expenses for the period	-	(131,263)	(131,263)
As at 31 December 2019	**34,150,000**	**68,284,027**	**102,434,027**

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2020	34,150,000	68,284,027	102,434,027
Profit for the period	-	964,378	964,378
Other comprehensive income for the period	-	79,410	79,410
As at 31 December 2020	**34,150,000**	**69,327,815**	**103,477,815**



Cash Flow Statement - Year ended 31 December 2020

	Notes	2020 £	2019 £
Cash flows from operating activities			
Profit for the year		964,378	1,750,505
Adjustments for:			
Taxation	9	329,631	308,629
Depreciation	15	974,335	900,582
Goodwill impairment	18	-	751,540
Net impairment losses	30	1,644,446	2,999,490
Finance cost on lease liabilities	17	47,249	36,688
Taxation on continuing operations		(97,799)	-
Taxation on discontinued operations	33	(122,678)	-
Operating cash flows before movements in working capital		**3,739,562**	**6,747,434**
(Increase) / decrease in prepayments and accrued income		24,836	(21,434)
Increase in accruals and deferred income		(480,209)	328,608
Net decrease in loans and advances to banks and customers		95,544,936	14,085,122
(Decrease) in provisions for liabilities and charges		-	(95,000)
(Decrease) in deposits by banks and customer accounts		(71,629,737)	(117,167,682)
(Decrease) / increase in other liabilities		1,433,897	(110,213)
Cash generated from / (used in) operations		**28,633,286**	**(96,233,165)**
Corporation tax paid		(6,278)	(968,900)
Corporation tax refund		205,633	-
Tax refunds on discontinued operations		122,678	-
Net cash used in operating activities		**28,955,319**	**(97,202,065)**
Cash flows from investing activities			
Purchase of equipment and intangible assets	15	(284,226)	(475,380)
Purchase of land and building	15	(89,167)	(116,820)
Proceeds on maturity of treasury bills and other eligible bills		105,736,055	155,154,323
Purchase of treasury bills and other eligible bills		(84,515,703)	(168,060,606)
Net cash used in investing activities		**20,846,959**	**(13,498,483)**
Cash flows from financing activities			
Lease payments under Finance Lease		(150,592)	(81,996)
Increase / (Decrease) in cash and cash equivalents		**49,651,686**	**(110,782,544)**
Cash and cash equivalents at the beginning of the year		68,480,164	180,059,533
Effect of exchange rate changes on cash and cash equivalents		458,359	(796,825)
Cash and cash equivalents at the end of the year		**118,590,209**	**68,480,164**
Cash and cash equivalents comprised of: Cash and balances at banks		**118,590,209**	**68,480,164**

Notes to the Financial Statements - Year ended 31 December 2020

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 4. The nature of the Bank's operations and its principal activities are set out in the Strategic Report on pages 8 to 15 and the Directors' Report on pages 16 to 17.

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).

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

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

New and amended standards effective for the current year

Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

Financial authorities are undertaking a review of the key interest rate benchmarks such as London Inter-bank Offered Rate (LIBOR) with a view to replacing them with alternative benchmark risk free rates (RFRs). The Bank has established a working group to monitor and manage the transition from Inter-bank Offered Rates (IBORs) to RFRs across its loan portfolios and is assessing the impact on those contracts which are linked to IBORs.

The amendments in *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)* clarify that entities would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The bank has no hedged instruments at the reporting date.

IFRS 9 – Financial Instruments

The amendment clarifies which fees an entity includes when it applies the '10 per cent' test in paragraph B3.3.6 of IFRS 9 in assessing whether to derecognise a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

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 endorsed or adopted by the EU:

Interest Rate Benchmark Reform	Phase 2 amendments
IAS 1 Presentation of Financial Statements	Classification of Liabilities as Current or Non-Current
IFRS 3 Conceptual Framework	Reference to the Conceptual Framework
IAS 16 Property Plant and Equipment	Proceeds before intended use
IAS 37 Onerous Contracts	Cost of fulfilling a contract
IFRS 17 Insurance Contracts	Supersedes IFRS 4

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 2020

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 15 and the Directors' report on pages 16 to 17 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 ongoing crisis in Lebanon and the continuing economic effects of 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 capital position of £134.8m (2019 - £134.5m) in total capital resources, a capital adequacy ratio of 40.41% (2019 – 33.75%) generating a total capital headroom of £75m (2019 - £55m) vs total risk exposures of £330m (2019 - £391m), combined with an LCR ratio of 371% (2019 - 262%) underpinned by 88% (2019 - 77%) cash and cash equivalent ratio to Gross Deposit liabilities, demonstrates the ability of the Bank to absorb and deal with these stresses over the forecasted periods.

Goodwill

Goodwill 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 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 had 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 continues to be applied to the gross carrying amount of the asset but interest is not taken to income. In cases where the asset is impaired but covered by other credit risk mitigations, then interest continues to be applied to income.

Notes to the Financial Statements - Year ended 31 December 2020

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.

Financial assets

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

The Bank assesses its business models at a portfolio level based on its objectives for the relevant portfolio, how the performance of the portfolio is managed and reported, and the frequency of asset sales.

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

Financial assets measured at fair value through other comprehensive income - Financial assets that are held to collect contractual cash flows and for subsequent sale, where the assets' cash flows represent solely payments of principal and interest, are recognised in the balance sheet at their fair value, inclusive of transaction costs. Interest calculated using the effective interest method and foreign exchange gains and losses on assets denominated in foreign currencies are recognised in the income statement. All other gains and losses arising from changes in fair value are recognised directly in other comprehensive income until the financial asset is either sold or matures, at which time the cumulative gain or loss previously recognised in other comprehensive income is recognised in the income statement other than in respect of equity shares, for which the cumulative revaluation amount is transferred directly to retained profits. The Bank recognises a charge for expected credit losses in the income statement. As the asset is measured at fair value, the charge does not adjust the carrying value of the asset; it is reflected in other comprehensive income.

Financial assets measured at fair value through profit and loss - The Bank does not currently hold any assets that are designated at fair value through profit and loss but does have financial assets which are measured at fair value through other comprehensive income.

Notes to the Financial Statements - Year ended 31 December 2020

3. Significant accounting policies (continued)

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

Impairment of financial assets

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

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

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

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

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

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

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

IFRS 9 contains a rebuttable presumption that default occurs no later than when a payment is 90 days past due. The Bank has rebutted this presumption. As a general rule, where the Bank is in a Trade Finance relationship and one or a small number of individual items which form part of a larger portfolio are past due, specifically where these relate to claims or charges, but the remaining exposures are performing, the Bank will determine on a case by case basis that there has not been 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.

Notes to the Financial Statements - Year ended 31 December 2020

3. Significant Accounting Policies (continued)

Financial liabilities and equity

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

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

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

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

Derivative financial instruments and hedge accounting

The Bank's activities expose it primarily to the financial risks of changes in currency exchange rates. From time to time, 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.

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

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

Cash and balances at banks

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

Property and equipment

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

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

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

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

Intangible assets acquired separately

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

De-recognition of intangible assets

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

Notes to the Financial Statements - Year ended 31 December 2020

3. Significant Accounting Policies (continued)

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

Taxation

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

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

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.

Notes to the Financial Statements - Year ended 31 December 2020

3. Significant Accounting Policies (continued)

Foreign currency translation

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

Offsetting of assets and liabilities

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

4. Critical Accounting Judgements and Key Sources of Estimation Uncertainty

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

Allowance for impairment losses on loans and advances to customers

At 31 December 2020 the Bank's impairment losses on loans and advances to customers and banks (see Note 11) was £5.16 million (2019 - £4.75million). 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 most significant of these 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 within Note 3 above under the caption 'Impairment of financial assets'. Determination of default is considered to be a key judgement in the bank's assessment of its credit exposures.

Significant increase in credit risk

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

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

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

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

Notes to the Financial Statements - Year ended 31 December 2020

5. Interest Income

Interest income comprises interest from:	2020 £	2019 £
Loans and advances to banks	5,837,817	8,808,300
Loans and advances to customers	2,436,892	4,075,078
Debt securities at amortised cost	88,662	383,661
Financial assets at FVOCI	199,320	929,411
	8,562,691	**14,196,450**

The amount of interest income attributable to group companies is £485,067 (2019 - £330,176).

6. Interest Expense

Interest expense comprises interest incurred on:	2020 £	2019 £
Deposit by banks	487,368	1,269,182
Customers' accounts	2,166,616	2,511,076
Deposits by group companies	2,046,042	3,102,755
Financial assets at FVOCI	421	-
	4,700,447	**6,883,013**

7. Administrative Expenses

	2020 £	2019 £
Staff costs during the year (including directors)		
Wages and salaries	4,025,510	4,360,377
Social security costs	445,474	469,514
Other staff costs	304,439	391,427
Pension costs	319,367	285,368
Total staff costs	**5,094,790**	**5,506,686**
Occupancy costs	634,162	408,756
Administrative costs	2,180,202	2,410,179
Depreciation	974,335	900,582
Total administrative expenses	**8,883,489**	**9,226,203**

The average monthly number of employees during the current and prior year was as follows:	2020 No.	2019 No.
Commercial and retail banking activities	69	71

Director's emoluments	2020 £	2019 £
Directors' remuneration during the year consists of:		
Salaries and other emoluments	747,118	753,346
Pension costs	22,323	27,963
	769,441	**781,309**

The emoluments of the highest paid director for the year ended 31 December 2020 were £429,020 (2019 - £447,460). The highest paid director is a member of the Bank's pension scheme. There were two directors (2019 - two directors) who were part of the Bank's pension scheme.

Notes to the Financial Statements - Year ended 31 December 2020

8. Profit Before Taxation

The profit is stated after (crediting) /charging:	2020 £	2019 £
Net foreign currency gains	(650,343)	(565,000)
Auditor's remuneration	-	-
Audit services	152,240	134,996
Non-audit services	7,078	2,500
Depreciation (includes right of use asset depreciation)	974,335	900,582
Goodwill impairment	-	751,540

The breakdown of non-audit services is as follows:	2020 £	2019 £
Professional services	5,578	-
Other services	1,500	2,500
Total non-audit fees	**7,078**	**2,500**

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	2020 £	2019 £
Current year	247,185	312,548
Prior year adjustment	4,947	(167,155)
Total Current tax charge	252,132	145,393
Deferred tax charge / (credit)	77,499	307,559
Total tax expense	**329,631**	**452,952**

The charge for tax is based upon a UK corporation tax rate of 19% from 1 January 2020 to 31 December 2020.

Factors affecting the tax charge for the year	2020 £	2019 £
Profit before taxation	1,073,531	2,059,134
Tax charge at UK Corporation tax rate of 19% (2019: 19%)	203,971	391,236
Effects of:		
Fixed asset differences	134,984	120,880
Expenses not deductible for tax purposes	19,217	22,549
Other tax adjustments, reliefs and transfers	(33)	-
Income not taxable for tax purposes	-	(27,674)
Adjustment to prior periods	4,947	(167,155)
Adjustment to tax charge in respect of previous periods deferred tax	(55,575)	133,584
Adjust closing deferred tax to average rate 19%	-	(28,659)
Adjust opening deferred tax to average rate of 19%	-	8,191
Remeasurement of deferred tax for changes in tax rates	22,120	-
Tax expense for the year	**329,631**	**452,952**

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:	2020 £	2019 £
Financial assets at FVTOCI		
Gains/(Losses) arising during the year	98,037	(112,300)
Exchange difference on translating foreign operations	-	(18,963)
Total income tax recognised in other comprehensive income	**(18,627)**	**-**

Notes to the Financial Statements - Year ended 31 December 2020

10. Placement with Banks

	2020 £	2019 £
Maturing in three months or less	**96,991,973**	**149,550,425**

Amounts in respect of group companies included in placements with banks is £10,768,890 (2019 - £10,190,449). ECL's are included in these balances as per IFRS9. The ECL amount as at 31 December 2020 was £20,349 for placements (2019 - £23,691).

11. Loans and Advances to Customers

	2020 £	2019 £
Repayable:		
On demand or at short notice	22,967,948	25,653,175
Remaining maturity:		
Three months or less excluding on demand	90,304,894	109,841,472
One year or less but over three months	33,160,757	41,868,495
Three years or less but over one year	5,554,347	16,614,427
Five years or less but over three years	256,436	840,493
	152,244,382	194,818,062
Impairment loss allowance	(5,158,856)	(4,746,052)
	147,085,526	**190,072,010**

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 £8,314,009 (2019 - £9,075,007) and includes an ECL amount of £57,882 (2019 - £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 acceptances payable is due to the counterparty of the customer. Upon acceptance of presented documents, the Bank reserves the right, subject to its customer's request, whether to discount such commitments. For clarification discounted acceptances are excluded from the total of Contingent liabilities referred to under Note 26.

13. Debt Securities at Amortised Cost

	2020 £	2019 £
Lebanese Eurobonds	1,514,787	3,381,421
	1,514,787	**3,381,421**

The investments in Lebanese Eurobonds are measured at amortised cost. A default on Lebanese Government Eurobonds during the current year was recognised and the investment classified as stage 3. The ECL for the year 2020 is £1,968,482 (2019 - £2,028,712). Refer to Note 34 for post year events and sale of the Eurobonds.

The movements during the year are summarised as follows:	2020 £	2019 £
Balance as at 1 January	3,381,421	1,585,826
Acquisitions	-	4,622,255
Maturities	-	(767,969)
Unpaid interest and discounts due	289,947	-
Provisions	(1,968,482)	(2,028,712)
Exchange differences on monetary assets	(188,099)	(29,979)
Balance as at 31 December	**1,514,787**	**3,381,421**

Notes to the Financial Statements - Year ended 31 December 2020

14. Financial Assets at Fair Value Through Other Comprehensive Income

The Bank's holding of UK and US treasury bills are classified as 'Financial assets at fair value through other comprehensive income' noting that they are purchased as part of the Bank's High Quality Liquid Asset Buffer (HQLA). They are categorised as Stage 1 with an ECL for the year 2020 of £538 (2019 - £483).

The movements during the year are summarised as follows:

UK Treasury Bills	2020 £	2019 £
Balance as at 1 January	16,987,131	7,991,730
Acquisitions	24,965,100	62,000,000
Maturities	(41,999,791)	(52,991,466)
Discount received	34,900	-
Revaluation	12,660	(12,660)
Movement in fair value	-	(473)
Balance as at 31 December	-	**16,987,131**

US Treasury Bills	2020 £	2019 £
Balance as at 1 January	31,727,574	32,691,530
Exchange differences on monetary assets	(1,048,951)	(994,319)
Acquisitions	59,550,603	101,515,152
Maturities	(63,736,264)	(101,394,888)
Discount received	156,739	-
Premium paid	(383)	-
Revaluation	77,911	(90,384)
Movement in fair value	105	483
Balance as at 31 December	**26,727,334**	**31,727,574**

15. Property and Equipment

	Leasehold Right of use £	Leasehold improvements £	Fixtures fittings and equipment £	Land and Buildings £	Total £
Cost					
At 1 January 2019	-	509,162	1,815,794	19,221,073	21,546,029
Additions	1,023,411	5,190	470,190	116,820	1,615,611
Disposals		(9,364)	(327,334)	-	(336,698)
Translation difference	-	(224)	(11,388)	-	(11,612)
At 31 December 2019	1,023,411	504,764	1,947,262	19,337,893	22,813,330
Additions	81,341	-	75,963	89,167	246,471
Disposal	(72,369)	(465,276)	(62,959)	-	(600,604)
Translation difference	-	-	195	-	195
At 31 December 2020	**1,032,383**	**39,488**	**1,960,461**	**19,427,060**	**22,459,392**
Depreciation					
At 1 January 2019	-	509,133	848,296	152,956	1,510,385
Charge for the year	82,498	5,190	435,698	156,037	679,423
Disposals	-	(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
Charge for the year	124,567	22	398,547	158,788	681,924
Disposal	(28,023)	(465,276)	(62,856)	-	(556,155)
Translation difference	-	-	195	-	195
At 31 December 2020	**179,042**	**39,480**	**1,282,674**	**467,781**	**1,968,977**
Net book value					
At 31 December 2020	**853,341**	**8**	**677,787**	**18,959,279**	**20,490,415**
At 31 December 2019	**940,913**	**29**	**1,000,475**	**19,028,900**	**20,970,317**

Notes to the Financial Statements - Year ended 31 December 2020

16. Intangible Assets

	Computer software £
Cost	
At 1 January 2019	1,117,071
Additions	407,323
Translation difference	(52,375)
Foreign Exchange	(9,172)
At 31 December 2019	1,462,847
Additions	126,922
Translation difference	(4,572)
Foreign Exchange	12,184
At 31 December 2020	**1,597,381**
Amortisation	
At 1 January 2019	671,223
Charge for the year	374,388
Disposals	(52,374)
Foreign Exchange	(5,344)
At 31 December 2019	987,893
Charge for the year	293,936
Disposals	(4,572)
Foreign Exchange	12,184
At 31 December 2020	**1,289,441**
Net book value	
At 31 December 2020	**307,940**
At 31 December 2019	**474,954**

Intangible assets consist of computer software which is 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 IFRS 16 Leases during the year 2020.

Summary of the impact on the financial statement:

Income statement year ended 31 December	2020 £	2019 £
Depreciation	123,042	82,498
Finance charge	47,249	36,688
	170,291	**119,186**

Future minimum lease payments	2020 £	2019 £
Non-current assets (right-of-use)	853,341	940,913
Non-current liabilities	722,194	790,822
Current liabilities	147,792	150,593

Summary of statement of financial position	Curzon St £	Printers £	Total £
Future minimum lease payments			
Not later than 1 year	120,861	26,931	147,792
Greater than 1 year and less than 5 years	483,444	51,619	535,063
Greater than 5 years	362,583	-	362,583
	966,888	**78,550**	**1,045,438**

In the year 2020, the value of lease assets is £853,341 (2019 - £940,913). The lease liability at the end of the year is £869,986 (2019 - £941,415) and the lease asset is less than lease liability by £16,645 (2019 -£ 502).

Notes to the Financial Statements - Year ended 31 December 2020

18. Goodwill

	2020 £	2019 £
Carrying value as at 1 January	-	751,540
Impairment	-	(751,540)
Carrying value as at 31 December	-	-

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 in 2019, the value in use was determined to be less than the carrying value in use. Accordingly, the full value of goodwill was written down in 2019.

19. Deposits by Banks

	2020 £	2019 £
Repayable on demand	49,500,351	69,036,471
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	54,502,271	65,611,728
Between three months and one year	19,561,046	31,961,401
	123,563,668	166,609,600

Included in the above are amounts due to parent undertakings of £25,140,944 (2019 - £56,647,166).

20. Customer Accounts

	2020 £	2019 £
Repayable on demand	73,634,631	48,736,668
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	52,629,358	95,782,963
Between three months and one year	23,300,218	33,628,381
Between one year and five years	-	-
	149,564,207	178,148,012

21. Other Liabilities

	2020 £	2019 £
Other taxes and social security costs	5,584	4,429
Other liabilities	3,012,790	1,580,048
	3,018,374	1,584,477

22. Deferred Tax

	2020 £	2019 £
The components of taxes are as follows:		
Deferred tax liability	(321,097)	(243,598)
	(321,097)	(243,598)

Notes to the Financial Statements - Year ended 31 December 2020

22. Deferred Tax (continued)

The movement on the deferred income tax account is as follows:	2020 £	2019 £
At beginning of year	(243,598)	63,961
Income statement (charge)	(77,499)	(307,559)
At end of year	(321,097)	(243,598)

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

Deferred income tax assets (liability)	2020 £	2019 £
Accelerated tax depreciation	(321,097)	(243,598)
Net deferred tax (liability)	(321,097)	(243,598)

23. Subordinated Loan

The Bank signed an agreement for the issue of a 10-Year Subordinated Loan of USD 20 million on 19 March 2007 with Bank of Beirut Sal, its immediate and ultimate parent company. 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 further 15-Year Subordinated 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 ongoing review and usage of IBOR (Inter Bank Offer Rate) as referencing rates, consideration will be given to amending the nominated 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.

	2020 £	2019 £
As at 1 January	32,108,072	32,539,176
Additions	-	-
Accrued interest	997,893	1,206,556
Foreign exchange movements	(1,706,058)	(1,637,660)
As at 31 December	**31,399,907**	**32,108,072**

24. Called Up Share Capital

	2020 £	2019 £
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 (2019: 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 2020	34,150,000	68,284,027	102,434,027
Comprehensive income for the year	-	964,378	964,378
Other comprehensive expense for the year	-	79,410	79,410
As at 31 December 2020	34,150,000	69,327,815	103,477,815

Notes to the Financial Statements - Year ended 31 December 2020

26. Contingent Liabilities

ECL for Contingent liabilities of £168,534 (2019 - £286,026) is included within exposures under Loans and Advances to Customers:

	2020 £	2019 £
Irrevocable letters of credit	107,754,816	85,960,152
Guarantees	932,620	5,139,421
	108,687,436	**91,099,573**

27. Commitments

	2020 £	2019 £
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	69,014,563	56,129,095
One year and over	11,205,114	37,481,230
	80,219,677	**93,610,325**

	2020 £	2019 £
Of which undrawn commitments are shown below and includes an ECL of £188 (2019 - £1,916)	**17,028,695**	**9,049,791**

28. Related Party Transactions

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

	2020 £	2019 £
Interest received from holding company	485,067	310,700
Interest paid to holding company	(2,046,041)	(3,097,316)
Fees paid to holding company	(233,942)	(239,180)

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

	2020 £	2019 £
Deposits from:		
Current /call accounts	4,651,169	10,739,885
Fixed Deposits	20,489,775	45,907,280
Exposures to:		
Loans	10,768,990	10,190,449
Bills Discounted	-	9,718,378
Current/call accounts	844,775	3,616,568
Letters of Credit	-	4,849,254
Acceptances	172,065	692,968
Guarantees, Bid & Performance Bonds	-	3,636,364

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

Directors' transactions

The following transactions have taken place with directors:

The Bank gave to two of its executive directors in 2020 unsecured non-interest bearing loans payable within 12 months. These amounted to £2,029 (2019 - £1,960) in respect of personal travel costs and £2,435 (2019 - £2,569) 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 £37,418 (2019 - £34, 586).

	2020 £	2019 £
Deposits from Directors	**3,821,281**	**8,399,622**

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

Notes to the Financial Statements - Year ended 31 December 2020

28. Related Party Transactions (continued)

Remuneration of key management personnel

The remuneration of the directors, who are the key management personnel of the Bank, is set out below in aggregate for each of the categories specified in IAS 24

	2020 £	2019 £
Short-term employee benefits	747,118	753,346
Post-employment benefits	22,323	27,963
	769,441	**781,309**

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).

	2020 £	2019 £
Deposits from other related parties	17,992,156	5,732,094
Loans to other related parties	1,800,000	-

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

29. Ultimate Parent and Controlling Party

The ultimate parent and controlling party as at 31 December 2020 are Bank of Beirut Sal, which is incorporated in Lebanon. All of the Bank's issued share capital is wholly owned by Bank of Beirut Sal, which is the parent company of the smallest and largest groups into which the results of the Bank are consolidated.

Copies of the group accounts can be obtained from 66 Cannon Street, London EC4N 6AE.

30. Financial Instruments and Risk Management

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

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

The Bank does not have a trading book.

As at the end of 31 December 2020, 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 its group parent. For the years 2020 and 2019 the Bank has not entered into any exchange related contracts.

Notes to the Financial Statements - Year ended 31 December 2020

30. Financial Instruments and Risk Management (continued)

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.

	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**	**-**	**-**

	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	-	-	-
US Treasury Bonds – FVTOCI	26,727,334	-	-
As at 31 December 2020	**26,727,334**	**-**	**-**

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

Notes to the Financial Statements - Year ended 31 December 2020

30. Financial Instruments and Risk Management (continued)

in these functions by Internal Audit and the Risk and Compliance departments. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, whilst Risk and Compliance provide quarterly reports the results of which are reported to the Board Audit, Risk & Compliance Committee.

30.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, sector and country concentration risk).

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

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

	2020		2019	
	Carrying Value £	Maximum Exposure £	Carrying Value £	Maximum Exposure £
Placement with banks:				
Loans and receivables	96,991,973	96,991,973	149,550,425	149,550,425
Loans and advances to customers:				
Loans and receivables	147,085,526	135,599,527	190,072,010	180,889,504
Net letters of credit and guarantees	108,687,436	80,549,736	91,099,573	59,029,746
Loan commitments (unutilised)	17,028,695	13,482,458	9,049,791	7,351,578
	369,793,630	326,693,694	439,771,799	396,821,253

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

Net Impairment Loss	2020 £	2019 £
Cash and balances at banks	24,849	(33,968)
Placement with banks	3,341	(20,335)
Loans and advances to customers	178,122	(809,071)
Debt securities at amortised cost	(1,968,481)	(2,010,395)
Financial assets at FVTOCI	(105)	(433)
Acceptances	(1,392)	14,411
Contingent liabilities	117,492	(138,112)
Outstanding facilities	1,728	(1,587)
Net impairment losses	**(1,644,446)**	**(2,999,490)**

Notes to the Financial Statements - Year ended 31 December 2020

30. Financial Instruments and Risk Management (continued)

30.1 Credit risk (continued)

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

The Assets are classified as follows:

	Loans and receivables at amortised cost £	Other amortised cost £	FVTOCI £	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**

	Loans and receivables at amortised cost £	Other amortised cost £	FVTOCI £	Non-financial assets £	Total £
As at 31 December 2020					
Assets					
Cash and due from banks	118,590,209	-	-	-	118,590,209
Placements with banks	96,991,973	-	-	-	96,991,973
Loans and advances to customers	147,085,526	-	-	-	147,085,526
Customers' acceptances	8,314,009	-	-	-	8,314,009
Debt securities at amortised cost	-	1,514,787	-	-	1,514,787
Financial assets at FVTOCI					
- UK Treasury bonds	-	-	-	-	-
- US Treasury bonds	-	-	26,727,334	-	26,727,334
Current Tax assets	60,526	-	-		60,526
Due from HMRC	-	-	-		-
Land & Buildings	-		-	18,959,279	18,959,279
Property and equipment	-		-	677,795	677,795
Intangible assets	-		-	307,940	307,940
Right-of-use lease assets	-	-	-	853,341	853,341
Goodwill		-		-	-
Deferred tax assets	-	-	-	-	-
Prepayments and accrued income	-	-	-	802,021	802,021
Total assets	**371,042,243**	**1,514,787**	**26,727,334**	**22,272,126**	**420,884,740**

Notes to the Financial Statements - Year ended 31 December 2020

30. Financial Instruments and Risk Management (continued)

30.1 Credit risk (continued)

Movements in provision for the year provided below:

	12 month ECL	Lifetime ECL	Lifetime ECL	Total
Movement in provisions	**(Stage 1) 2019** £	**(Stage 2) 2019** £	**(Stage 3) 2019** £	**Total 2019** £
At 1 January 2019 per IFRS 9	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 provisions	**(Stage 1) 2020** £	**(Stage 2) 2020** £	**(Stage 3) 2020** £	**Total 2020** £
At 31 December 2019	1,287,109	2,239,110	3,362,886	6,889,105
Movement in Stage 1 ECL	(441,872)	-	-	(441,872)
Movement in Stage 2 ECL	-	(1,952,669)	-	(1,952,669)
Movement in Stage 3 ECL	-	-	4,038,988	4,038,988
Foreign exchange and other movements	-	-	148,991	148,991
Interest Suspense	-	-	575,521	575,521
At 31 December 2020	**845,237**	**286,441**	**8,126,386**	**9,258,064**

Movement in gross carrying amount of loans	**Loans 2019** £	**Loans 2019** £	**Loans 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**

Movement in gross carrying amount of loans	**Loans 2020** £	**Loans 2020** £	**Loans 2020** £	**Total 2020** £
At 1 January 2020	159,186,417	32,003,784	3,627,861	194,818,062
Movement in Stage 1	(26,764,936)	-	-	(26,764,936)
Movement in Stage 2	-	(18,625,021)	-	(18,625,021)
Movement in Stage 3	-	-	2,816,278	2,816,278
At 31 December 2020	**132,421,481**	**13,378,763**	**6,444,139**	**152,244,383**

In the light of the credit downgrades of the Lebanese sovereign rating and evolving Lebanese crisis our Lebanese exposures were re-classified as Stage 2 in 2019. During 2020 and reflecting the revised risk appetite approach of the Bank, exposures to Lebanese Financial Institutions were run down during the year leading to a reduction in our Stage 2 exposures by £18.6m. Within the Stage 2 closing figure, £10.4m is represented by exposures to Lebanese individual and corporate risk, of which one corporate counterparty accounts for £7.5m and against which is fully secured.

Stage 3 exposures increased by £2.8m in the year, which includes exposure to one Mauritanian Financial Institution that is in the process of concluding a merger with a 3rd party foreign entity, completion of which has been delayed due to the impact of Covid-19 travel restrictions.

Notes to the Financial Statements - Year ended 31 December 2020

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 2020. 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 16.92% - £149,900 (2019 - 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 11.93% - £105,700 (2019 - 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 at FVTOCI.

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

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

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

Concentration by risk location	Loans and advances to customers 2020 £	Loans and advances to customers 2019 £
UK	8,033,838	11,572,210
Europe	8,642,397	10,020,346
Africa	117,145,172	135,345,980
Rest of the world	13,264,119	33,133,473
Total	**147,085,526**	**190,072,009**

Notes to the Financial Statements - Year ended 31 December 2020

30. Financial Instruments and Risk Management (continued)

30.2 Liquidity risk

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

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

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

In the unlikely event of a liquidity crisis impacting the bank, the Treasury Department in accordance with instructions from the Banks respective Committee's 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.

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 one 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**

Residual contractual maturities of financial liabilities as at 31 December 2020	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 one year £'000	Total £'000
Non-derivative liabilities	-					
Deposits by banks	123,564	71,077	32,926	19,561	-	123,564
Customer accounts	149,564	102,138	24,126	23,300	-	149,564
Subordinated loan	31,400	-	-	-	31,400	31,400
	304,528	**173,215**	**57,052**	**42,861**	**31,400**	**304,528**

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 2020 and 31 December 2019.

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 2020. 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 2020

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	9,845	-	-	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	-	-

Notes to the Financial Statements - Year ended 31 December 2020

30. Financial Instruments and Risk Management (continued)

30.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2020	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	104,206	-	-	-	-	14,384	118,590
Placements with banks	96,992	-	-	-	-	-	96,992
Loans and advances to customers	90,534	33,830	13,710	9,012	-	-	147,086
Customers' acceptances	-	-	-	-	-	8,314	8,314
Debt securities at amortised cost:							
- Eurobonds	-	-	-	1,515	-	-	1,515
Financial assets at FVTOCI:							
- UK Treasury Bonds	-	-	-	-	-	-	-
- US Treasury bonds	7,313	8,791	10,623	-	-	-	26,727
Land & Buildings	-	-	-	-	-	18,959	18,959
Property and equipment	-	-	-	-	-	678	678
Intangible assets	-	-	-	-	-	308	308
Right-of-use lease assets	-	-	-	-	-	853	853
Current tax assets	-	-	-	-	-	61	61
Due from HMRC	-	-	-	-	-	-	-
Prepayments and accrued income	-	-	-	-	-	802	802
Total assets	**299,045**	**42,621**	**24,333**	**10,527**	**-**	**44,359**	**420,885**
Liabilities							
Deposits by banks	59,153	16,502	3,059	-	-	44,850	123,564
Customers' accounts	66,304	14,830	8,470	-	-	59,960	149,564
Acceptances payable	-	-	-	-	-	8,372	8,372
Accruals and deferred income	-	-	-	-	-	298	298
Right-of-use lease liabilities	-	-	-	70	800	-	870
Other liabilities	-	-	-	-	-	3,018	3,018
Deferred tax liability	-	-	-	-	-	321	321
Subordinated loan	14,402	-	16,998	-	-	-	31,400
Equity	-	-	-	-	-	103,478	103,478
Total liabilities and equity	**139,859**	**31,332**	**28,527**	**70**	**800**	**220,297**	**420,885**
Interest rate sensitivity gap	159,186	11,289	(4,194)	10,457	(800)	(175,938)	-
Cumulative gap	159,186	170,475	166,281	176,738	175,938	-	-

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.

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.

	2020	2019
Financial assets		
Placements with banks	1.70%	1.84%
Loans and advances to customers	4.50%	6.86%
Treasury bills	0.00%	2.24%
Financial liabilities		
Deposits by banks	0.85%	1.03%
Customer Accounts	0.66%	0.63%

Notes to the Financial Statements - Year ended 31 December 2020

30. Financial Instruments and Risk Management (continued)

30.3 Interest rate risk (continued)

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:

	2020		2019	
	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	592	(572)	364	(354)

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 tables shown below give details of the Bank's assets and liabilities as at 31 December 2020 and 31 December 2019, 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 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**

Notes to the Financial Statements - Year ended 31 December 2020

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 2020					
Assets					
Cash and balances at banks	33,404	49,634	10,396	544	118,590
Placements with banks	33,000	31,169	25,824	-	96,992
Loans and advances to customers	41,265	106,454	9,077	-	147,086
Customers acceptances	-	5,673	2,641	-	8,314
Debt securities at amortised cost:					
- Eurobonds	-	1,515	-	-	1,515
Financial assets at FVTOCI:					
- UK Treasury Bonds	16,987	-	-	-	-
- US Treasury bonds	-	26,727	-	-	26,727
Land & Buildings	18,959	-	-	-	18,959
Property and equipment	678	-	-	-	678
Intangible assets	308	-	-	-	308
Right-of-use lease assets	853	-	-	-	853
Current tax assets	61	-	-	-	61
Due from HMRC	-	-	-	-	-
Prepayments and accrued income	746	21	35	-	802
Total assets	**151,175**	**221,193**	**47,973**	**544**	**420,885**
Liabilities					
Deposits by banks	5,860	90,568	26,772	363	123,564
Customer accounts	18,813	112,863	17,566	323	149,564
Acceptances payable	-	5,731	2,641	-	8,372
Accruals and deferred income	163	45	90	-	298
Right-of-use lease liabilities	870	-	-	-	870
Other liabilities	3,018	-	-	-	3,018
Deferred Tax Liability	321	-	-	-	321
Subordinated loan	16,998	14,402	-	-	31,400
Total Liabilities	**46,044**	**223,608**	**47,069**	**686**	**317,407**
Net assets/ (Liabilities)	**105,131**	**(2,415)**	**904**	**(141)**	**103,478**

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.

Notes to the Financial Statements - Year ended 31 December 2020

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 2020 the total capital resources of the Bank is £134.8m (2019 - £134.5m).

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 2020.

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 £1,539,560 (2019 - £1,641,796) in the form of property on a loan with a carrying value of £313,931 (2019 - £264,975). We expect that this collateral will cover the exposure.

33. Discontinued operations

The Frankfurt branch of Bank of Beirut (UK) Ltd discontinued all its operation on 19 September 2019 and was closed following a decision of the Board of Directors on 26 February 2019. The 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 were 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 had identifiable assets that generated cash inflows independent of the group's assets, thus constituting a separate operating unit.

The results of the discontinued operations amounted to £122,678 representing a tax refund on amounts paid in prior years is included in the profit or loss for the year of the parent Bank (2019 – (£1,237,843)).

The amount of interest income attributable to group companies is £Nil (2019 - £22,570).

The amount of interest expense attributable to group companies is £Nil (2019 - £128,206).

Notes to the Financial Statements - Year ended 31 December 2020

34. Events after the Audit Reporting Period

34.1 Lebanese Eurobonds

On 29 March 2021, the Bank agreed the sale of its small portfolio of Lebanese Government Eurobonds which had a carrying face value of USD$7m. The background to this decision is more clearly outlined in the Strategic Report sub-section "Lebanon Political & Economic Crisis". As at 31 December 2020, the carrying value of the Eurobonds had been written down to £1.51m. During January 2021, the Bank was made aware of an opportunity to sell the bonds to a third party through our Group and this transaction was approved by the Board and concluded on 29 March 2021 which has resulted in a write back that is considered immaterial.