Company Registration No. 04406777

Bank of Beirut (UK) Ltd

Annual Report and Financial Statements
31 December 2021

2021

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BANK OF BEIRUT (UK) LTD. IS A UK INCORPORATED AND REGULATED BANK THAT PROVIDES A FULL RANGE OF RETAIL, COMMERCIAL AND DEPOSIT TAKING SERVICES.

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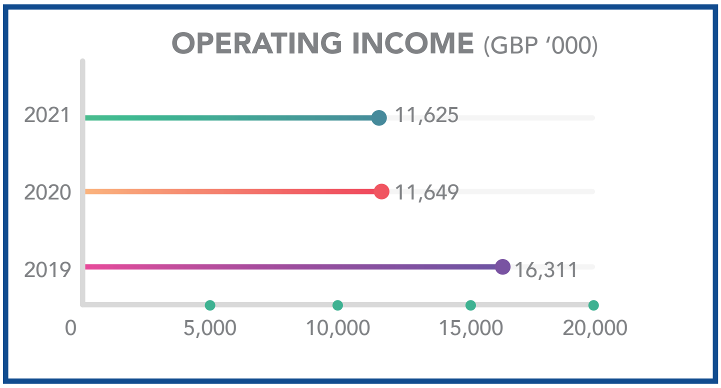
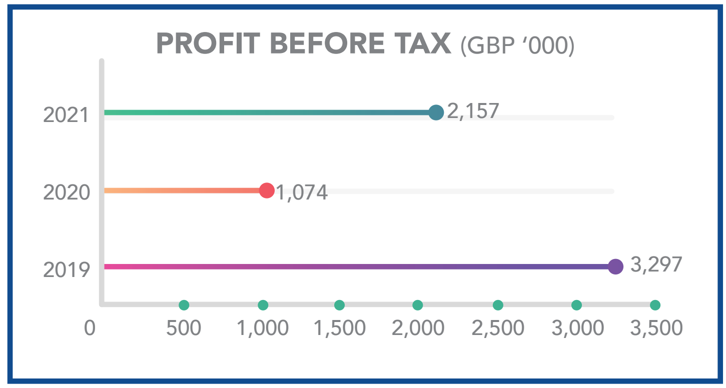
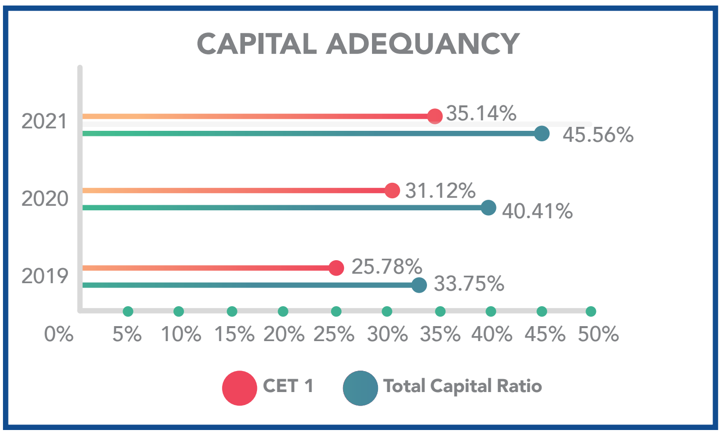
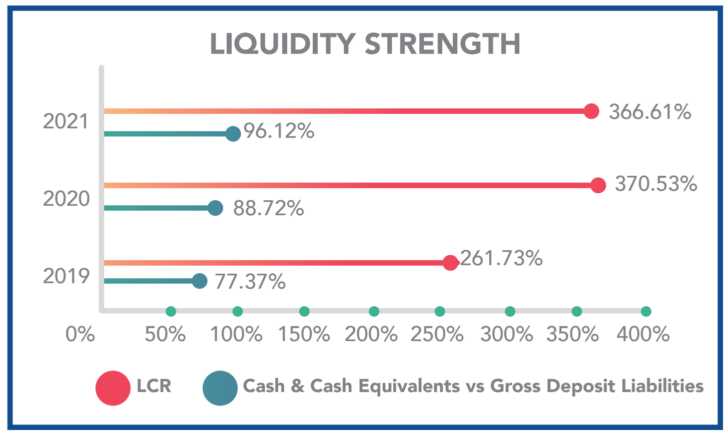
FINANCIAL HIGHLIGHTS









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

Key Financial Highlights (£'000)	2021	2020	2019
Operating Income	11,625	11,649	16,311
Loan Impairments & Provisions	297	1,644	2,999
Profit before Tax	2,157	1,074	3,297
Profit Comprehensive Income	1,430	1,044	1,619
Total Assets	410,239	420,885	491,979
Total Loans & Advances	128,896	147,086	190,072
Total Equity (Inc. Shareholders Funds)	104,908	103,478	102,434
Total Capital Ratio	45.56%	40.41%	33.75%
CET 1 Capital Ratio	35.14%	31.12%	25.78%
LCR Ratio	366.61%	370.53%	261.73%
Administrative expenses to Operating Income Ratio	78.51%	76.26%	56.56%
Cash & Cash equivalents / Total Assets	61.42%	57.57%	54.22%
Cash & Cash equivalents / Gross Deposit Liabilities	96.12%	88.72%	77.37%

Dr. Salim G. Sfeir

CHAIRMAN STATEMENT

We had anticipated that 2021 might bring a welcome release from the global impact of the Covid-19 pandemic that broke out at the beginning of 2020 but sadly we have witnessed a continuation of the damage caused by this ever-changing virus which has continued to impact economies, global markets and the wider global population. As we write now however, we are hopeful that through the increase of vaccinations and the continued support of health organisations and governments that the severity of the virus will be to some extent mitigated.

The situation in our home country of Lebanon has, unfortunately, also not improved during the past year with the financial and economic situation further deteriorating. However, with Lebanese parliamentary elections on the near horizon in May 2022, the government and other political parties are working diligently towards formulating reforms and economic restructuring plans in order to engage with and secure meaningful support from the IMF in an effort to ease the economic pressures and challenges which face Lebanon.

In light of the challenges, the Bank, through its Board, had determined to continue its conservative approach to risk appetite and in doing so, maintain its support for our customers and franchise ensuring strong liquidity and capital positions.

In achieving this, the Bank has met and far exceeded its specific minimum regulatory Capital and Liquidity ratios whilst sacrificing short term profitability to ensure long term resilience. To demonstrate our position, and without the reliance of our parent group to support day to day operations of the UK entity, the Bank's total shareholders' funds, including Tier 2 subordinated loans and retained earnings, have further strengthened to stand at £136.3m (2020 - £134.8m). The solid capital and liquidity positions are reflected by an increased Total Capital Ratio of 45.56% (2020 – 40.41%) and a stable Liquidity Coverage Ratio of 366.61% (2020 – 370.53%). In maintaining capital and liquidity ratios at levels far in excess of regulatory requirement, we have witnessed further de-leveraging of on and off-balance sheet assets and at the same time seen increases in our cash and cash equivalent assets achieving zero or near zero interest and thus impacting directly the income levels.

On a positive note and notwithstanding the difficult trading conditions, our Bank was able to generate a Profit before Tax position of £2.15m (2020 - £1.07m) an increase year on year of 101% leading to a total comprehensive income for the year equal to £1.43m (2020 – £1.04m).

In achieving this notable step, the Bank was able to maintain its operating income levels for the year at £11.6m (2020 - £11.6m), this also despite a 13% fall in the number of our trade export letter of credit transactions processed in the year, but through careful management and pricing of its risk assets and strong and continuing support for the markets and traders upon which our franchise has been built. We are confident that this position will endure in the coming months and years and cement the Banks position as a leading player in its key markets.

Our achievements and the ability to meet the challenges we face head on, are not possible without the unwavering support, commitment and dedication of the Bank's board, management, staff, customers and shareholders alike and we remain truly thankful.

S. G. Sfeir
Chairman
27 April 2022

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 £35m (2020 - £40m) and at the same time, under our UK deposit taking license, manages a customer deposit base of £173m (2020 - £150m). All eligible deposits, £39.8m (2020 - £37.5m), are covered by the Deposit Protection Scheme which is overseen by the Financial Services Compensation Scheme (FSCS).

Developments in Operating & Market Environment

Lebanon – continuing economic and financial crisis but with IMF Bailout Agreement in sight now.

For over two and half years now, Lebanon has been facing unprecedented deteriorating economic and financial conditions which has seen the value of the Lebanese Lira decimated. The failure of the Lebanese political class to enact badly needed reforms and agree an economic restructuring plan, which could attract meaningful material support and funding by the IMF and the International community, which has fuelled and exacerbated these economic and financial crises in the country. At the time of writing however there is increasing optimism from the Mikati led government that an IMF deal breakthrough maybe within reach. A Memorandum of Economic and Financial Policies could be agreed at staff level with the IMF before the forthcoming Lebanese parliamentary elections of May 2022. This Memorandum will include a list of measures/reforms that Lebanon will need to implement to pave the way for a disbursement of up to $3 billion in aid by the IMF which would also unlock a further $11 billion in other financial commitments made to Lebanon by the international community over the past few years. An IMF supported economic restructuring plan will also support Lebanon in its international debt restructuring negotiations, facilitate the restructuring of the Lebanese banking system and act as the catalyst for better days for the people of Lebanon.

Despite these severe and unprecedented economic challenges, the wider Lebanese banking system has proven to be resilient over the last two and half years, albeit at the expense of informal foreign exchange controls restricting all banks customers' access to USD deposits and their transfer abroad so as to safeguard the liquidity of the banking system. Indeed, we are aware that draft capital control legislation was agreed with the IMF, approved by the Council of Ministers of the Lebanese Government and submitted for scrutiny by parliamentary committees for further study before being put to a vote. Official capital controls are a requirement by the IMF for any aid package.

With this in mind, it is important to report, that in line with the Bank's risk appetite as directed by the Board, that Bank of Beirut (UK) - Ltd has zero credit risk exposure to the Lebanese Government, 3rd party Lebanese Financial Institutions and to Lebanese corporates and individual account holders who derive income from Lebanon. Also, worth noting that as of July 2021, and in collaboration with our parent BOB SAL, all intergroup borrowing/placements have been eliminated, with the exception of mutually held immaterial Vostro working balances.

Covid-19

The Covid-19 pandemic continued to impact the international supply chain during 2021, leading to cancellations and delay in shipment of goods which have impacted the African geographical markets served by the Bank and resulted in reduced trade finance business volumes. During this period the Bank has continued to operate with no compromise to its risk management or control and oversight governance arrangements, and always in accordance with latest UK Government guidelines. As the UK Government gradually eased and lifted all Covid-19 restrictions by February 2022, the Bank was prepared and ready and had also lifted the majority of its own office and working hours protocols and that at the time of writing was operating on pre Covid-2019 working conditions, with the majority of staff back to normal operating hours at its two offices in the City of London and Mayfair.

Covid-19 remains prevalent across the UK and internationally, although the effect and disruption to the international supply chain is expected to ease considerably during 2022 and the Bank expects that it will see a pick up to its trade finance business volumes from 2021. The Directors are confident that the Bank's tried and tested business model will continue to keep the Bank in good stead and will allow it to build and enhance its already profitable income streams.

Russian invasion of Ukraine

The Russian invasion of Ukraine in late February 2022, has brought with it an unprecedented raft of sanctions by the UK Government and its international partners against which Banks are being asked to navigate. Bank of Beirut (UK) - Ltd does not have any direct credit exposure to Russia as a Sovereign or any Russian registered corporate entities or individuals and is not restricted by any relationships under sanctions. Aside from screening against all relevant sanction lists, which may highlight indirect exposures on Russian related business, whether goods, entities, ports, etc., through trade finance transactions that the bank is asked to facilitate, these transactions are also subject to enhanced due diligence and, as directed by the Board the Bank will generally decline to facilitate such transactions.

Performance highlights

The 12-month period to 31 December 2021 proved to be every bit as challenging as 2020. The Covid-19 pandemic saw continued ups and downs throughout the year with a third wave arriving in the UK and Europe by autumn of 2021. The economic impact required substantial government intervention 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 the UK slowly returns to normal we are seeing inflationary pressures now impacting the market with subsequent interest rate rises to combat this. Bank of Beirut (UK) Ltd, have also continued to manage the additional challenges arising from the ongoing Lebanese political and economic crisis and our trade finance focus as impacted by the disruption in the international supply chains.

Despite all of this the Bank has maintained its operating income generating capacity at the comparative level of £11.62m for the year ended 31 December 2021 as against £11.65m for 2020. Notwithstanding a reduction in our Export Letter of Credit transactions by 12.8% from 2020, through careful risk management and dynamic pricing the Bank was able to maintain and increase its net commission income by 4.2% to £7.4m (2020 - £7.1m). With an overall stabilised operating income for 2021 and a lower year on year loan impairment figure of £297k (2020 - £1.64m), our Profit before Tax for the year ended 31 December 2021 was reported up at £2.1m (2020 - £1.1m). The reduction in the net impairment loss for the year included a net recovery of specific provision following the sale of the Republic of Lebanon Eurobond portfolio in March 2021 (£557k) and ECL write backs in line with reduced on and off-balance sheet exposure stemming from reduced trade finance business volumes. After taxation charges for the year equalling £737k, including an increase in deferred tax liabilities stemming from the impending increase in corporation tax from 19% to 25%, and a small movement in other comprehensive income, the Bank generated a total comprehensive income for the year of £1.43m (2020 - £1.04m).

As at year end 2021, cash and cash equivalent assets stood at £251.9m (2020 - £242.3m) including High Quality Liquid Assets (HQLA), and accounted for 61.4% (2020 – 57.5%) of Total Assets. The high proportion of cash and cash equivalent assets over total assets remains a conscious decision of the bank to continue to support our customers and franchise through the holding of strong liquidity and capital positions. The Bank in support of this position has maintained liquidity and capital resources that far exceeded its specific minimum regulatory requirements, demonstrating a responsible and conservative approach to business and an acknowledgement to sacrifice short term profitability for long term resilience.

Taking on board the conservative approach to risk appetite, coupled with the continued disruptive impact of the Covid-19 pandemic on the international supply chain, 2021 saw further reductions in both on and off-balance sheet credit risk trade finance related exposures. As a result, our loans and advances to customers, including banks, during the year ended 31 December 2021 reduced from £147m in 2020 to £129m. The deleveraging approach previously adopted and maintained in 2021 to Lebanese financial institution trade finance exposures has seen it reduce to zero and alongside the sale of our Lebanese Eurobond portfolio in March 2021, has resulted in the Bank holding zero credit risk exposure to the sovereign as well. Trade finance clean credit risk exposure to Bank of Beirut Sal has also reduced to zero and in collaboration with our parent BOB SAL, intergroup borrowing/placements have also been eliminated, resulting in a reduction of BOB SAL Group deposits by £22m year on year, with the exception of mutually held Vostro working balances or balances held as 100% cash margin against any ad hoc trade finance exposures. The effect was a reduction in bank deposits from £123.6m to £88.8m.

Total asset balances for the year closed slightly down at £410.2m (2020 - £420.9m) reflecting the reduced loans and advances to customers and banks but also the lower total deposits held by banks as noted above. In contrast to 2020, the Bank saw an increase year on year from its customer deposits up to £173m (2020 - £149m). The increased customer balances are from additional Lebanese customer deposits but also from new corporate trade business which result in fluctuating working capital balances and credit facility cash margins being maintained with our Bank.

Despite our combined customer and bank deposit liabilities reducing to £262.1m (2020 - £273.1m) as at 31 December 2021, our cash and balances at banks and placements with banks increased to £225.3m (2020 - £215.6m). Including our holdings of US and EU Treasuries held as Financial Assets to Fair Value (FVTOCI) of £26.6m (2020 - £26.7m), then the combined total of £251.9m (2020 - £242.3m) accounted for 96.12% (2020 – 88.72%) of total Customer and Bank deposit liabilities being £262.1m. This increasing ratio year on year continues to demonstrate the Bank's strategic direction towards maintaining increasing levels of liquidity, irrespective of near zero returns on cash and cash equivalent assets, and sacrificing short term profitability for long term resilience. As at 31 December 2021 the Bank reported a Liquidity Coverage Ratio (LCR) of 366.61% compared to 370.53% in 2020, which remains well ahead of the regulatory PRA minimum of 100%. The Bank maintains average HQLA balances of £80m, reporting £81.6m (2020 - £78.7m) including £55m with the Bank of England.

In terms of the bank's capital position, as at 31 December 2021 the Bank reported increased total equity of £104.9m (2020 - £103.5m). When combined with our PRA approved Tier 2 capital qualifying subordinated loans by Bank of Beirut Sal this leads to a total capital resources of £136.3m (2020 - £134.8m). After accounting for the reduced on and off-balance sheet exposures, the Bank has further increased its total capital adequacy ratio to 45.56% (2020 – 40.41%). Based on our regulatory capital reporting requirements as at 31 December 2021 our Total Capital headroom was £83m (2020 - £75m), which again reinforces our strategic direction of a conservative appetite towards risk and our drive to maintain strong capital positions for the long-term resilience of our Bank.

The financial statements for the reporting year ended 31 December 2021 are shown on pages 28 to 31.

Key performance indicators and ratios

The financial performance for the year to 31 December 2021 is summarised in the following table / (All figures are quoted in GBP '000s):

Income Statement	2021	2020
Net interest income	3,610	3,862
Fees and other income	8,015	7,787
Total operating income	11,625	11,649
Administrative expenses	9,127	8,883
Profit Before Tax	**2,157**	**1,074**

Balance Sheet	2021	2020
Loans and advances to customers	128,986	147,086
Total assets	410,239	420,885
Total deposits	262,126	273,128
Shareholders' funds*	136,332	134,878

Key Performance Indicators	2021	2020
Capital Adequacy Ratio	45.56%	40.41%
Liquidity Coverage Ratio	366.61%	370.53%
Cash & Cash equivalents / Gross Deposits	96.12%	88.72%
Net Interest Margin	0.95%	0.99%
Administrative expenses to Income ratio	78.51%	76.26%

** Includes Bank of Beirut Group Term Subordinated Term Loans*

Looking Forward

Market expectations of increasing interest rates in GBP and USD, our major operating currencies, will be a strong signal of increasing profitability for any bank and the case for our Bank is even louder given that around 50%-60% of our balance sheet assets are being invested in cash and cash equivalents. Indeed, with average base/reference interest rates expected to be around 1.50% by the end of 2022, our net interest income and bottom line profitability is expected to increase by at least £1m compared to 2021, other things being equal.

Given the uncertainties brought about by the Russian invasion of Ukraine and the resultant material inflationary dislocations brought about by hikes in global energy market and food commodity prices, it will be necessary to maintain our cautious approach towards our trade finance business. This approach is warranted and directed by our Board as although our major geographical markets will benefit from higher oil and gas prices, boosting their export revenues and foreign currency reserves in parallel as they will need to import increasingly expensive foodstuff commodities and basic raw materials for their basic manufacturing needs, their economies and currencies will be adversely affected by inflationary pressures as well as from capital flows to the safety of increasingly higher yielding USD risk free assets. Taking these challenging circumstances into consideration, 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. As we have done over the past few years, we will adopt and fine tune our dynamic and rigorous approach towards credit risk management which has been employed to identify, process and finance selective short term and good credit quality trade finance transactions. With regard to loans to customers, we continue to have some limited appetite in financing well secured trade finance working capital facilities and low leveraged unregulated short-term UK based property financing transactions.

In summary, our overall strategic objective, given also continuing economic and political uncertainties in our parent's home market of Lebanon, for the next 12 months is to continue to ensure the Bank's long-term resilience by maintaining high levels of liquidity and capital adequacy whilst at the same time ensuring good levels of operating profitability and staff retention.

Correspondent Banking and Trade Services

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

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

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

Corporate and Commercial Banking

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

Retail Banking

The Bank provides a selection of retail products and services to its customers covering current accounts, call deposit accounts, fixed term deposits and the provision of payment and clearing services. In 2019 the Bank received regulatory approval to provide Regulated Mortgage Loans to its non-resident customers. Our customer geographic locations are primarily from the Bank's core markets of UK, West Africa and Lebanon. It is our intention to continue to 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 has an experienced and knowledgeable client facing team that have responsibility for meeting the day to day requirements, servicing and management of our clients. The team led by the Managing Director & CEO seeks to ensure client satisfaction and that the highest standards of business conduct are maintained throughout the lifecycle of our engagement and operations. Updates on the Bank's engagement with its clients and other strategic business development initiatives are included within the Board papers. The Bank also addresses its relationships with suppliers, ensuring that where appropriate due diligence and assessments are undertaken on those designated critical suppliers to monitor their activities and supply chain.
- The Banks shareholder is represented on the Board via its Chairman and two other Non-Executive Directors.
- The Board of Directors strive to manage the Bank in a responsible manner, operating within the regulatory environment and highest standards of governance. The general aim is always to nurture our reputation through excellence in terms of our relevance to the customers and stakeholders, always treating them fairly and equally.

Corporate Governance

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

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

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

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

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

The Bank has two independent control functions.

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

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

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

Risk Governance

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

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

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

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

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

Audit, Risk & Compliance Committee

The Board Audit, Risk & Compliance Committee ("ARCC") is responsible to the Board for the quality and effectiveness of the risk, compliance and audit functions of the bank and ensures that the key risks to which the Bank is exposed and the adequacy and effectiveness of the controls to manage these risks are kept under review. It ensures that adequate resources are made available at all times in order to meet the Bank's regulatory and statutory obligations and that the executive management has established and maintains an effective system of internal controls on behalf of the Board.

Management Committee

The Management Committee ("ManCo") and its ALCO and Operational Resilience sub-Committees are responsible for the efficient and controlled operation of the business. It is authorised to take all steps necessary to conduct the business of the Bank within the confines of the Board's approved strategy, budgets and mandates. ManCo is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Bank.

Credit Committee

The Board Credit Committee ("BCC") reviews all requests for lending in excess of the designated authority of the Management Committee and ensures compliance with relevant lending policies. It is also responsible for reviewing annually the 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 committe ("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.

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

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

Risk Management

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

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

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

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

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

Climate Change

The Board has determined that the Bank should pay due regard to environmental and social risks to project-affected ecosystems communities, and the climate. Such risks should be avoided where possible or minimised where not. The Board is committed to ensure that it is able to transition to a low carbon world. The commitment is articulated in a separate Climate Change Policy and Action Plan adopted initially in 2019 and updated annually since 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, including consideration of environmental and reputational impacts; and commits to make greater disclosure, including via this section of the Strategic Report and in due course broader disclosure in keeping with emerging regulatory expectation and industry practice. The Board considers that the Bank's response to the financial risks arising from climate change is proportionate to the nature, scale and complexity of its business.

Diversity and Culture

The Bank supports a strong and diverse workforce giving considerable attention in selecting suitable employees that reflect the diversity of the business and the communities within which the Bank conducts its business operations. In order to meet its strategic objectives, the Bank recognises the importance of ensuring its employees have access to a wide range of learning and development tools and training, whether online, through collaboration, workshops and seminars or one to one. Individual development includes wider training on all regulatory aspects including conduct. Supported by its Performance Management programme, 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. The Board's own succession plan recognises the benefits to be gained from equality and gender diversity.

By order of the Board

Sophoklis Argyrou
Managing Director & CEO
27 April 2022

The directors present their annual report and the audited financial statements for the year ended 31 December 2021. The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards.

Results and Dividends

All profit for the year after taxation, which amounted to £1,419,884 (2020: £964,378) was transferred to reserves. After accounting for prior year tax adjustments, the directors recommend the payment of a dividend to the parent shareholder in 2022 equal to 50% of the profit after taxation for the year 2021. Please refer to Note 9 for a breakdown of the tax charge in 2021. The dividend payable after adjustment is £802,055 (2020: £nil).

Subsequent Events

Please refer to Note 33 for subsequent events.

Going Concern

These Financial Statements have been prepared on a going concern basis as the directors are satisfied that the Bank has the resources to continue in business for the foreseeable future.

In reaching this assessment the Directors have considered a wide range of information relating to present and future conditions. This assessment includes a review of the Banks' operational resilience, current and future effects on its business model and projections of profitability, capital resources and liquidity. In addition to the severe but plausible firm specific, market-wide and combined stress testing of capital, liquidity and recoverability that the Bank is required to undertake, a series of more severe shocks were considered in response to the continuing crisis in Lebanon 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 £136.3m (2020 - £134.8m) in total capital resources, a capital adequacy ratio of 45.56% (2020 - 40.41%) generating an increased total capital headroom of £84m (2020 - £69m) vs total risk exposures of £296m (2020 - £330m), combined with an LCR ratio of 367% (2020 - 371%) underpinned by 96% (2020 - 88%) cash and cash equivalent ratio to Gross Deposit liabilities, positions of the Bank as at 31 December 2021 underpinned the Banks ongoing ability to absorb and deal with these stresses over the forecasted periods.

Consequently, the Directors having considered possible effects from the Lebanon and Covid-19 crises and more recently conflict in Ukraine, 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 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.

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 2021.

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
Martin J Osborne
Fawaz H Naboulsi
Marcus John S Trench
Anthony J Bush
Ramzi Saliba
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 2022

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Bank's transactions and disclose with reasonable accuracy at any time the financial position of the Bank and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

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

Report on the Audit of the Financial Statements

1. Opinion

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

- give a true and fair view of the state of the Bank's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom adopted international accounting standards and International Financial Reporting Standards (IFRSs) as issued by the International Accounting Standards Board (IASB); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

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

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

2. Basis for Opinion

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

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

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

3. Summary of our Audit Approach

Key Audit Matters	The key audit matters that we identified in the current year were: • Allowance for expected credit losses; and • 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 £1.049m which was determined on the basis of 1% of closing net assets
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	We no longer consider the Lebanese government bond carrying values to be a key audit matter due to disposal of that bond in the current year.

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

Report on the Audit of the Financial Statements

4. Conclusions Relating to Going Concern

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

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

- Assessed the profit forecasts for the business, including looking at growth assumptions, management's historical forecasting accuracy for the year ended 31 December 2021 and performed a comparison of forecast to actual results for the first three months of the year;
- Engaged with internal regulatory specialists to assess the level of liquidity and the capital resources available to the Bank, including evaluating the ILAAP and ICAAP; and
- Evaluated management's stress tests and downturn scenarios to assess the ability of the Bank to continue to trade. Our assessment included challenging concentration risk to core geographies and evaluating whether these were factored into the stress scenarios.

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

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

5. Key Audit Matters

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

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

5.1. Allowance for Expected Credit Losses

<table>
<tr><td>Key Audit Matter Description</td><td>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 2021, the total allowance for expected credit losses (ECL) was £6.54m (2020: £5.16m), of which £5.96m related to loans classified as stage 3 (2020: £4.12m). 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 assessments are undertaken to determine the allowance taking into account, where appropriate the level of collateral.

Specifically, we classified the following as areas of key risk:
• the appropriateness of the specific provision against exposures in stage 3;
• the staging associated with 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 Bank's provisioning methodology for these Lebanese exposures given the current political and economic environment.</td></tr>
<tr><td>How the scope of our audit responded to the key audit matter</td><td>We completed the following procedures in relation to the allowance for expected credit losses:

• We obtained an understanding of the relevant controls over management's lending and allowance for ECL business cycles;
• We reassessed the reasonableness of the overall IFRS 9 methodology used by the Bank, 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 engaged credit modelling specialists to assess the model used by the Bank by testing a sample of ECL calculations;
• We tested a sample of Stage 3 impaired loans and assessed the appropriateness of specific provision amounts, focussing on the valuation of collateral and judgements made in determining the level of individual provisions; and
• Performed an overall assessment of the reasonableness of the provision by performing an analytical review using current and past results to understand all significant movements, including considering the appropriateness of audit evidence.</td></tr>
<tr><td>Key observations</td><td>We concluded that the allowance for expected credit losses was appropriately stated.</td></tr>
</table>

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

Report on the Audit of the Financial Statements

5.2. 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 2021, the Bank recognised fee and commission income of £7.43m (2020: £7.14m), which is received from trade finance and loan arrangements. The booking of fee and commission income is manual in nature and therefore there is potential for error and fraud through manipulation of fee recognition. Hence, we have identified the occurrence and accuracy of these revenue as a key audit matter. The Bank 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 Bank'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. In addition, we tested the relevant control over interest income. • 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 fee and commission income balance was materially correct.

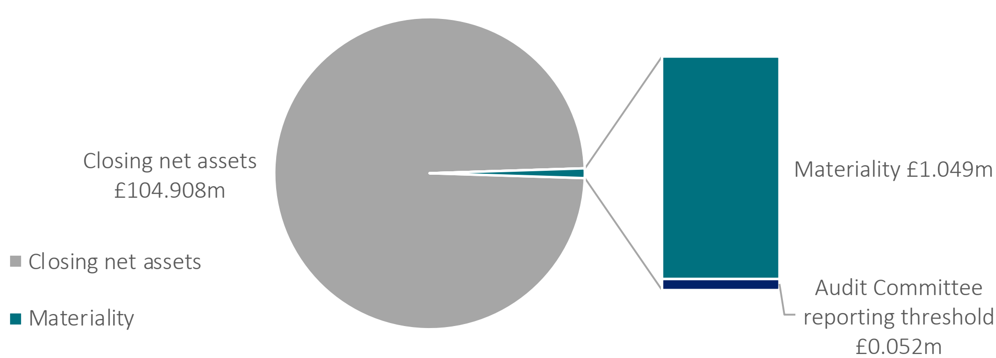
6. Our application of materiality

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	£1.049m (2020: £1.032m)
Basis for determining materiality	1% of closing net assets (2020: 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 Bank.



6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Performance materiality was set at 65% of materiality for the 2021 audit (2020: 65%). In determining performance materiality, we considered the quality of the Bank's control environment in the context of its size and the nature of its business as well as the 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 £52,450 (2020: £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 Bank 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 Bank are:

- BankMaster – BankMaster is the Bank's core application and is used for the management of customer accounts, Bank 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 2021. However, with the involvement of IT specialists, we evaluated the design of relevant controls relating to allowance for expected credit losses and revenue recognition 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.

7.3. Our consideration of the control environment

In planning our audit, we have considered the potential impact of climate change on the Bank's business and its financial statements. We read the climate related disclosures on the strategic report on page 14 to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

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 else to report in this regard.

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

Report on the Audit of the Financial Statements

9. Responsibilities of directors

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

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

10. Auditor's responsibilities for the audit of the financial statements

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

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

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

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

11.1. Identifying and assessing potential risks related to irregularities

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

- the nature of the industry and sector, control environment and business performance including the design of the Bank's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management 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 Bank's documentation of their policies and procedures relating to:
    - o identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
    - o detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
    - o 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: 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 Bank operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included 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 Bank's ability to operate or to avoid a material penalty. These included the Bank's regulations under the Financial Conduct Authority and Prudential Regulatory Authority.

Audit response to risks identified

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

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

Report on other legal and regulatory requirements

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

In our opinion, based on the work undertaken in the course of the audit:

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

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

Matters on which we are required to report by exception

12.1. 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.

12.2. 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.

13. Other matters which we are required to address

13.1. Auditor tenure

Following the recommendation of the audit committee, we were appointed by the board of directors of the Bank 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 20 years, covering the years ending 31 December 2002 to 31 December 2021.

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 committee we are required to provide in accordance with ISAs (UK).

Report on other legal and regulatory requirements

14. Use of our report

This report is made solely to the Bank's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Bank's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Bank and the Bank's members as a body, for our audit work, for this report, or for the opinions we have formed.

Christopher Brough.

Christopher Brough (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
London, United Kingdom
27 April 2022

Income Statement - Year ended 31 December 2021

	Notes	2021 - £	2020- £
Continuing operations			
Interest income	5	6,285,954	8,562,691
Interest expense	6	(2,676,035)	(4,700,447)
Net interest income		3,609,919	3,862,244
Net fees and commission income		7,427,098	7,136,129
Foreign exchange income	8	587,507	650,343
Total non-interest income		8,014,605	7,786,472
Total income		11,624,524	11,648,716
Administrative expenses	7	(9,127,080)	(8,883,489)
Finance cost	17	(43,086)	(47,249)
Net impairment losses	30	(296,978)	(1,644,446)
Profit before taxation	8	2,157,380	1,073,532
Taxation	9	(737,496)	(231,832)
Profit for the year from continuing operations		1,419,884	841,700
Discontinued operations			
Profit / (Loss) for the year from discontinued operations (Frankfurt Branch)		-	122,678
Profit for the year		**1,419,884**	**964,378**

Statement of other comprehensive income - Year ended 31 December 2021

	Notes	2021 - £	2020- £
Profit for the year		**1,419,884**	**964,378**
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income			
Gains arising during the year		12,964	98,037
Exchange difference on translating foreign operations, net of tax		-	-
Income tax relating to items that may be reclassified	9	(2,463)	(18,627)
Other comprehensive income for the year net of tax		10,501	79,410
Total comprehensive income for the year		**1,430,385**	**1,043,788**

Balance Sheet - Year ended 31 December 2021

	Notes	2021 - £	2020- £
Assets			
Cash and balances at banks		134,556,582	118,590,209
Placements with banks	10	90,779,289	96,991,973
Loans and advances to customers	11	128,985,707	147,085,526
Customers' acceptances	12	8,185,857	8,314,009
Debt securities at amortised cost	13	-	1,514,787
Financial assets at FVTOCI	14	26,630,892	26,727,334
Prepayments and accrued income		982,899	802,021
Current tax assets		-	60,526
Land and Buildings	15	18,800,215	18,959,279
Right-of-use lease assets	15	730,770	853,341
Property and equipment	15	383,531	677,795
Intangible assets	16	203,525	307,940
Total assets		**410,239,267**	**420,884,740**
Liabilities			
Deposits by banks	18	88,809,664	123,563,668
Customer accounts	19	173,316,640	149,564,207
Acceptances payable	12	8,217,828	8,371,891
Accruals and deferred income		560,450	297,795
Lease liabilities	17	765,280	869,986
Other liabilities	20	1,655,063	3,018,374
Current tax liability		131,981	-
Deferred tax liability	21	450,150	321,097
Subordinated loan	22	31,424,011	31,399,907
Total liabilities		**305,331,067**	**317,406,925**
Equity			
Called up share capital	23	34,150,000	34,150,000
Retained earnings	24	70,758,200	69,327,815
Total equity		**104,908,200**	**103,477,815**
Total liabilities and equity		**410,239,267**	**420,884,740**

These financial statements were approved by the board of directors and authorised for issue on 27 April 2022. They were signed on its behalf by:

S Argyrou - Managing Director & CEO
27 April 2022

Statement of changes in equity - Year ended 31 December 2021

	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**

	Called up share capital £	Retained Earnings £	Total £
As at 1 January 2021	34,150,000	69,327,815	103,477,815
Profit for the period	-	1,419,884	1,419,884
Other comprehensive income for the period	-	10,501	10,501
As at 31 December 2021	**34,150,000**	**70,758,200**	**104,908,200**

Cash Flow Statement - Year ended 31 December 2021

Cash flows from operating activities	Notes	2021 - £	2020- £
Profit for the year		1,419,884	964,378
Adjustments for:			
Taxation	9	737,496	231,832
Depreciation	15 & 16	808,663	974,335
Net impairment losses	30	296,978	1,644,446
Finance cost on lease liabilities	17	43,086	47,249
Taxation on discontinued operations		-	(122,678)
Operating cash flows before movements in working capital		3,306,107	3,739,562
(Increase) / decrease in prepayments and accrued income		(180,878)	24,836
Increase / (decrease) in accruals and deferred income		262,657	(480,209)
Net decrease in loans and advances to banks and customers		24,312,504	95,544,936
(Decrease) in deposits by banks and customer accounts		(11,001,572)	(71,629,737)
(Decrease) / increase in other liabilities		(1,363,311)	1,433,897
Cash generated from operations		15,335,507	28,633,286
Corporation tax paid		(294,700)	(6,278)
Corporation tax refund		-	205,633
Tax refunds on discontinued operations		-	122,678
Net cash generated from operating activities		15,040,807	28,955,319
Cash flows from investing activities			
Purchase of equipment and intangible assets	15 & 16	(128,348)	(284,226)
Purchase of land and building	15	-	(89,167)
Proceeds on maturity of treasury bills and other eligible bills		30,077,151	105,736,055
Purchase of treasury bills and other eligible bills		(29,630,801)	(84,515,703)
Net cash generated from investing activities		318,002	20,846,959
Cash flows from financing activities			
Lease payments under Finance Lease		(147,792)	(150,592)
Increase in cash and cash equivalents		**15,211,017**	**49,651,686**
Cash and cash equivalents at the beginning of the year		**118,590,209**	**68,480,164**
Effect of exchange rate changes on cash and cash equivalents		755,356	458,359
Cash and cash equivalents at the end of the year		**134,556,582**	**118,590,209**
Cash and cash equivalents comprised of:			
Cash and balances at banks		134,556,582	118,590,209

Notes to the financial statements - Year ended 31 December 2021

1. General information

Bank of Beirut (UK) Ltd ("the Bank") is a company incorporated in the United Kingdom under the Companies Act 2006. The address of the registered office is given on page 1. The nature of the Bank's operations and its principal activities are set out in the Strategic Report on pages 8 to 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 United Kingdom adopted 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 – Phase 2 - Amendments to IFRS 4, IFRS 7, IFRS 9, IFRS 16 and IAS 39

Financial authorities have undertaken 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 implemented its transition from Inter-bank Offered Rates (IBORs) to RFRs across its loan portfolios during the year with any new contracts entered into subject to an alternative benchmark. Any residual contracts with maturity dates after the end of 2021 will be linked to alternative risk free rates at that time. The Bank's two subordinated loans (see Note 22) from its parent have both since been renewed in 2022 against risk free rates.

The Bank's primary business focus is short dated trade related transactions and does not expect these changes to have a material impact on the Bank's financial statements going forward.

Future accounting developments

There are no standards or interpretations that are not yet effective and that would be expected to have a material impact on the financial statements of the Bank in future periods.

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 4 to 14 and the Directors' report on pages 15 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.

Notes to the financial statements - Year ended 31 December 2021

3. Significant accounting policies (continued)

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 still able to maintain operating profitability as well as sizeable capital and liquidity surpluses, recording a strong capital position of £136.3m (2020 - £134.8m) in total capital resources.

Revenue recognition

Net interest income

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

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

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

Fee and commission income and expense

Fees and commissions receivable which are not an integral part of the effective interest rate are recognised as income as the Bank fulfils its performance obligations. The Bank's principal performance obligations arising from contracts with customers are in respect of current and loan accounts. These fees are received, and the Bank provides the service, monthly; the fees are recognised as 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.

Notes to the financial statements - Year ended 31 December 2021

3. Significant accounting policies (continued)

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.

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

Notes to the financial statements - Year ended 31 December 2021

3. Significant accounting policies (continued)

or financial difficulty.

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

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

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

Financial liabilities and equity

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

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

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

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

Derivative financial instruments and hedge accounting

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

Notes to the financial statements - Year ended 31 December 2021

3. Significant accounting policies (continued)

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 asset(s) acquired separately

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

De-recognition of intangible assets

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

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

Taxation

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

The current tax charge is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never

Notes to the financial statements - Year ended 31 December 2021

3. Significant accounting policies (continued)

taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.
Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

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

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

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

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

4. Critical accounting judgements and 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 2021 the Bank's impairment losses on loans and advances to customers and banks (see Note 11) was £6.54 million (2020 - £5.16 million). 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.

Notes to the financial statements - Year ended 31 December 2021

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

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.

5. Interest income

Interest expense comprises interest incurred on:	2021 - £	2020- £
Loans and advances to banks	4,149,479	5,837,817
Loans and advances to customers	2,119,666	2,436,892
Debt securities at amortised cost	-	88,662
Financial assets at FVOCI	16,809	199,320
	6,285,954	**8,562,691**

The amount of interest income attributable to group companies is £173,469 (2020 - £485,067).

6. Interest expense

Interest income comprises interest from:	2021 - £	2020- £
Deposit by banks	262,296	487,368
Customers' accounts	1,272,061	2,166,616
Deposits by group companies	1,141,678	2,046,042
Financial assets at FVOCI	-	421
	2,676,035	**4,700,447**

7. Administrative expenses

	2021 - £	2020- £
Staff costs during the year (including directors)		
Wages and salaries	4,076,057	4,025,510
Social security costs	459,295	445,474
Other staff costs	272,662	304,439
Pension costs	329,726	319,367
Total staff costs	**5,137,740**	**5,094,790**
Occupancy costs	611,176	634,162
Administrative costs	2,569,501	2,180,202
Depreciation	808,663	974,335
Total administrative expenses	**9,127,080**	**8,883,489**

Notes to the financial statements - Year ended 31 December 2021

7. Administrative expenses (continued)

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

	2021 - £	2020- £
Commercial and retail banking activities	61	69

Directors' emoluments

Directors' remuneration during the year consists of:

	2021 - £	2020- £
Salaries and other emoluments	758,299	747,118
Pension costs	22,506	22,323
	780,805	**769,441**

The emoluments of the highest paid director for the year ended 31 December 2021 were £428,890 (2020 - £429,020). The highest paid director is a member of the Bank's pension scheme. There were two directors (2020 - two directors) who were part of the Bank's pension scheme.

8. Profit before taxation

The profit is stated after (crediting) /charging:

	2021 - £	2020- £
Net foreign currency gains	(587,507)	(650,343)
Auditor's remuneration		
Audit services	190,000	152,240
Non-audit services	-	7,078
Depreciation (includes right of use asset depreciation)	808,663	974,335

The breakdown of non-audit services is as follows:

	2021 - £	2020- £
Professional services	-	5,578
Other services	-	1,500
	-	**7,078**

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	2021 - £	2020- £
Current year	424,218	247,185
Prior year adjustment	184,225	(92,852)
Total Current tax charge	608,443	154,333
Deferred tax charge	129,053	77,499
Total tax expense	**737,496**	**231,832**

The charge for tax is based upon a UK corporation tax rate of 19% from 1 January 2021 to 31 December 2021 together with adjustments for future deferred tax rates of 25% effective from 1 April 2023.

Notes to the financial statements - Year ended 31 December 2021

9. Taxation (continued)

Factors affecting the tax charge for the year:	2021 - £	2020- £
Profit before taxation	2,157,380	1,073,532
Tax charge at UK Corporation tax rate of 19% (2020: 19%)	412,365	203,971
Effects of:		
Fixed asset differences	39,142	134,984
Expenses not deductible for tax purposes	3,945	19,217
Other tax adjustments, reliefs and transfers	-	(33)
Income not taxable for tax purposes	(2,463)	-
Adjustment to prior periods	184,225	(92,852)
Adjustment to tax charge in respect of previous periods deferred tax	(7,755)	(55,575)
Remeasurement of deferred tax for changes in tax rates	108,036	22,120
Tax expense for the year	**737,496**	**231,832**

The above factors include a charge of £184,225 which represented a prior year 2020 tax adjustment.

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:	2021 - £	2020- £
Financial assets at FVTOCI		
Gains/(Losses) arising during the year	12,964	98,037
Total income tax recognised in other comprehensive income	(2,463)	(18,627)

10. Placement with banks

	2021 - £	2020- £
Maturing in three months or less	90,779,289	96,991,973

Amounts in respect of group companies included in placements with banks is £Nil (2020 - £10,768,890). ECL's are included in these balances as per IFRS9. The ECL amount as at 31 December 2021 was £367 for placements (2020 - £20,349).

11. Loans and advances to customers

	2021 - £	2020- £
Repayable:		
On demand or at short notice	18,482,686	22,967,948
Remaining maturity:		
Three months or less excluding on demand	89,630,473	90,304,894
One year or less but over three months	20,658,450	33,160,757
Three years or less but over one year	6,751,617	5,554,347
Five years or less but over three years	-	256,436
	135,523,226	**152,244,382**
Impairment loss allowance	(6,537,519)	(5,158,856)
	128,985,707	**147,085,526**

Notes to the financial statements - Year ended 31 December 2021

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 £8,185,857 (2020 - £8,314,009) and includes an ECL amount of £31,971 (2020 - £57,882). 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 25.

13. Debt securities at amortised cost

Items that may be reclassified subsequently to profit or loss:	2021 - £	2020- £
Lebanese Eurobonds	-	1,514,787
	-	**1,514,787**

The investments in Lebanese Eurobonds are measured at amortised cost. On 29 March 2021 the Bank agreed the sale of its small portfolio of Lebanese Government Eurobonds which had a carrying value of USD$7m but which had been written down to £1.51m. Completion of the sale resulted in a write back that was considered immaterial. The investment was classified as stage 3. The ECL for the year 2021 is £Nil (2020 - £1,968,482).

The movements during the year are summarised as follows:

Items that may be reclassified subsequently to profit or loss:	2021 - £	2020- £
Balance as at 1 January	1,514,787	3,381,421
Disposals	(1,514,787)	-
Unpaid interest and discounts due	-	289,947
Provisions	-	(1,968,482)
Exchange differences on monetary assets	-	(188,099)
Balance as at 31 December	-	1,514,787

14. Financial assets at fair value through other comprehensive income

The Bank's holding of UK, US and EU 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 2021 of £606 (2020 - £538).

The movements during the year are summarised as follows:

UK Treasury Bills	2021 - £	2020- £
Balance as at 1 January	-	16,987,131
Acquisitions	3,000,000	24,965,100
Maturities	(3,000,000)	(41,999,791)
Discount received	-	34,900
Revaluation	-	12,660
Movement in fair value	-	-
Balance as at 31 December	**-**	**-**

Notes to the financial statements - Year ended 31 December 2021

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

US Treasury Bills	2021 - £	2020- £
Balance as at 1 January	26,727,334	31,727,574
Exchange differences on monetary assets	349,818	(1,048,951)
Acquisitions	24,109,792	59,550,603
Maturities	(27,077,151)	(63,736,264)
Discount received	-	156,739
Premium paid	-	(383)
Revaluation	(11,883)	77,911
Movement in fair value	(381)	105
Balance as at 31 December	24,097,529	26,727,334

EU Treasury Bills	2021 - £	2020- £
Balance as at 1 January	-	-
Exchange differences on monetary assets	-	-
Acquisitions	2,521,008	-
Maturities	-	-
Discount received	-	-
Premium paid	-	-
Revaluation	12,580	-
Movement in fair value	(225)	-
Balance as at 31 December	2,533,363	-

Notes to the financial statements - Year ended 31 December 2021

15. Property and equipment

	Leasehold Right of Use £	Leasehold improvements £	Fixtures, fittings and equipment £	Land and Buildings £	Total £
Cost					
At 1 January 2020	1,023,411	504,764	1,947,262	19,337,893	22,813,330
Additions	81,341	-	75,963	89,167	246,471
Disposals	(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
Additions	-	-	18,592	-	18,592
Disposal	-	-	-	-	-
Translation difference	-	-	(239)	-	(239)
At 31 December 2021	1,032,383	39,488	1,978,814	19,427,060	22,477,745
Depreciation					
At 1 January 2020	82,498	504,734	946,788	308,993	1,843,013
Charge for the year	124,567	22	398,547	158,788	681,924
Disposals	(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
Charge for the year	122,571	-	312,856	159,064	594,491
Disposal	-	-	-	-	-
Translation difference	-	-	(239)	-	(239)
At 31 December 2021	301,613	39,480	1,595,291	626,845	2,563,229
Net Book Value					
At 31 December 2021	730,770	8	383,523	18,800,215	19,914,516
At 31 December 2020	853,341	8	677, 787	18,959,279	20,490,415

Notes to the financial statements - Year ended 31 December 2021

16. Intangible assets

	Computer software £
Cost	
At 1 January 2020	1,462,847
Additions	126,922
Translation difference	(4,572)
Foreign Exchange	12,184
At 31 December 2020	1,597,381
Additions	109,757
Translation difference	-
Foreign Exchange	(14,918)
At 31 December 2021	1,692,220
Amortisation	
At 1 January 2020	987,893
Charge for the year	293,936
Disposals	(4,572)
Foreign Exchange	12,184
At 31 December 2020	1,289,441
Charge for the year	214,172
Disposals	-
Foreign Exchange	(14,918)
At 31 December 2021	1,488,695
Net book value	
At 31 December 2021	203,525
At 31 December 2020	307,940

Intangible assets consist of computer software which is amortised over a period of three years on straight line basis.

Notes to the financial statements - Year ended 31 December 2021

17. Leases

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

Summary of the impact on the financial statement:

Income statement year ended 31 December	2021 - £	2020- £
Depreciation	122,570	123,042
Finance charge	43,086	47,249
	165,656	**170,291**

Summary of statement of financial position	2021 - £	2020- £
Non-current assets (right-of-use)	730,770	853,341
Non-current liabilities	617,488	722,194
Current liabilities	147,792	147,792

Future minimum lease payments	Curzon St £	Printers £	Total £
Not later than 1 year	120,861	26,931	147,792
Greater than 1 year and less than 5 years	483,444	26,931	510,375
Greater than 5 years	241,722	-	241,722
	846,027	**53,862**	**899,889**

In the year 2021, the value of lease assets is £730,770 (2020 - £853,341). The lease liability at the end of the year is £765,280 (2020 - £869,986) and the lease asset is less than lease liability by £34,510 (2020 - £16,645).

18. Deposits by banks

	2021 - £	2020- £
Repayable on demand	44,012,535	49,500,351
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	41,121,811	54,502,271
Between three months and one year	3,675,318	19,561,046
	88,809,664	**123,563,668**

Included in the above are amounts due to parent undertakings of £3,149,996 (2020 - £25,140,944).

19. Customer accounts

	2021 - £	2020- £
Repayable on demand	96,649,466	73,634,631
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	59,803,871	52,629,358
Between three months and one year	16,863,303	23,300,218
Between one year and five years	-	-
	173,316,640	**149,564,207**

Notes to the financial statements - Year ended 31 December 2021

20. Other liabilities

	2021 - £	2020- £
Other taxes and social security costs	8,304	5,584
Other liabilities	1,646,759	3,012,790
	1,655,063	**3,018,374**

21. Deferred tax

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

	2021 - £	2020- £
At beginning of year	(321,097)	(243,598)
Income statement (charge)	(129,053)	(77,499)
At end of year	(450,150)	(321,097)

The deferred tax asset/(liability) is attributable to temporary differences arising in respect of the following items:		
Deferred income tax assets / (liability)		
Fixed asset temporary differences	(657,692)	(505,117)
Short term temporary differences	207,542	184,020
Net deferred tax (liability)	(450,150)	(321,097)

22. Subordinated Loan

The Bank signed an agreement for the issue of a 10-year Subordinated loan of USD 20 million on 19 March 2007 with Bank of Beirut Sal, its immediate and ultimate parent company. 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.

In line with regulatory and the wider industry review and usage of IBOR (Inter Bank Offer Rate) as a referencing rate, the Bank has since agreed amendments with Bank of Beirut Sal, to reflect amending the nominated reference rate from GBP 1 Year LIBOR to 1 Year Term SONIA (Sterling Overnight Index Average) in respect of the debt denominated in GBP and from USD 3 Month LIBOR to 3 Month Term SOFR (Secure Overnight Financing Rate) for the debt denominated in USD. These amendments are effective in the financial year 2022 and beyond.

	2021 - £	2020- £
As at 1 January	31,399,907	32,108,072
Additions	-	-
Accrued interest	837,216	997,893
Foreign exchange movements	(813,112)	(1,706,058)
As at 31 December	31,424,011	31,399,907

Notes to the financial statements - Year ended 31 December 2021

23. Called up share capital

	2021 - £	2020- £
Authorised	50,000,000	123,042
50,000,000 ordinary shares of £1 each at beginning and end of the year		50,000,000
Called up, allotted and fully paid		
34,150,000 (2020: 34,150,000) ordinary shares of £1 each at beginning of the year	34,150,000	34,150,000
34,150,000 ordinary shares of £1 each at end of the year	34,150,000	34,150,000

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

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2021	34,150,000	69,327,815	103,477,815
Profit for the year		1,419,884	1,419,884
Other comprehensive income for the year		10,501	10,501
As at 31 December 2021	34,150,000	70,758,200	104,908, 200

25. Contingent liabilities

ECL for Contingent liabilities of £106,244 (2020 - £168,534) is included within exposures under Loans and Advances to Customers:

Income statement year ended 31 December	2021 - £	2020- £
Irrevocable letters of credit	108,207,554	107,754,816
Guarantees	2,029,390	932,620
	110,236,944	**108,687,436**

26. Commitments

Formal standby facilities, credit lines and other commitments to lend:	2021 - £	2020- £
Less than one year	68,972,711	69,014,563
One year and over	16,693,411	11,205,114
	85,666,122	**80,219,677**

	2021 - £	2020- £
Of which undrawn commitments are shown below and includes an ECL of £4,421 (2020 - £188).	17,124,658	17,028,695

Notes to the financial statements - Year ended 31 December 2021

27. Related party transactions

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

	2021 - £	2020- £
Interest received from holding company	173,469	485,067
Interest paid to holding company	(1,141,678)	(2,046,041)
Fees paid to holding company	(498,170)	(233,942)
Sale of treasury bonds to holding company	1,514,787	-

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

	2021 - £	2020- £
Deposits from:		
Current /call accounts	2,450,884	4,651,169
Fixed Deposits	699,112	20,489,775
Exposures to:		
Loans	-	10,768,990
Bills Discounted	-	-
Current/call accounts	266,813	844,775
Letters of Credit	422,695	-
Acceptances	35,873	172,065
Guarantees, Bid & Performance Bonds	-	-

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

Directors' Transactions

The following transactions have taken place with directors:

The Bank gave to two of its Executive Directors in 2021 unsecured non-interest bearing loans payable within 12 months. These amounted to £2,076 (2020 - £2,029) in respect of personal travel costs and £2,288 (2020 - £2,435) 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 2021 was £88,461 (2020 - £37,418). During the year, the Bank also provided a short-term temporary overdraft facility to another Non-Executive Director against their fixed deposit held as security. The overdraft was cleared upon maturity of the fixed deposit in December 2021.

	2021 - £	2020- £
Deposits from Directors	4,975,415	3,821,281

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

Remuneration of key management personnel

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

	2021 - £	2020- £
Short-term employee benefits	758,299	747,118
Post-employment benefits	22,506	22,323
	780,805	**769,441**

Other Related Party Transactions

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

Notes to the financial statements - Year ended 31 December 2021

27. Related party transactions (continued)

	2021 - £	2020- £
Deposits from other related parties	23,336,210	17,992,156
Loans to other related parties	1,800,000	1,800,000

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

28. Ultimate parent and controlling party

The ultimate parent and controlling party as at 31 December 2021 are Bank of Beirut Sal, which is incorporated in Lebanon. All of the Bank's issued share capital is wholly owned by Bank of Beirut Sal, which is the parent company of the smallest and largest groups into which the results of the Bank are consolidated. Copies of the group accounts can be obtained from 66 Cannon Street, London EC4N 6AE.

29. Dividends

The proposed final dividend is subject to approval by the shareholders and has not been included as a liability in these financial statements. The total estimated dividend to be paid is £802,055, which is equivalent to £0.02348623 per share. The payment of this dividend will not have any tax consequences for the Bank.

30. Financial instruments and risk management

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

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

The Bank does not have a trading book.

As at the end of 31 December 2021, 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 2021 and 2020 the Bank has not entered into any exchange related contracts.

Valuation hierarchy

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide on going pricing information,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

Valuation hierarchy (continued)

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

Financial Assets	Quoted Market prices (Level 1) £	Valuation techniques using observable data (Level2) £	Valuation techniques using non-observable market data (Level3) £
UK Treasury Bonds – FVTOCI	-	-	-
US Treasury Bonds – FVTOCI	26,727,334	-	-
EU Treasury Bonds – FVTOCI	-	-	-
As at 31 December 2020	26,727,334	-	-

Financial Assets	Quoted Market prices (Level 1) £	Valuation techniques using observable data (Level2) £	Valuation techniques using non-observable market data (Level3) £
UK Treasury Bonds – FVTOCI	-	-	-
US Treasury Bonds – FVTOCI	24,097,529	-	-
EU Treasury Bonds – FVTOCI	2,533,363	-	-
As at 31 December 2021	26,630,892	-	-

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

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

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

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which employees understand their roles and obligations.

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

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

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

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:

	2021 Carrying Value £	Maximum Exposure £	2020 Carrying Value £	Maximum Exposure £
Placement with banks:				
Loans and receivables	90,779,289	90,779,289	96,991,973	96,991,973
Loans and advances to customers:				
Loans and receivables	128,985,707	118,730,038	147,085,526	135,599,527
Net letters of credit and guarantees	110,236,944	85,745,541	108,687,436	80,549,736
Loan commitments (unutilised)	17,124,658	10,971,715	17,028,695	13,482,458
	347,126,599	**306,226,583**	**369,793,630**	**326,693,694**

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	2021 - £	2020- £
Cash and balances at banks	9,780	24,849
Placements with banks	19,909	3,341
Loans and advances to customers	(972,265)	178,122
Debt securities at amortised cost	557,277	(1,968,481)
Financial assets at FVTOCI	(68)	(105)
Acceptances	25,911	(1,392)
Contingent liabilities	66,711	117,492
Outstanding facilities	(4,232)	1,728
Net impairment losses	**(296,978)**	**(1,644,446)**

Notes to the financial statements - Year ended 31 December 2021

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:

As at 31 December 2020	Loans and receivables at amortised cost £	Other amortised cost £	FVTOCI £	Non-financial assets £	Total £
Assets					
Cash and due from banks	118,590,209	-	-	-	118,590,209
Placements with banks	96,991,973	-	-	-	96,991,973
Loans & 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 & 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 2021

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

As at 31 December 2021	Loans and receivables at amortised cost £	Other amortised cost £	FVTOCI £	Non-financial assets £	Total £
Assets					
Cash and due from banks	134,556,582	-	-	-	134,556,582
Placements with banks	90,779,289	-	-	-	90,779,289
Loans & advances to customers	128,985,707	-	-	-	128,985,707
Customers' acceptances	8,185,857	-	-	-	8,185,857
Debt securities at amortised cost	-	-	-	-	-
Financial assets at FVTOCI					
- UK Treasury bonds	-	-	-	-	-
- US Treasury bonds	-	-	24,097,529	-	24,097,529
- EU Treasury bonds	-	-	2,533,363	-	2,533,363
Current Tax assets	-	-	-	-	-
Land & Buildings	-		-	18,800,215	18,800,215
Property and equipment	-		-	383,531	383,531
Intangible assets	-		-	203,525	203,525
Right-of-use lease assets	-	-	-	730,770	730,770
Goodwill		-		-	-
Deferred tax assets	-	-	-	-	-
Prepayments & accrued income	-	-	-	982,899	982,899
Total assets	**362,507,435**	**-**	**26,630,892**	**21,100,940**	**410,239,267**

Movements in provision for the year provided below:

Movement in provisions	12 month ECL (Stage 1) 2020 £	Lifetime ECL (Stage 2) 2020 £	Lifetime ECL (Stage 3) 2020 £	Total £
At 1 January 2020 per IFRS 9	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**

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

Movement in provisions	(Stage 1) 2021 £	(Stage 2) 2021 £	(Stage 3) 2021 £	2021 £
At 1 January 2021	845,237	286,441	8,126,386	9,258,064
Movement in Stage 1 ECL	(428,239)	-	-	(428,239)
Movement in Stage 2 ECL	-	14,845	-	14,845
Movement in Stage 3 ECL	-	-	(2,032,357)	(2,032,357)
Foreign exchange and other movements	-	-	48,158	48,158
Interest Suspense	-	-	(182,502)	(182,502)
At 31 December 2021	**416,998**	**301,286**	**5,959,685**	**6,677,969**

Movement in gross carrying amount of loans

	Loans £	Loans £	Loans £	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**

	Loans £	Loans £	Loans £	Total 2021 £
At 1 January 2021	132,421,481	13,378,763	6,444,139	152,244,383
Movement in Stage 1	(13,725,207)	-	-	(13,725,207)
Movement in Stage 2	-	(4,989,387)	-	(4,989,387)
Movement in Stage 3	-	-	1,993,437	1,993,437
At 31 December 2021	**118,696,274**	**8,389,376**	**8,437,576**	**135,523,226**

Reflecting the credit downgrades of the Lebanese sovereign rating and evolving Lebanese crisis, all our Lebanese exposures were re-classified as Stage 2 in 2019. In line with the revised risk appetite approach of the Bank, exposures to Lebanese Financial Institutions have been run down across 2020 and 2021 leading to a reduction in our Stage 2 exposures from £32m at 1 January 2020 to £8.39m as at 31 December 2021, with no exposures to Lebanese Financial Institutions. The Stage 2 closing figure does include exposures to Lebanese offshore companies classified as Stage 2 in accordance with our IFRS 9 model, however in all cases the source of funds remains from outside Lebanon and in each case there is no evidence of significant increase in credit risk or delays in repayment.

Stage 3 exposures increased by £1.99m in the year, which included the addition of one corporate exposure of £1.28m. The Bank has agreed a restructuring programme with the client. Of the total Stage 3 exposures the Bank holds specific provision, interest in suspense or ECLs equal to 70% of total exposure.

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 2021. 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.

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

30.1 Credit risk (continued)

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 16.48% - £78,619 (2020 – 16.92% - £149,900) 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 12.42% - £59,245 (2020 – 11.93% - £105,700).

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 2021	Loans and advances to customers 2020
UK	14,525,484	8,033,838
Europe	7,543,696	8,642,397
Africa	97,987,026	117,145,172
Rest of the world	8,929,501	13,264,119
Total	**128,985,707**	**147,085,526**

Notes to the financial statements - Year ended 31 December 2021

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 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**
As at 31 December 2021	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Non-derivative liabilities	-	-	-	-	-	-
Deposits by banks	88,810	49,232	35,902	3,676	-	88,810
Customer accounts	173,317	127,444	29,010	16,728	135	173,317
Subordinated loan	31,424	-	-	-	31,424	31,424
	293,551	**176,676**	**64,912**	**20,404**	**31,559**	**293,551**

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 summarises the repricing mismatches on the Bank's assets and liabilities as at 31 December 2021 and 31 December 2020.

Items are allocated to time bands by reference to the earlier of the next contracted interest rate repricing date and the maturity date.

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

30.3 Interest rate risk (continued)

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 2021. 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.

Interest rate sensitivity gap analysis 31 December 2021	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 & 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	-	-

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

30.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2021	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	119,552	-	-	-	-	15,005	134,557
Placements with banks	90,779	-	-	-	-	-	90,779
Loans & advances to customers	101,715	8,808	11,719	6,744	-	-	128,986
Customers' acceptances	-	-	-	-	-	8,186	8,186
Debt securities at amortised cost:							
- Eurobonds	-	-	-	-	-	-	-
Financial assets at FVTOCI:							
- EU Treasury Bonds	-	-	2,533	-	-	-	2,533
- US Treasury Bonds	7,418	11,494	5,186	-	-	-	24,098
Land & Buildings	-	-	-	-	-	18,800	18,800
Property and equipment	-	-	-	-	-	383	383
Intangible assets	-	-	-	-	-	203	203
Right-of-use lease assets	-	-	-	-	-	731	731
Current tax assets	-	-	-	-	-	-	-
Due from HMRC	-	-	-	-	-	-	-
Prepayments and accrued income	-	-	-	-	-	983	983
Total assets	**319,464**	**20,302**	**19,438**	**6,744**	**-**	**44,291**	**410,239**
Liabilities							
Deposits by banks	157	3,098	85,555	-	-	-	88,810
Customers' accounts	9,074	7,884	156,224	135	-	-	173,317
Acceptances payable	-	-	-	-	-	8,218	8,218
Accruals and deferred income	-	-	-	-	-	560	560
Right-of-use lease liabilities	-	-	-	79	686	-	765
Other liabilities	-	-	-	-	-	1,655	1,655
Current tax liability						132	132
Deferred tax liability	-	-	-	-	-	450	450
Subordinated loan	14,778	-	16,646	-	-	-	31,424
Equity	-	-	-	-	-	104,908	104,908
Total liabilities and equity	**24,009**	**10,982**	**258,425**	**214**	**686**	**115,923**	**410,239**
Interest rate sensitivity gap	295,455	9,320	(238,987)	6,530	(686)	(71,632)	-
Cumulative gap	295,455	304,775	65,788	72,318	71,632		-

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

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

30.3 Interest rate risk (continued)

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

	2021	2020
Financial assets		
Placements with banks	0.04%	1.70%
Loans and advances to customers	5.38%	4.50%
Treasury bills	0.00%	0.00%
Financial liabilities		
Deposits by banks	0.53%	0.85%
Customer Accounts	0.91%	0.66%

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:

	2021		2020	
	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	545	(523)	592	(572)

30.4 Foreign exchange risk

Foreign exchange risk is the risk that changes in foreign currency rates which 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 2021 and 31 December 2020, 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.

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

30.4 Foreign exchange risk (continued)

As at 31 December 2020	Sterling £'000	US dollar £'000	Euros £'000	Other currencie £'000	Total £'000
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**

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

30.4 Foreign exchange risk (continued)

As at 31 December 2021	Sterling £'000	US dollar £'000	Euros £'000	Other currencie £'000	Total £'000
Assets					
Cash and balances at banks	70,317	46,362	17,518	360	134,557
Placements with banks	30,004	45,181	15,594	-	90,779
Loans and advances to customers	31,259	92,331	5,396	-	128,986
Customers acceptances	-	5,102	3,084	-	8,186
Debt securities at amortised cost:					
- Eurobonds	-	-	-	-	-
Financial assets at FVTOCI:					
- UK Treasury bonds	-	-	-	-	-
- EUTreasury bonds	-	-	2,533	-	2,533
- US Treasury bonds	-	24,098	-	-	24,098
Land & Buildings	18,800	-	-	-	18,800
Property and equipment	383	-	-	-	384
Intangible assets	203	-	-	-	204
Right-of-use lease assets	731	-	-	-	731
Current tax assets	-	-	-	-	-
Due from HMRC	895	55	33	-	983
Prepayments and accrued income					
Total assets	**152,592**	**213,129**	**44,158**	**360**	**410,239**
Liabilities					
Deposits by banks	7,925	65,886	14,663	356	88,810
Customer accounts	20,134	128,971	24,207	4	173,317
Acceptances payable	-	5,134	3,084	-	8,218
Accruals and deferred income	404	82	74	-	560
Right-of-use lease liabilities	765	-	-	-	765
Other liabilities	1,655	-	-	-	1,655
Current tax liability	132	-	-	-	132
Deferred tax liability	450	-	-	-	450
Subordinated loan	16,646	14,778	-	-	31,424
Total liabilities	**48,111**	**214,852**	**42,008**	**360**	**305,331**
Net assets/(liabilities)	**104,481**	**(1,723)**	**2,150**	**1**	**104,908**

Notes to the financial statements - Year ended 31 December 2021

30. Financial instruments and risk management (continued)

30.4 Foreign exchange risk (continued)

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

31. Capital risk management

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

The Pillar 1 requirement is the higher of

a. the base capital requirement; and

b. the variable capital requirement which is the sum of:

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

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

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 2021 the total capital resources of the Bank is £136.3m (2020 - £134.8m).

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, 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 2021.

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

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

32. Collateral

Of the total amount of loans classified as Stage 3, the Bank holds collateral valued at £1,558,976 (2020 - £1,539,560) in the form of property on a loan with a carrying value of £358,681 (2020 - £313,931). We expect that this collateral will cover the exposure.

Notes to the financial statements - Year ended 31 December 2021

33. Events after the audit reporting period

33.1 Russia and Ukraine conflict

The bank has no direct exposure to Russia and only one fully cash-backed guarantee for €350k issued on behalf of a Ukrainian bank. This issue had already been added to the Bank's risk register in 2021, given clear indications of the escalating tensions within the region.

The Bank had consequently implemented a cautious approach, which ensured when subsequently Russia invaded Ukraine there were only a small number of transactions on the Bank's books.

It is worth noting that several transactions have been declined since, where the transactions may have included goods or commodities sourced from Russia or shipment was from either Russian or Ukrainian ports.

As such, the principal impact to date is loss of potential revenue as the Bank turns away profitable business to conserve capital and its reputation in the eyes of its correspondent banks.

33.2 Payment of Final Dividend

The Board agreed and resolved at its Extraordinary Board Meeting of 20 April 2022 to the payment of a final dividend in 2022 to the Bank's shareholder equal to £802,055 representing 50% of the Bank's Annual Profit after Tax for 2021 after accounting for prior tax year 2020 adjustments.