Company Registration No. 4406777

Bank of Beirut (UK) Ltd

Report and Financial Statements
31 December 2017

Report and financial statements 2017

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Officers and professional advisers

Directors

Salim G Sfeir (Chairman)

Sophoklis Argyrou

Martin Osborne

Fawaz H Naboulsi

Marcus John S Trench

Anthony J Bush

Ramzi Saliba

Antoun Samia

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Auditor
Deloitte LLP
Statutory Auditor
London, United Kingdom

Chairman´s Statement

Last year saw the UK invoke Article 50 to leave the EU. Brexit and its wider implications was market neutral as far as our Bank was concerned and in the 12 months to December 2017 we were able to grow gross revenues including interest income, fees and commissions to £21.6m (2016 - £16.6m) or an increase of 30% year on year. We were able to do so by leveraging on our knowledge and Wholesale Export trade finance market expertise in predominantly West Africa where despite the difficult economic environment and the ups and downs of oil prices we were able to navigate and register good business performance.

In Europe and the UK the economic position remains challenging as the respective governments work towards finding a compatible and harmonious Brexit solution to suit all parties. Although it appears that some common ground has been found through a tacit agreement for the implementation of 2 year transitional arrangements to December 2020, uncertainty will remain until such a final Brexit divorce arrangement is finalised. With the backdrop of these historical events in mind, we are well on our way in preparing and submitting an application to convert our EU Passported Branch banking license in Frankfurt into a Branch Banking license under German rules and regulations. It is encouraging to note that our business operation in Frankfurt is beginning to reach expected levels of return on investment for the Bank of Beirut (UK) Ltd franchise, increasing their own net profit by more than 50% year on year in 2017.

In the 12 months to 31 December 2017, we have been able to implement and execute effectively a business plan, that has led to a profit after tax of £7.42m (2016 - £5.31m), an increase of 39.74%. The background to the positive results in 2017 has been the significant increase of trade business leading to record levels of Export Letters of Credit values and numbers handled. In 2017, the Bank handled in excess of 3,500 Export LCs, up by more than 50% from 2016. It is important to note that during the same time our Bank invested in material additional human resources to enable and sustain this growth of business. With additional members of staff we were able to handle these higher levels of trade finance business and still in parallel follow stringent Credit and Operational Risk Management processes underpinned by specific Letters of Credit transaction assessment and monitoring practices.

With regard to our Balance Sheet, we note steady growth in 2017, with total liabilities reported at £424.1m (2016 - £394.8m) an increase of 7.4%, although on the asset side we have seen a fall in our Loans and advances to customers closing the year at £178.3m (2016 - £192.5m). This reduction in assets is being testament of our effective credit risk management practices in terms of the corporate loan book, where a material part of the reduction has been noted. It is also partially attributed to the improved liquidity and availability of foreign currency reserves seen in Nigeria over the second half of 2017, which underpinned timely settlement of short term trade finance Bank obligations. The flip side of this reduction in Loans and advances to customers is a higher Capital Adequacy Ratio at the end of 2017, standing at 28.45% (2016 – 25.36%) and a liquidity coverage ratio at 192.14% (2016 – 168.60%), supported by strong balances with the Bundesbank as at the year-end. As at 31 December 2017, total shareholders' funds including subordinated loans and retained earnings now stand at £111.4m (2016 - £105.3m).

As part of our long term strategic plans and our commitment to our Bank of Beirut UK franchise, in September 2017, we acquired new freehold premises located at the heart of the City in London's Cannon Street. This acquisition was supported and facilitated by our Bank of Beirut SAL Group making available a second subordinated loan demonstrating the continued support to the business and providing the foundations required to support the continued growth and profitability of our Bank through 2018 and beyond.

These achievements would not have been possible without the continued support and dedication of the Bank's Board, management, staff, customers and shareholders to whom we are truly thankful.

Salim G. Sfeir
Chairman
23 April 2018

Strategic Report

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. 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 a fully licenced Lebanese owned Bank in the UK, we aim to leverage on the Banks' affinity with Lebanon. The Bank markets itself as a trade finance boutique house, with a correspondent banking network reach to all major export geographies, specialising in all aspects of Export Trade Finance with an established coverage of Financial Institutions within predominantly Western African countries and to a lesser extent within Eastern and Northern African countries. In addition we act as a confirming house for a number of Lebanese and other Banks 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. Selectively, the Bank also provides traditional lending services to its retail and corporate clients with a loan book of around £62m and through our UK deposit taking license we maintain a modest retail deposit base of just in excess of £90m. Eligible deposits are covered by the Deposit Protection Scheme which is overseen by the Financial Services Compensation Scheme (FSCS).

Similarly, by virtue of the EU passport licencing arrangements, our Frankfurt Branch positions itself as a specialised German speaking trade finance confirming and discounting house. The Branch provides access to those geographical markets also covered by both London and our parent to German speaking exporters whether they originate from Germany or neighbouring German speaking countries such as Switzerland, Austria, Denmark, Holland and Belgium. Frankfurt also offers EURO payment services through their Euro Target 2 direct system membership, to the Bank of Beirut Group and to a select number of correspondent banks with whom we engage in trade finance activity.

Performance highlights

The Banks performance throughout 2017 has been achieved primarily as a result of a substantial increase in the volume of Export Letters of Credit handled by the Bank in terms of both absolute numbers 3,563 (2016 – 2,353) and total volume that amounts to USD 1.19 billion (2016 – USD 866.6 million) when compared to prior year. This represents a reversal of the downward trend that the Bank experienced from the previous highs of 2013 of USD1.4 billion against 1,879 Export Letters of Credit to the low of 2015 of USD837m against 1524 L/Cs. Whilst a greater number of these Export L/Cs have been of smaller value denominations with a consequential impact on the human resource requirement and processing costs, the increased volume and pricing of these L/Cs has led to improved profitability overall. The volume increase has predominantly related to business generated from Nigeria, which accounted for almost 50% of the total LC values and 65% of LC numbers for the year. The increase in Nigerian business which started in late 2016 and was largely maintained throughout 2017 is the reward and culmination of the Bank's patience and persistence with the Nigerian market and its Banks during 2016 when we supported them at a time of low oil prices, reduced liquidity and restricted access to foreign currency.

As a result, the Bank was able to record a significant increase in Fee and Commission income for 2017 from £7.51m in 2016 to £10.1m, an increase of almost 35% year on year. The increased trade volume combined with the support given by way of short dated trade related loans to those correspondent banks, particularly in the first half of 2017, also drove an increase of net interest revenues by 26% to £7.3m (2016 - £5.77m).

The Net Profit after Tax for 2017 stood at £7.42m (2016 - £5.3m), the highest return for the bank and its shareholders since establishment in December 2002. This performance has been achieved whilst still maintaining our core Capital ratio at 28.45% (2016 – 25.36%), which upon addition of retained earnings for 2017 will improve yet further. Total equity as at 31 December 2017 stands at £96.6m (2016 - £89.1m).

Looking forward

In September 2017, with the support of our Parent through a term subordinated loan made in 2018, the Bank acquired freehold premises located in Cannon Street at the heart of the City of London. Following an extensive refurbishment program being undertaken during 2018, it is our intention to accommodate this building as our new London Head Office. The new offices will herald another new chapter for the Bank going forward, enabling us to continue our growth and development of services.

With a relative return to liquidity and stability in some of our key West African markets, particularly Nigeria, we can expect to see increased competition and pricing of trade related products and services. This has been expected however with our established, long term commitment and support for these markets and the underlying counterparties, we are confident that

Strategic Report (continued)

Looking forward (continued)

through diligent marketing efforts and risk management that the Bank will continue to remain competitive.

Whilst 2017 saw a positive impact for the Bank in terms of income as a result of the continued weakness of sterling against both the US Dollar and Euro, the latter months of 2017 lead us to foresee a reversal of that position in 2018. As decisions are being made by the Government in relation to the UK's Brexit strategy we are seeing the pound driven up towards 1.40 against the US Dollar which may result in comparative reduction of fee and interest income against 2017 without allowance for new business and increases in volume and assets.

With the support of our Shareholder, Bank of Beirut Sal Group and all stakeholders we expect the Bank to continue to realise and meet its business strategy and objectives in 2018 and beyond.

Brexit

In March 2017, following the decision of the UK public in June 2016 to vote for Great Britain to leave the EU, the UK Government served notice and triggered Article 50 of the EU Treaty for Britain to leave the EU within two years. Since notice was served the Government has maintained ongoing dialogue with its EU counterparts in an effort to find agreement on a soft Brexit with transitional arrangements in place to extend the deadline date of 29 March 2019 to the 31 December 2020. A decision in principle has since been agreed although as yet not in a legally binding format.

The Bank has operated a branch in Frankfurt, Germany since 2008 constituted under the current EU Passport rights for financial institutions. Following the events of June 2016, the Bank established a working group with participants from each of the UK, German and Parent Bank entities tasked with assessing the impacts and challenges this decision will have on our business franchise both in the UK and Germany. That process has included engagement with respective regulators from both jurisdictions and that of our Parent group together with an accountancy firm.

This process and the ongoing discussions have continued into 2018 and the Bank is well on its way in preparing and submitting an application to convert the EU Passported Branch banking license in Frankfurt into a Branch Banking license under German rules and regulations.

Payment of Dividends

The Directors have not recommended the payment of any dividend.

The financial statements for the reporting year ended 31 December 2017 are shown on pages 23 to 26.

Key performance indicators and ratios

The financial performance for the financial year 2017 is summarised in the following table (All figures are quoted in GBP '000s):

Income Statement	2017	2016
Net interest income	7,301	5,774
Fees and other income	10,718	8,126
Total operating income	18,018	13,900
Operating expenses	8,149	6,728
Profit before provisions & taxes	9,869	7,172

Balance Sheet	2017	2016
High Quality Liquid Assets	104,355	70,992
Loans and advances to customers	178,336	192,510
Total assets	520,774	483,997
Total Deposits	399,369	357,311
Shareholders' funds*	111,431	105,360

Key performance indicators (%)	2017	2016
Capital Adequacy Ratio	28.45%	25.36%
Liquidity Coverage Ratio	192.14%	168.60%
Net Interest Margin	1.48%	1.25%
Cost to income ratio	47.16%	48.42%
Return on Average Equity	7.85%	5.96%

* Includes Bank of Beirut Group Term Subordinated Loan

Strategic Report (continued)

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 Letters of Credits, Acceptances, documentary collections, trade advances including discounting, forfaiting, and post finance. Transactions are short term in nature, typically not exceeding 180 days.

The Bank maintains a strong trade finance team in its two offices 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, Germany, West Africa and Lebanon. Structuring of lending facilities revolves around the requirements of the borrower but with particular appetite to financing of trade related businesses and real estate backed facilities.

Retail Banking

The Bank provides a selection of retail products and services to its customers covering Current Accounts, Call Deposit Accounts, Fixed Term Deposits and the provision of payment and clearing services from its offices in both London and Frankfurt. Customer geographic locations are primarily from the Banks core markets of UK, West Africa and Lebanon.

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 Liquidity Coverage Ratio and own stress testing 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 liquidity policies. These policies are reviewed on an annual basis and monitored by the Bank's Management Committee.

Corporate Governance

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

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

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

Responsibility for overseeing the risk framework of the Bank is devolved to the following Committees:
- Board Credit Committee
- Board Audit, Risk & Compliance Committee
- Board Remuneration and Nomination Committee
- Management Committee

Strategic Report (continued)

Corporate Governance (continued)

The Bank has two independent control functions.

An independent Head of Risk & Compliance who holds the UK regulatory Senior Management Functions SMF4, SMF16 and SMF17 who reports to the Board Audit, Risk & Compliance Committee (ARCC) and is responsible 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.

An independent Head of Internal Audit who holds the UK regulatory Senior Management Function SMF5.

Both control functions reports to the Chairman of the ARCC who is in turn an Independent Non-Executive Director of the Board.

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

Risk Governance

The Bank engages a dedicated Risk Manager reporting to the Head of Risk & Compliance. 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 "3 Lines of Defence" comprising:

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

The Board is responsible for ensuring the adequacy of the risk management systems of the Bank and for setting a clear statement of risk appetite. 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 and Operational 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 banks 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 ("ManCo") is responsible for the efficient and controlled operation of the business. It is authorised to take all steps necessary to conduct the business of the Bank within the confines of the Board's approved strategy, budgets and mandates. It is accountable to the Board for designing, implementing and monitoring the process of risk management and implementing it into the day-to-day business activities of the Bank. ManCo also oversees the work of an Assets and Liabilities Committee ("ALCO") sub-committee.

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.

Strategic Report (continued)

Risk Governance (continued)

Remuneration & Nominations Committee
The Board Remuneration and Nominations ("BRNC") combines two functions. For Remuneration it sets the over-arching principles and parameters of remuneration policy, determines the annual staff bonus pool and considers and approves the remuneration arrangements of the Chairman, 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 & 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.

AML & Compliance

The Bank 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.

The Bank supports a strong compliance culture and continues to strengthen its systems and controls in this important area of the business.

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 is articulated in the Internal Audit Charter.

As part of the Board's overall governance responsibility, ARCC is responsible for approving the Internal Audit Plan and budget. The Board is satisfied that Internal Audit has the appropriate resources.

Risk Management

Given its current business activities, the Bank views its primary financial risks as being credit and operational. Liquidity and other market risks are considered of secondary magnitude due to the straightforward nature of the principal assets and modest overall transaction volumes.

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.

Strategic Report (continued)

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 Credit Committee (BCC) within authorities set down by the Audit, Risk & Compliance Committee of 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 outcome for customers 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 overarching RRP statements are prepared and submitted to the Board of the Bank. These are developed as part of 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 RRP are all subject to interim review and update in response to material changes to the business or regulatory environments.

Employees

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

By order of the Board

Sophoklis Argyrou
Managing Director & CEO

23 April 2018

Directors´ Report

The directors present their annual report and the audited financial statements for the year ended 31 December 2017. 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 £7,425,953 (2016 - £5,309,748) was transferred to reserves. The directors do not recommend the payment of a dividend (2016 - £nil).

Subsequent events

Please refer to Note 33 for subsequent events.

Going Concern

The directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis in preparing the annual financial statements. Further details regarding the adoption of the going concern basis can be found within Note 3 of the significant accounting policies in the financial statements.

Directors´ Report (continued)

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 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 is required to adopt the International Financial Reporting Standard IFRS9 which will result in a change in the Bank's impairment provision requirements. In coordination with its parent, the Bank is in the process of implementing its IFRS9 reporting solution in order to meet the new standards. The solution will include internal ratings system to supplement our risk based approach to risk allocation.

Operational risk

Operational risk arises from inadequate or failed internal processes, systems and personnel or from events external to the Bank. The Management Committee review and consider all operational risks to the Bank. 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 senior management.

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 29 shows the interest rate sensitivity gap analysis for addressing the risk for the Bank as at 31 December 2017.

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 enters into forward foreign currency exchange contracts to economically hedge the risk of changes in currency exchange rates. The Bank also 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´ Report (continued)

Directors

The directors who served on the Board throughout the year were as follows:

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

Auditor

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

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

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

Deloitte LLP has expressed their willingness to continue in office as auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

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

Sophoklis Argyrou
Managing Director & CEO

23 April 2018

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Bank and of the profit or loss of the Bank for that period. In preparing these financial statements, the directors are required to:

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

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

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

Auditors Report to the members of Bank of Beirut (UK) Ltd

Report on the audit of the financial statements

Opinion

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Bank of Beirut (UK) Limited (the 'company') 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 and IFRSs as adopted by the European Union.

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.

Auditors Report to the members of Bank of Beirut (UK) Ltd (continued)

Basis for opinion (continued)

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

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

Summary of our audit approach	
Key audit matters	The key audit matters that we identified in the current year were: • Loan Loss Provisioning • Recognition of fee and commission income (revenue recognition)
Materiality	The materiality that we used in the current year was £475,868 which was determined on the basis of 5.1% of profit before tax.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

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.

Loan loss provisioning	
Key audit matter description	Loan loss provisioning is an area where a high level of management judgement is applied in determining the necessity for and then estimating the size of the impairment. The provisions as at 31 December 2017 were £1.47m against loans and advances to customers. We have presumed a risk of fraud lies within loan provisioning, due to the inherent potential for management bias and significant judgements involved. In determining the level of specific provisions there are judgements and estimates made by management which involve a level of subjectivity and as a consequence we identify this area as a key audit matter in the financial statements (see page 33 in the financial statements). Management disclose information about credit risk in the Directors' Report as well as in Note 29 on Financial Instruments and Risk Management.

Auditors Report to the members of Bank of Beirut (UK) Ltd (continued)

Loan loss provisioning (continued)	
How the scope of our audit responded to the key audit matter	In order to challenge the provisioning levels, we: • obtained an understanding of management's lending and loan loss provisioning business cycles by undertaking a walk-through to identify the key controls and assessed the design and implementation of these key controls; • reviewed impaired loans to determine whether a loss event could be identified for these loans and assessed the judgements and calculations made in determining the level of specific provisions; • considered the completeness of the specifically impaired loans population by reviewing a sample of unimpaired loans to determine whether a loss event could be identified for these loans which would require an impairment; • assessed the need for and the level of a collective provision; and • reviewed the financial statement disclosures relating to the provisions for compliance with International Financial Reporting Standards (IFRSs).
Key observations	Overall, we concluded that the level of provisioning is appropriate but is towards the more optimistic end of our acceptable range of possible outcomes. This is driven by the fact that management have historically not booked a collective provision and no such provision has been made as at 31 December 2017. While historical loss data does not indicate that any such collective impairment would be material to the financial statements, the fact that no such provision has been booked leads to our conclusion that the provisioning levels are towards the more optimistic end of our acceptable range of possible outcomes.

Bank of Beirut (UK) Ltd | Report and Financial Statements 2017

Auditors Report to the members of Bank of Beirut (UK) Ltd (continued)

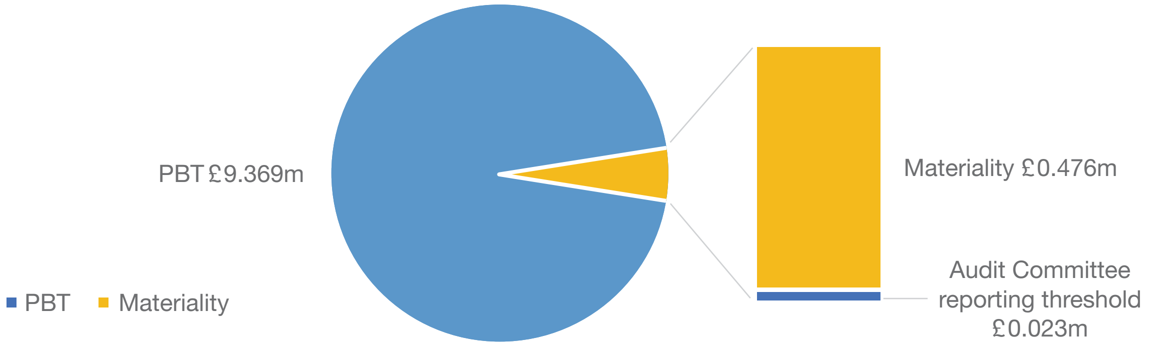
Recognition of fee and commission income (revenue recognition)	
Key audit matter description	The specific risk of material misstatement identified is in relation to the validity and accuracy of fee and commission income booked. Fee and commission income amounts to £10.1m for 2017 and is received from trade finance and loan arrangements and is a manual calculation, therefore there is potential for error and fraud through possible manipulation of this balance. Management disclose information about revenue recognition in Note 3 significant accounting policies in the financial statements.
How the scope of our audit responded to the key audit matter	In order to assess revenue recognition, we: • obtained an understanding of management's revenue and trade finance business cycles by undertaking a walk-through to identify the key controls and assessed the design and implementation of these key controls; and • performed substantive testing on the fee and commission income, including recalculation of amounts and verification to supporting documents to assess whether the recognition is in line with accounting standards.
Key observations	Overall, we concluded that the fee and commission income balance was appropriate and free from material misstatement. We note that management, on materiality grounds, make certain simplifying assumptions to facilitate the booking of certain revenue types. We have concluded that this does not lead to a material misstatement.

Our application of 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	£475,868
Basis for determining materiality	5.1% of profit before tax.
Rationale for the benchmark applied	Materiality has been based on profit before tax given our assessment of this being the most reliable metric and the most applicable to the operation of the company.



Auditors Report to the members of Bank of Beirut (UK) Ltd (continued)

Our application of materiality (continued)

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £23,793 as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our audit was scoped by obtaining an understanding of Bank of Beirut (UK) Limited 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.

Other information

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

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

We have nothing to report in respect of these matters.

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

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

Responsibilities of directors

As explained more fully in the statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
In preparing the financial statements, the directors are responsible for assessing the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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 Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Auditors Report to the members of Bank of Beirut (UK) Ltd (continued)

Use of our report

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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.

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 these matters.

Other matters

Auditor tenure
Following the recommendation of the audit committee, we were appointed by the board of directors of Bank of Beirut (UK) Limited 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 16 years, covering the years ending 31 December 2002 to 31 December 2017.

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).

Alan Chaudhuri

Alan Chaudhuri
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

23 April 2018

Income Statement
Year ended 31 December 2017

	Notes	2017 £	2016 £
Continuing operations			
Interest receivable	5	10,879,216	8,455,847
Interest payable	6	(3,578,649)	(2,681,618)
Net interest income		7,300,567	5,774,229
Fees and commissions receivable		10,178,921	7,517,638
Foreign exchange income		538,696	608,057
Total non-interest income		10,717,617	8,125,695
Total income		18,018,184	13,899,924
Administrative expenses	7	(8,149,095)	(6,727,934)
Net impairment losses on loans and advances	11	(500,310)	(380,567)
Profit before taxation	8	9,368,779	6,791,423
Taxation	9	(1,942,826)	(1,481,675)
Profit for the year		7,425,953	5,309,748

Statement of other comprehensive Income
Year ended 31 December 2017

Statement of Other Comprehensive Income	Notes	2017 £	2016 £
Profit for the year		7,425,953	5,309,748
Items that may be reclassified subsequently to profit or loss:			
Available for sale financial assets			
Loss arising during the year, net of tax		(6,410)	(5,448)
Exchange difference on translating foreign operations, net of tax		34,433	79,248
Income tax relating to items that may be reclassified	9	1,234	1,090
Other Comprehensive income for the year net of tax		29,257	74,890
Total Comprehensive income for the year		7,455,210	5,384,638

Balance sheet
As at 31 December 2017

	Notes	2017 £	2016 £
Assets			
Cash and balances at banks		105,686,182	96,052,314
Placements with banks	10	181,949,007	145,241,043
Loans and advances to customers	11	178,336,200	192,509,826
Customers' acceptances	12	8,425,491	19,951,401
Held to maturity investments:			
- Treasury bills and other eligible bills	13	3,014,495	3,301,300
Available for sale:			
- UK Treasury bills	14	5,992,640	17,993,240
- US Treasury bills	14	19,917,886	7,282,841
Derivative assets	29	20,731	11,542
Prepayments and accrued income		818,178	489,102
Land and Buildings		15,266,954	-
Property and equipment	15	365,596	286,549
Intangible assets	16	229,200	126,418
Goodwill	17	751,540	751,540
Total assets		520,774,100	483,997,116
Liabilities			
Deposits by banks	18	306,972,422	269,035,000
Customer accounts	19	92,396,543	88,276,500
Acceptances payable	12	8,425,491	19,951,401
Derivative liabilities	29	16,090	12,767
Accruals and deferred income		312,098	287,338
Other liabilities	20	12,718	216,192
Provision for liabilities and charges		155,000	-
Current Tax liabilities		1,014,433	818,673
Deferred tax liability	21	38,524	38,745
Subordinated loan	22	14,826,705	16,211,634
Total liabilities		424,170,024	394,848,250
Equity			
Called up share capital	23	34,150,000	34,150,000
Retained earnings	24	62,454,076	54,998,866
Total equity		96,604,076	89,148,866
Total liabilities and equity		520,774,100	483,997,116

These financial statements were approved by the board of directors and authorised for issue on 23 April 2018. They were signed on its behalf by:

S Argyrou
Managing Director & CEO
23 April 2018

Statement of changes in equity
Year ended 31 December 2017

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2016	34,150,000	49,614,228	83,764,228
Profit for the period	-	5,309,748	5,309,748
Other comprehensive income for the period	-	74,890	74,890
As at 31 December 2016	34,150,000	54,998,866	89,148,866

	Called up share capital £	Retained earnings £	Total £
As at 1 January 2017	34,150,000	54,998,866	89,148,866
Profit for the period	-	7,425,953	7,425,953
Other comprehensive income for the period	-	29,257	29,257
As at 31 December 2017	34,150,000	62,454,076	96,604,076

Cash flow statement
Year ended 31 December 2017

	Notes	2017 £	2016 £
Cash flows from operating activities			
Profit before taxation		9,368,779	6,791,423
Adjustment for:			
Depreciation	15	334,468	188,886
Net impairment losses on loans and advances to customers	11	404,543	497,083
Operating cash flows before movements in working capital		10,107,790	7,477,392
(Increase) in prepayments and accrued income		(329,075)	(33,726)
Increase / (decrease) in accruals and deferred income		24,760	(100,650)
Net (increase) in loans and advances to banks and customers		(22,534,338)	(86,090,873)
Increase / (decrease) in provisions for liabilities and charges		155,000	-
Increase in deposits by banks and customers		42,057,465	101,107,546
(Decrease) / increase in other liabilities		(203,474)	212,624
Net (decrease) in derivative financial instruments		(5,867)	(619)
Cash generated from operations		29,272,261	22,571,694
Corporation tax paid		(1,781,625)	(984,750)
Corporation tax refund		-	-
Net cash generated by operating activities		27,490,636	21,586,944
Cash flows from investing activities			
Purchase of equipment and intangible assets		(484,237)	(117,452)
Purchase of land and building		(15,297,529)	-
Proceeds on maturity of treasury bills and other eligible bills		52,617,376	57,240,550
Purchase of treasury bills and other eligible bills		(53,926,063)	(53,966,599)
Net cash (used in) / generated from investing activities		(17,090,453)	3,156,499
Cash flows from financing activities		-	-
Net increase in cash and cash equivalents		10,400,183	24,743,443
Cash and cash equivalents at the beginning of the year		96,052,314	62,153,205
Effect of exchange rate changes on cash and cash equivalents		(766,315)	9,155,666
Cash and cash equivalents at the end of the year		105,686,182	96,052,314
Cash and cash equivalents comprised of:			
Cash and balances at banks		105,686,182	96,052,314

Notes to the financial statements
Year ended 31 December 2017

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 5. The nature of the Bank's operations and its principal activities are set out in the Strategic Report on pages 8 to 13 and the Directors' Report on pages 13 to 15.

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

2. Basis of preparation

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

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

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

Adoption of new and revised standards

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but are not yet effective:

- IFRS 9 *Financial Instruments*
- IFRS 15 *Revenue from Contracts with Customers*
- IAS 16 *Leases*
- IFRS 2 (amendments) *Classification of Share-based Payment Transactions*
- IFRS 10 and IAS 28 (amendments) *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*
- IFRIC 22 *Foreign Currency Transactions and Advanced Consideration*
- IFRIC 23 *Uncertainty over Income Tax Treatments*

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

Notes to the financial statements
Year ended 31 December 2017

3. Significant accounting policies

The principal accounting policies adopted are set out below.

Going concern basis
The Bank's business activities, together with factors likely to affect its future development, performance and financial position and commentary on the Bank's financial results, its cash flows and liquidity requirements are set out in the Strategic Report on pages 8 to 13 and the Directors' report on pages 13 to 15 and elsewhere within the financial statements. In addition notes 29 and 30 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 and 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 notwithstanding some difficult trading conditions experienced in recent years. The directors further believe the Bank has a sound funding and liquidity position and adequate capital resources. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements.

After making due enquiries, the Board has a reasonable expectation that the Bank has adequate 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.

Goodwill
Goodwill on the acquisition is recognised as an asset and initially measured at cost, being the excess of the fair value of the consideration transferred, the fair value of any existing interest in the subsidiary and the amount of any non-controlling interest measured either at fair value or at its share of the net assets over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.
Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to the cash-generating unit expected to benefit from the synergies of the combination. Since the acquisition, the business has been integrated into the wider business of the Bank which is considered to be the cash generating unit for goodwill impairment testing. Goodwill is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired.

Interest income and expense
Interest income on financial assets that are classified as loans and receivables or held-to-maturity and interest expense on financial liabilities are determined using the effective interest rate method.

The effective interest rate method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees receivable, that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

Fees and commission receivable
Fees and commission receivable which represent a return for services provided are credited to income when the related service is performed.

Other income
Other income arises from spot and forward foreign exchange transactions with customers which are backed out with the market. The difference between the Bank's contractual rate and the market rate is taken to dealing profits.

Leasing
Rentals paid under operating leases are charged to income on a straight-line basis over the lease term.

Notes to the financial statements
Year ended 31 December 2017

3. Significant accounting policies (continued)

Financial instruments
Financial assets and financial liabilities are recognised in the Bank's balance sheet when the Bank becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets
All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Held-to-maturity investments – a financial asset is classified as a held-to-maturity investment only if it has fixed or determinable payments, a fixed maturity and the Bank has the positive intention and ability to hold to maturity. Held-to-maturity investments are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at amortised cost using the effective interest method less any impairment losses.

Available for sale financial assets - Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss. The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Notes to the financial statements
Year ended 31 December 2017

3. Significant accounting policies (continued)

Financial assets (continued)
Designated as at fair value through profit or loss – financial assets that the Bank designates on initial recognition as being at fair value through profit or loss are recognised at fair value, with transaction costs being recognised in the income statement and that are subsequently measured at fair value. Gains and losses on financial assets that are designated as at fair value through profit or loss are recognised in the income statement as they arise.

Financial assets may be designated as at fair value through profit or loss only if such designation eliminates or significantly reduces a measurement or recognition inconsistency.

Loans and receivables – non-derivative financial assets with fixed or determinable repayments that are not quoted in an active market are classified as loans and receivables.

Loans and receivables are initially recognised at fair value plus directly related transaction costs. They are subsequently measured at adjusted cost using the effective interest method less any impairment losses.

The Bank does not have any assets that are designated at fair value.

Impairment of financial assets
The Bank assesses at each balance sheet date whether there is any objective evidence that a financial asset or group of financial assets classified as held-to-maturity or loans and receivables is impaired. A financial asset or portfolio of financial assets is impaired and an impairment loss incurred if there is objective evidence that an event or events since initial recognition of the asset have adversely affected the amount or timing of future cash flows from the asset. Impairment losses on financial assets are recognised in the income statement. See page 33 for further judgements.

The Bank will apply IFRS 9 from 1 January 2018, replacing IAS 39. The Bank does not intend to restate comparatives on initial application of IFRS 9, but transitional disclosures will be provided in accordance with IFRS 7: Financial Instruments Disclosures. The full impact of adopting IFRS 9 on the Bank's financial statements will depend on the financial instruments that the Bank has during 2018 as well as on economic conditions and judgements made at the year end. The Bank has performed a preliminary assessment of the potential impact of adopting IFRS 9 based on the financial instruments as at the date of initial application of IFRS 9 (1 January 2018).

Impairment
The impairment model under IFRS 9 reflects expected credit losses, as opposed to only incurred credit losses under IAS 39. Under the impairment approach in IFRS 9, it is not necessary for a credit event to have occurred before credit losses are recognised. Instead, an entity accounts for expected credit losses and changes in those expected credit losses. The amount of expected credit losses should be updated at each reporting date. The new impairment model will apply to all of the Bank's financial assets measured at amortised cost or fair value through other comprehensive income.

Based on its analysis to date, the Bank's preliminary calculation of the impairment charge under IFRS9 as at 1 January 2018 would be an increase of between £1.0m and £1.5m. Thereafter, movements in the loss allowance will be recorded against Profit before taxation in the Statement of comprehensive income. These charges will not undermine the Banks capital position and will be transitioned over five years as agreed with the PRA.

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.

Bank of Beirut (UK) Ltd | Report and Financial Statements 2017

Notes to the financial statements
Year ended 31 December 2017

3. Significant accounting policies (continued)

Derivative financial instruments
The Bank's activities expose it primarily to the financial risks of changes in currency exchange rates. The Bank uses foreign exchange forward contracts and options to economically hedge these exposures. The Bank does not use derivative financial instruments for speculative purposes.

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

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

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into, and subsequently measured, at fair value. Changes in the fair value of derivative financial instruments are recognised immediately in the income statement.

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

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

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

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

At each balance sheet date, the Bank reviews the carrying amounts of property and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists,

The recoverable amount of the property and equipment is estimated in order to determine the extent of the impairment loss (if any).

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

Derecognition of intangible assets
An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition 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.

Notes to the financial statements
Year ended 31 December 2017

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)
An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

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

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

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

Taxation
Income tax expense represents the sum of the tax currently payable and deferred tax.

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

Deferred tax is recognised on differences between the carrying amounts of the assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

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

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

Notes to the financial statements
Year ended 31 December 2017

3. Significant accounting policies (continued)

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

In order to economically hedge its exposure to certain foreign exchange risks, the Bank enters into forward contracts (see above for details of the Bank's accounting policies in respect of such derivative financial instruments).

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

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

In the process of applying the Bank's accounting policies, which are described in note 3, management has made the following judgements and estimates that have the most significant effect on the amounts recognised in the financial statements. The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Impairment provision
The level of potential credit losses is uncertain and depends on a number of factors. The Bank bases impairment provisions on estimates based on the expectation of discounted cash flows arising from the financial assets. Actual cash flows on financial assets may differ from management estimates, resulting in an increase or decrease in impairment charges and provisions.

5. Interest receivable

Interest receivable comprises interest from:

	2017 £	2016 £
Loans and receivables:		
Loans and advances to banks	6,375,343	4,349,533
Loans and advances to customers	4,333,565	3,942,824
Impaired loans	-	-
Held to maturity investments:		
Treasury bills and other eligible bills	170,308	163,490
	10,879,216	8,455,847

The amount of interest receivable attributable to group companies is £167,345 (2016: £69,475).

6. Interest payable

Interest payable comprises interest to:

	2017 £	2016 £
Deposit by banks	1,005,459	693,246
Customers' accounts	754,965	628,097
Group companies	1,818,225	1,360,275
	3,578,649	2,681,618

Notes to the financial statements
Year ended 31 December 2017

7. Administrative expenses

Administrative expenses include:

	2017 £	2016 £
Staff costs during the year (including directors):		
Wages and salaries	3,993,973	3,361,473
Social security costs	427,504	367,909
Other staff costs	301,192	294,836
	4,722,669	4,024,218
Pension costs *(defined contribution scheme and one personal plan concluded in 2016)*	250,001	232,012
Total staff costs	4,972,670	4,256,230
Occupancy costs	1,053,987	747,414
Administrative costs	1,787,969	1,535,404
Depreciation	334,469	188,886
Total administrative expenses	8,149,095	6,727,934

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

	2017 No.	2016 No.
Commercial and retail banking activities	58	54

Directors' emoluments
Directors' remuneration during the year consists of:

	2017 £	2016 £
Salaries and other emoluments	702,064	609,736
Pension costs	49,853	40,550
	751,917	650,286

The emoluments of the highest paid director for the year ended 31 December 2017 were £394,724 (2016 - £371,178).

The highest paid director is a member of the Bank's pension scheme.

There were two directors *(2016 - two directors)* who were part of the Bank's pension scheme.

8. Profit before taxation

The profit is stated after (crediting) / charging:

	2017 £	2016 £
Net foreign currency gains	(538,696)	(608,057)
Auditor's remuneration		
Audit services	90,000	86,400
Non-audit services	10,953	31,931
Operating lease rentals – Land and buildings	471,437	474,832
Depreciation	334,469	188,885

The analysis of non-audit services is as follows:

	2017 £	2016 £
Company Secretarial services	6,953	4,001
SCV health check services	4,000	14,980
Tax services	-	12,950
Total non-audit fees	10,953	31,931

Notes to the financial statements
Year ended 31 December 2017

9. Taxation

Current tax charge:

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

Analysis of tax charge for the year	2017 £	2016 £
Current year	1,827,365	1,355,198
Double tax relief	(172,630)	(117,077)
Prior year adjustment	(11,600)	47,026
Total Current tax charge	1,643,135	1,285,147
Overseas tax	299,912	190,717
Deferred tax – current year	(221)	5,811
Total tax expense	1,942,826	1,481,675

The charge for tax is based upon a UK corporation tax rate of 20% from 1 January 2017 to 31 March 2017 and 19% from 1 April 2017 to 31 December 2017.

Finance (No.2) Act 2016 enacted reductions in the UK corporation tax rate to 17% with effect from 1 April 2020. These reductions in the tax rate will impact the current tax charge in future periods.

Factors affecting the tax charge for the year	2017 £	2016 £
Profit before taxation	9,368,779	6,791,423
Tax charge at average UK Corporation tax rate of 19.24668% (2016: – 20%)	1,803,179	1,358,284
Effects of:		
Non-deductible Expenses not deductible for tax purposes	12,949	7,630
Depreciation on non-qualifying assets	12,321	1,932
OCI taxable credit	(1,234)	-
Prior year adjustment	(11,717)	47,026
Foreign tax credits	127,282	73,640
Adjust closing Deferred tax to average rate 20%	46	(6,837)
Tax expense for the year	1,942,826	1,481,675

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

Items that may be reclassified subsequently to profit or loss:	2017 £	2016 £
Available for sale financial assets		
(Losses)/gains arising during the year	(6,410)	(5,448)
Exchange difference on translating foreign operations	34,433	79,248
Total income tax recognised in other comprehensive income	1,234	1,090

Notes to the financial statements
Year ended 31 December 2017

10. Placements with banks

	2017 £	2016 £
Remaining maturity		
Three months or less excluding on demand	181,949,007	145,241,043

There are no amounts in respect of group companies included in placements with banks in either the current or prior year. There are no impairment losses in respect of placements with banks. None of the placements with banks is subordinated.

11. Loans and advances to customers

	2017 £	2016 £
Repayable:		
On demand or at short notice	19,251,160	37,257,557
Remaining maturity:		
Three months or less excluding on demand	106,513,386	86,950,768
One year or less but over three months	16,806,279	57,922,775
Three years or less but over one year	33,479,843	11,451,392
Five years or less but over three years	3,147,519	-
Over five years	615,222	-
	179,813,409	193,582,492
Impairment losses	(1,477,209)	(1,072,666)
	178,336,200	192,509,826

A reconciliation of the provision for the year is provided below:

	2017 £	2016 £
Balance as at 1 January	1,072,666	575,583
Additions		
Impairment charges	500,310	380,567
FX movement on impairment charges	(95,767)	116,516
Balance as at 31 December	1,477,209	1,072,666

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. Upon completion of the required documentation, the Bank is obliged to make payment to the counterparty of the customer and the same amount is recoverable from the customer. The customers' acceptances are due from the customers while the acceptances payable are due to the counterparty of the customer. Upon acceptance of presented documents, the Bank reserves the right, subject to its customer's request, whether to discount such commitments. For clarification discounted acceptances are excluded from the total of Contingent liabilities referred to under Note 25.

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Notes to the financial statements
Year ended 31 December 2017

13. Held to maturity Investments

	2017		2016	
	Book Value £	Market Value £	Book Value £	Market Value £
Treasury Bills and other eligible bills	3,014,495	2,989,587	3,301,300	3,251,055
	3,014,495	2,989,587	3,301,300	3,251,055

The treasury bills are classified as held to maturity and the movements during the year are summarised as follows:

	2017 £	2016 £
Balance as at 1 January	3,301,300	2,745,525
Acquisitions	14,818	21,948
Exchange differences on monetary assets	(301,623)	533,827
Balance as at 31 December	3,014,495	3,301,300

	2017 £	2016 £
Remaining maturity:		
Three months or less excluding on demand	-	-
One year or less but over three months	1,506,177	-
Three years or less but over one year	739,372	2,459,195
Five years or less but over three years	768,946	-
Five years or more	-	842,105
	3,014,495	3,301,300

14. Available for Sale

The UK and US treasury bills are classified as available for sale as they are purchased for holding as Liquid Asset Buffer and are available for sale. The movements during the year are summarised as follows:

UK Treasury Bills

	2017 £	2016 £
Balance as at 1 January	17,993,240	28,533,468
Acquisitions	14,000,000	44,250,000
Maturities	(25,993,240)	(52,811,400)
Discount received	(8,277)	(8,637)
Sales	-	(2,000,000)
Movement in fair value	917	29,809
Balance as at 31 December	**5,992,640**	**17,993,240**

US Treasury Bills

	2017 £	2016 £
Balance as at 1 January	7,282,841	-
Exchange differences on monetary assets	(628,498)	-
Acquisitions	39,926,063	9,716,599
Maturities	(26,617,375)	(2,429,150)
Discount received	(39,645)	(4,478)
Movement in fair value	(5,500)	(130)
Balance as at 31 December	**19,917,886**	**7,282,841**

Notes to the financial statements
Year ended 31 December 2017

15. Property and equipment

	Leasehold improvements £	Fixtures, fittings and equipment £	Land and Buildings £	Total £
Cost				
At 1 January 2016	477,020	705,670	-	1,182,690
Additions	2,891	27,619	-	30,510
Disposals	-	(18,790)	-	(18,790)
Translation difference	581	26,983	-	27,564
At 31 December 2016	480,492	741,482	-	1,221,974
Additions	31,836	220,933	15,297,529	15,550,298
Disposal	(3,390)	(22,293)	-	(25,683)
Translation difference	166	7,767	-	7,933
At 31 December 2017	509,104	947,889	15,297,529	16,754,522
Depreciation				
At 1 January 2016	327,375	473,453	-	800,828
Charge for the year	50,115	81,403	-	131,518
Disposals	-	(18,790)	-	(18,790)
Translation difference	582	21,287	-	21,869
At 31 December 2016	378,072	557,353	-	935,425
Charge for the year	63,914	110,969	30,575	205,458
Disposal	(3,390)	(22,293)	-	(25,683)
Translation difference	166	6,606	-	6,772
At 31 December 2017	438,762	652,635	30,575	1,121,972
Net book value				
At 31 December 2017	70,342	295,254	15,266,954	15,632,550
At 31 December 2016	102,420	184,129	-	286,549

Notes to the financial statements
Year ended 31 December 2017

16. Intangible Assets

	Computer software £
Cost	
At 1 January 2016	383,060
Additions	86,942
Translation difference	12,569
At 31 December 2016	482,571
Additions	231,468
Translation difference	(11,630)
Foreign Exchange	3,596
At 31 December 2017	706,005
Amortisation	
At 1 January 2016	287,960
Charge for the year	57,367
Translation difference	10,826
At 31 December 2016	356,153
Charge for the year	129,010
Disposals	(11,630)
Foreign Exchange	3,272
At 31 December 2017	476,805
Net book value	
At 31 December 2017	229,200
At 31 December 2016	126,418

17. Goodwill

	2017 £	2016 £
At cost	**751,540**	751,540

Goodwill arose on the acquisition of the Bank of Nova Scotia portfolio of assets and liabilities (“the Business”). The Business has been integrated into the wider business of the Bank which is considered as the cash generating unit for goodwill impairment testing. The Bank tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amount of the cash generating unit is determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates and growth rates. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the cash generating unit. The rate used to discount the forecast cash flows from the cash generating unit is 10.00 per cent being the cost of capital. The growth rates are based on industry growth forecasts. The Bank prepares cash flow forecasts derived from the most recent financial budgets approved by management for the cash generating unit and extrapolates cash flows for the review period based on the assumption that the cash flows will remain relatively stable throughout the period under review.

Notes to the financial statements
Year ended 31 December 2017

18. Deposits by banks

	2017 £	2016 £
Repayable on demand	187,338,286	126,889,605
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	71,198,943	78,782,700
Between three months and one year	48,435,193	63,362,695
	306,972,422	269,035,000

Included in the above are amounts due to parent undertakings of £119,239,133 (2016: £111,026,426).

19. Customer accounts

	2017 £	2016 £
Repayable on demand	29,799,052	38,532,937
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	44,478,785	36,532,036
Between three months and one year	18,118,706	13,211,527
Between one year and five years	-	-
	92,396,543	88,276,500

20. Other liabilities

	2017 £	2016 £
Other taxes and social security costs	11,767	191
Other liabilities	951	216,001
	12,718	216,192

21. Deferred tax liabilities

The components of taxes are as follows:

2017 £

	Assets	Liabilities
Deferred tax		
United Kingdom	-	(38,524)
	-	(38,524)

2016 £

	Assets	Liabilities
Deferred tax		
United Kingdom	-	(38,745)
	-	(38,745)

Deferred income taxes are calculated on all temporary differences under the liability method using effective rate of 17% (2016: 17%) Finance (No. 2) Act 2016 enacted reduction in the UK corporation tax rate to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020.

Notes to the financial statements
Year ended 31 December 2017

21. Deferred tax liabilities (continued)

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

	2017 £	2016 £
At beginning of year	(38,745)	(32,934)
Prior year adjustment		-
Income statement charge	221	(5,811)
Rate change adjustment	-	-
At end of year	(38,524)	(38,745)

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

Deferred income tax assets/ (liability)

	2017 £	2016 £
Unpaid pensions	-	-
Accelerated tax depreciation	(38,524)	(38,745)
Net deferred tax liability	(38,524)	(38,745)

22. Subordinated Loan

The Bank signed an agreement for the issue of a 10 Year Subordinated Loan (“the Loan”) of USD 20 million on 19 March 2007 to 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. On the issuance date, Bank of Beirut Sal had the option to convert all or part of the Loan into new shares in the Bank on the basis of the par value of the Bank’s shares at the exchange rate applicable on the conversion date. On 28 April 2008, the Board of Directors of Bank of Beirut Sal agreed to the removal of the conversion option of the loan resulting in the transfer of the equity portion of the subordinated loan to retained earnings.

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

Notes to the financial statements
Year ended 31 December 2017

22. Subordinated Loan (Continued)

The interest charged for the year is calculated by applying an effective interest rate of 3.4788% (2016: 2.9373%).

	2017 £
As at 1 January 2017	16,211,634
Accrued interest	289,274
Foreign exchange movements	(1,674,203)
As at 31 December 2017	14,826,705

	2016 £
As at 1 January 2016	13,405,617
Accrued interest	267,303
Foreign exchange movements	2,538,714
As at 31 December 2016	16,211,634

23. Called up share capital

	2017 £	2016 £
Authorised		
50,000,000 ordinary shares of £1 each at beginning and end of the year	**50,000,000**	50,000,000
Called up, allotted and fully paid		
34,150,000 (2016: 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 2017	34,150,000	54,998,866	89,148,866
Comprehensive income for the year		7,425,953	7,425,953
Other comprehensive income for the year		29,257	29,257
As at 31 December 2017	34,150,000	62,454,076	96,604,076

25. Contingent liabilities

Contingent liabilities comprise:

	2017 £	2016 £
Irrevocable letters of credit	**113,366,815**	154,085,170
Guarantees	**5,871,963**	7,109,733
Deferred payment acceptances	**(8,425,491)**	(19,951,401)
	110,813,287	141,243,502

Notes to the financial statements
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26. Commitments

	2017 £	2016 £
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	**64,538,648**	100,626,632
One year and over	**30,537,223**	17,176,990
	95,075,871	117,803,622

	2017 £	2016 £
Of which undrawn commitments	10,796,356	14,410,094

Operating lease arrangements:

	2017 £	2016 £
Minimum lease payments under operating leases recognised as an expense in the year	471,437	474,832

At the balance sheet date, the Bank had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2017 £	2016 £
Not later than one year	481,209	468,724
Later than one year and not later than five years	**61,559**	537,323

Operating lease payments represent rentals payable by the Bank for its office properties. Leases are negotiated for an average term of 10 years and rentals are fixed for an average of five years with an option to extend for a further five years at the then prevailing market rate.

27. Related party transactions

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

	2017 £	2016 £
Interest received from holding company	**167,345**	69,675
Interest paid to holding company	**(1,744,899)**	(1,379,799)
Fee paid to holding company	**(222,907)**	(213,601)

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

	2017 £	2016 £
Deposits		
Call Deposits	**70,003,961**	57,089,657
Fixed Deposits	**49,235,171**	53,936,769
Exposures to:		
Bills Discounted	**1,068,854**	3,255,751
Letters of Credit	**693,588**	7,662,551
Acceptances	**449,490**	127,334

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

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Year ended 31 December 2017

27. Related party transactions (continued)

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

The Bank gave to two of its executive directors in 2017 unsecured non-interest bearing loans, payable within 12 months. These amounted to £2,208 (2016 - £1,668) in respect of personal travel costs and £2,222 (2016 - £2,010) 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 2017 was £19,919 (2016 - £16,552).

	2017 £	2016 £
Deposits from Directors	7,409,858	91,147

Deposits earn interest according to market rates as appropriate from time to time.

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 *Related Party Disclosures*.

	2017 £	2016 £
Short-term employee benefits	702,064	609,736
Post-employment benefits	49,853	40,550
	751,917	650,286

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

	2017 £	2016 £
Deposits from other related parties	2,882,837	3,268,531

Deposits are paid interest according to market rates as appropriate from time to time.

28. Ultimate parent and controlling party

The ultimate parent and controlling party at 31 December 2017 was Bank of Beirut Sal, which is incorporated in Lebanon. All of the Bank's issued share capital is wholly owned by Bank of Beirut Sal, which is the parent company of the smallest and largest groups into which the results of the Bank are consolidated. Copies of the group accounts can be obtained from 17a Curzon St, London W1J 5HS.

29. 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.

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29. Financial instruments and risk management (continued)

The Bank does not have a trading book.

As at the end of 31 December 2016 and 31 December 2017, the carrying value of the financial assets and liabilities of the Bank approximates its fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties in an arm's length transaction. Market values are used to determine fair values.

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

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

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

As well as using derivatives to hedge foreign exchange exposure, the Bank takes exchange rate contract orders from customers and will cover these by entering into similar positions with the head office. Set out below is a year-end comparison of carrying values and fair values of the Bank's derivative instruments (spot deals are excluded) along with those entered into with third parties:

As at 31 December 2016	Notional principal Amount	Carrying value		Fair value	
	£	Asset £	Liability £	Asset £	Liability £
Exchange rate-related contracts					
Forward foreign exchange	834,639	4,884	10,044	4,884	10,044
Options	-	-	-	-	-
Totals	834,639	4,884	10,044	4,884	10,044
Of which third party	834,639	4,884	10,044	4,884	10,044

As at 31 December 2017	Notional principal Amount	Carrying value		Fair value	
	£	Asset £	Liability £	Asset £	Liability £
Exchange rate-related contracts					
Forward foreign exchange	2,249,427	20,731	16,090	25,623	20,527
Options	-	-	-	-	-
Totals	2,249,427	20,731	16,090	25,623	20,527
Of which third party	2,249,427	20,731	16,090	25,623	20,527

Notes to the financial statements
Year ended 31 December 2017

29. Financial instruments and risk management (continued)

Classification of assets and liabilities

The assets are classified as follows:

	Loans and receivables £	Held to maturity £	Fair value through profit and loss £	Non-financial assets £	Total £
As at 31 December 2016					
Assets					
Cash and due from banks	96,052,314	-	-	-	96,052,314
Placements with banks	145,241,043	-	-	-	145,241,043
Loans and advances to customers	192,509,826	-	-	-	192,509,826
Customers' acceptances	19,951,401	-	-	-	19,951,401
Held to maturity investments:					
- Treasury bills and other eligible bonds	-	3,301,300	-	-	3,301,300
Available for sale:					
- UK Treasury bonds	-	-	17,993,240	-	17,993,240
- US Treasury bonds	-	-	7,282,841	-	7,282,841
Property and equipment	-	-	-	286,549	286,549
Intangible assets	-	-	-	126,418	126,418
Goodwill	-	-	-	751,540	751,540
Derivative assets	-	-	11,542	-	11,542
Prepayments and accrued income	-	-	-	489,102	489,102
Total assets	453,754,584	3,301,300	25,287,623	1,653,609	483,997,116
As at 31 December 2017					
Assets					
Cash and due from banks	105,686,182	-	-	-	105,686,182
Placements with banks	181,949,007	-	-	-	181,949,007
Loans and advances to customers	178,336,200	-	-	-	178,336,200
Customers' acceptances	8,425,491	-	-	-	8,425,491
Held to maturity investments:					
- Treasury bills and other eligible bonds	-	3,014,495	-	-	3,014,495
Available for sale:					
- UK Treasury bonds	-	-	5,992,640	-	5,992,640
- US Treasury bonds	-	-	19,917,886	-	19,917,886
Land & Buildings	-	-	-	15,266,954	15,266,954
Property and equipment	-	-	-	365,596	365,596
Intangible assets				229,200	229,200
Goodwill	-	-	-	751,540	751,540
Derivative assets	-	-	20,731	-	20,731
Prepayments and accrued income	-	-	-	818,178	818,178
Total assets	474,396,880	3,014,495	25,931,257	17,431,468	520,774,100

Financial liabilities including deposits by bank, customer accounts, acceptance payable and subordinated loan are carried at amortised cost as at the balance sheet date. Derivative liabilities are carried at fair value to profit and loss at the balance sheet date. The Bank finances its operations by a mixture of shareholders' funds, customer deposits and inter-bank deposits. The deposits raised may be in a range of currencies at floating or fixed rates of interest. The Bank's lending is usually in sterling, Euros or US dollars and may be either floating or fixed rate. The Bank uses forward foreign exchange contracts to hedge foreign exchange exposures resulting from customer facilitation. All forward foreign exchange contracts for customers are matched with corresponding contracts with banks.

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29. Financial instruments and risk management (continued)

Valuation hierarchy

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide on-going pricing information,
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

Investments classified as Level 1 comprise of UK government securities (UK Treasury Bonds) and US government securities (US Treasury Bonds).

Investments classified as Level 2 comprise of over the counter derivatives.

	Quoted Market prices (Level 1) £	Valuation techniques using observable data (Level 2) £	Valuation techniques using non-observable market data (Level3) £
Financial Assets			
UK Treasury Bonds – Available For Sale	17,993,240	-	-
US Treasury Bonds – Available For Sale	7,282,841	-	-
Derivative assets	-	11,542	-
As at 31 December 2016	25,276,081	11,542	-
Financial Liabilities			
Derivative assets	-	12,767	-
As at 31 December 2016	-	12,767	-

	Quoted Market prices (Level 1) £	Valuation techniques using observable data (Level 2) £	Valuation techniques using non-observable market data (Level3) £
Financial Assets			
UK Treasury Bonds – Available For Sale	5,992,640	-	-
US Treasury Bonds – Available For Sale	19,917,886	-	-
Derivative assets	-	20,731	-
As at 31 December 2017	25,910,526	20,731	-
Financial Liabilities			
Derivative Liabilities	-	16,090	-
As at 31 December 2017	-	16,090	-

Notes to the financial statements
Year ended 31 December 2017

29. Financial instruments and risk management (continued)

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

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

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

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

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

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

29.1 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.

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29. Financial instruments and risk management (continued)

29.1 Credit risk (continued)

The Bank's maximum exposure to credit risk, by class of financial instrument is shown in the table below:

	2017		2016	
	Carrying Value £	Maximum Exposure £	Carrying Value £	Maximum Exposure £
Placement with banks:				
Loans and receivables	181,949,007	181,949,007	145,241,043	145,241,043
Loans and advances to customers:				
Loans and receivables	178,336,200	173,291,983	192,509,826	187,313,592
Derivative financial assets				
Currency forwards	20,731	20,731	11,542	11,542
Net letters of credit and guarantees	110,813,287	92,624,900	141,243,502	134,939,476
Loan commitments (unutilised)	10,796,356	9,284,212	14,410,094	12,770,721
	481,915,581	457,170,833	493,416,007	480,276,374

	Loans and advances to customers	
	2017 £	2016 £
Carrying amount	178,336,200	192,509,826
Individually impaired	1,661,355	2,663,767
Allowance for impairment	(1,477,209)	(1,072,666)
Suspended interest	(17,082)	(388,227)
Carrying amount	167,064	1,202,874
Past due but not impaired	5,282,279	9,797,813
Neither past due nor impaired	172,886,857	181,509,139
Carrying amount	178,336,200	192,509,826

All placements with banks are neither past due nor impaired as at the balance sheet date.

Impaired loans
Impaired loans are loans for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan agreement. Impaired loans are due to failure of the obligor to follow final revised payment programme which led to commencement of legal proceedings to recover outstanding liabilities.

Past due but not impaired
Loans where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Bank.

Notes to the financial statements
Year ended 31 December 2017

29. Financial instruments and risk management (continued)

29.1 Credit risk (continued)

Remaining maturity	2017 £	2016 £
Three months or less excluding on demand	5,282,279	9,797,813
One year or less but over three months	-	-
Three years or less but over one year	-	-
	5,282,279	9,797,813

Allowances for impairment
The Bank establishes an allowance for impairment losses that represents its estimate of incurred losses in its loan portfolio. 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.

Write-off policy
The Bank writes off a loan balance (and any related allowances for impairment losses) when the Board Management Committee 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.

The Bank holds collateral against loans and advances to customers in the form of mortgage interests over property and liens over cash deposits. For certain loans and advances to banks, cash deposits are held as collateral.

The table below shows a breakdown of the credit exposure by collateral type.

Loans and advances to customers	2017 £	2016 £
Individually impaired:		
Cash	-	-
Property	-	-
Unsecured	167,064	1,202,874
Past due but not impaired:		
Cash	5,268,450	5,740,697
Property	13,530	69,825
Unsecured	299	3,987,291
Neither past due nor impaired:		
Cash	131,683,685	121,002,836
Property	20,641,430	25,834,836
Bank guarantee	6,987,421	26,668,282
Unsecured	13,574,321	8,003,185
Carrying amount	178,336,200	192,509,826

All placements with banks are neither past due nor impaired as at the balance sheet date.

Notes to the financial statements
Year ended 31 December 2017

29. Financial instruments and risk management (continued)

29.1 Credit risk (continued)

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/Main Board for direction as to remedial action.

The Bank's principal financial assets are placements with banks, loans and advances to customers and held to maturity investments – debt securities.

The Bank's credit risk is primarily attributable to its loans and advances to customers. The amount presented in the balance sheet is net of impairment losses. Impairment losses are recognised if there is objective evidence that an event or events since initial recognition of an asset have adversely affected the amount or timing of future cash flows from the asset.
The Bank is exposed to concentration risk due to its customer base being largely financial institutions predominantly located in the Middle East and Africa. In this respect the Bank continues to look at opportunities in an attempt to spread and grow its client base, both within the MEA region and externally, to mitigate this risk.

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

Loans and advances to customers	2017 £	2016 £
Concentration by risk location		
Great Britain	13,651,996	19,605,460
Europe	10,969,491	5,591,722
Africa	125,302,870	126,339,548
Rest of the world	28,411,843	40,973,096
Total	178,336,200	192,509,826

29.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities.

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

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

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

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

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

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Year ended 31 December 2017

29. Financial instruments and risk management (continued)

29.2 Liquidity risk (continued)

Residual contractual maturities of financial liabilities as at 31 December 2016	Carrying amount £'000	Less than one month £'000	More than one month but not more than three months £'000	More than three months but not more than one year £'000	More than 1 year £'000	Total £'000
Non-derivative liabilities						
Deposits by banks	269,035	157,252	48,420	63,363	-	269,035
Customer accounts	88,276	57,729	17,336	12,667	544	88,276
Subordinated loan	16,212	-	-	-	16,212	16,212
	373,523	214,981	65,756	76,030	16,756	373,523
Derivative liabilities						
Forward foreign exchange contracts inflow	(835)	(227)	(608)	-	-	(835)
Forward foreign exchange contracts outflow	840	234	606	-	-	840
	5	7	(2)	-	-	5
	373,528	214,988	65,754	76,030	16,756	373,528

Residual contractual maturities of financial liabilities as at 31 December 2017	Carrying amount £'000	Less than one month £'000	More than one month but not more than three months £'000	More than three months but not more than one year £'000	More than 1 year £'000	Total £'000
Non-derivative liabilities						
Deposits by banks	306,972	187,338	71,199	48,435	-	306,972
Customer accounts	92,397	29,799	44,479	18,119		92,397
Subordinated loan	14,827	-	-	-	14,827	14,827
	414,196	217,137	115,678	66,554	14,827	414,196
Derivative liabilities						
Forward foreign exchange contracts inflow	(2,234)	(996)	(1,002)	(236)	-	(2,234)
Forward foreign exchange contracts outflow	2,229	993	1,000	236	-	2,229
	(5)	(3)	(2)	-	-	(5)
	414,191	217,134	115,676	66,554	14,827	414,191

Notes to the financial statements
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29. Financial instruments and risk management (continued)

29.3 Interest rate risk

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

The policy of the Bank is to price all placements/exposures at variable rates or at fixed rates for fixed periods on appropriate rollover dates that allow for matching in the market.

The tables shown below summarise the repricing mismatches on the Bank's assets and liabilities as at 31 December 2017 and 31 December 2016. Items are allocated to time bands by reference to the earlier of the next contracted interest rate repricing date and the maturity date.

Exposure to interest rate movements arise where there is an imbalance between variable rate and fixed rate and non-rate sensitive assets and liabilities. The table below shows the interest rate sensitivity gap exposures for the Bank as at 31 December 2016. 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.

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Year ended 31 December 2017

29. Financial instruments and risk management (continued)

29.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2016

	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	27,755	-	-	-	-	68,297	96,052
Placements with banks	145,241	-	-	-	-	-	145,241
Loans and advances to customers	123,135	57,896	1,347	10,132	-	-	192,510
Customers' acceptances	-	-	-	-	-	19,951	19,951
Held to maturity investments:							
- Treasury bills and other eligible bills	-	-	-	2,459	842	-	3,301
Available for sale:							
- UK Treasury bonds	9,993	8,000	-	-	-	-	17,993
- US Treasury bonds	7,283	-	-	-	-	-	7,283
Property and equipment	-	-	-	-	-	287	287
Intangible assets	-	-	-	-	-	126	126
Goodwill	-	-	-	-	-	752	752
Derivative assets	-	-	-	-	-	12	12
Prepayments and accrued income	-	-	-	-	-	489	489
Total assets	313,407	65,896	1,347	12,591	842	89,914	483,997
Liabilities							
Deposits by banks	135,872	25,227	38,136	-	-	69,800	269,035
Customers' accounts	56,883	8,852	3,815	544	-	18,182	88,276
Acceptances payable	-	-	-	-	-	19,951	19,951
Accruals and deferred income	-	-	-	-	-	287	287
Derivative liabilities	-	-	-	-	-	13	13
Other liabilities	-	-	-	-	-	216	216
Tax liabilities	-	-	-	-	-	819	819
Deferred Tax Liability	-	-	-	-	-	39	39
Subordinated loan	16,212	-	-	-	-	-	16,212
Equity	-	-	-	-	-	89,149	89,149
Total liabilities and equity	208,967	34,079	41,951	544	-	198,456	483,997
Interest rate sensitivity gap	104,440	31,817	(40,604)	12,047	842	(108,542)	-
Cumulative gap	104,440	136,257	95,653	107,700	108,542	-	-

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29. Financial instruments and risk management (continued)

29.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2017

	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	19,168	-	-	-	-	86,518	105,686
Placements with banks	181,949	-	-	-	-	-	181,949
Loans and advances to customers	116,110	16,784	33,502	3,148	615	8,177	178,336
Customers' acceptances	-	-	-	-	-	8,425	8,425
Held to maturity investments:							
- Treasury bills and other eligible bills	-	-	-	3,014	-	-	3,014
Available for sale:							
- UK Treasury bonds	-	-	5,993	-	-	-	5,993
- US Treasury bonds	-	15,482	4,436	-	-	-	19,918
Land & Buildings	-	-	-	-	-	15,267	15,267
Property and equipment	-	-	-	-	-	366	366
Intangible assets	-	-	-	-	-	229	229
Goodwill	-	-	-	-	-	752	752
Derivative assets	-	-	-	-	-	21	21
Prepayments and accrued income	-	-	-	-	-	818	818
Total assets	317,227	32,266	43,931	6,162	615	120,573	520,774
Liabilities							
Deposits by banks	162,641	37,344	11,091	-	-	95,896	306,972
Customers' accounts	44,479	18,119	-	-	-	29,799	92,397
Acceptances payable	-	-	-	-	-	8,425	8,425
Accruals and deferred income	-	-	-	-	-	312	312
Derivative liabilities	-	-	-	-	-	16	16
Other liabilities	-	-	-	-	-	13	13
Provision for liabilities and charges	-	-	-	-	-	155	155
Tax liabilities	-	-	-	-	-	1,014	1,014
Deferred Tax Liability	-	-	-	-	-	39	39
Subordinated loan	14,827	-	-	-	-	-	14,827
Equity	-	-	-	-	-	-	-
	-	-	-	-	-	96,604	96,604
Total liabilities and equity	221,947	55,463	11,091	0	0	232,273	520,774
Interest rate sensitivity gap	95,280	(23,197)	32,840	6,162	615	(111,700)	-
Cumulative gap	95,280	72,083	104,923	111,085	111,700	-	-

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 2017

29. Financial instruments and risk management (continued)

29.3 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.

	2017	2016
Financial assets		
Placements with banks	0.69%	0.43%
Loans and advances to customers	5.47%	5.62%
Held to maturity investments – Treasury bills and other eligible bills	2.73%	2.73%
Financial liabilities		
Deposits by banks	0.48%	0.45%
Customer Accounts	0.60%	0.55%

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:

	2017		2016	
	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	644	(669)	572	(592)

29.4 Foreign exchange risk

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

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

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

Notes to the financial statements
Year ended 31 December 2017

29. Financial instruments and risk management (continued)

29.4 Foreign exchange risk (continued)

The table in note 29 gives details of the notional principal amounts and fair values as at 31 December 2017 and 31 December 2016.

The Bank has no structural currency exposures hence sensitivity analysis is not required. The tables shown below give details of the Bank's assets and liabilities as at 31 December 2017 and 31 December 2016, in sterling, based on the currencies in which they are denominated to identify the extent to which the foreign currency exposures of the Bank are matched.

	Sterling £'000	US dollars £'000	EEC-denominated currencies £'000	Other currencies £'000	Total £'000
As at 31 December 2016					
Assets					
Cash and due from banks	12,204	29,517	51,957	2,375	96,053
Placements with Banks	72,500	50,611	22,129	-	145,240
Loans and advances to customers	27,648	139,321	25,541	-	192,510
Customers' acceptances	1,182	15,960	2,619	191	19,952
Held to Maturity investments:					
- Treasury bills and other eligible bills	-	3,301	-	-	3,301
Available for sale:					
- UK Treasury bonds	17,993	-	-	-	17,993
- US Treasury bonds	-	7,283	-	-	7,283
Property and equipment	253	-	33	-	286
Intangible assets	117	-	9	-	126
Goodwill	752	-	-	-	752
Derivative assets	12	-	-	-	12
Prepayments and accrued income	388	29	72	-	489
Total assets	133,049	246,022	102,360	2,566	483,997
Liabilities					
Deposits by banks	20,367	155,951	91,898	819	269,035
Customer accounts	23,586	57,699	6,438	554	88,277
Acceptances payable	1,182	15,960	2,619	191	19,952
Accruals and deferred income	154	111	22	-	287
Derivative liabilities	13	-	-	-	13
Other liabilities	216	-	-	-	216
Tax liabilities	671	-	147	-	818
Deferred tax liability	39	-	-	-	39
Subordinated loan	-	16,212	-	-	16,212
Total liabilities	46,228	245,933	101,124	1,564	394,849
Net assets/(liabilities)	86,821	89	1,236	1,002	89,148

Notes to the financial statements
Year ended 31 December 2017

29. Financial instruments and risk management (continued)

29.4 Foreign exchange risk (continued)

	Sterling £'000	US dollars £'000	EEC-denominated currencies £'000	Other currencies £'000	Total £'000
As at 31 December 2017					
Assets					
Cash and due from banks	2,579	21,860	79,556	1,691	105,686
Placements with Banks	85,000	73,938	23,011	-	181,949
Loans and advances to customers	27,633	135,371	15,332	-	178,336
Customers' acceptances	635	6,372	1,418	-	8,425
Held to Maturity investments:					
- Treasury bills and other eligible bills	-	3,014	-	-	3,014
- UK Treasury bonds	5,993	-	-	-	5,993
- US Treasury bonds	-	19,918	-	-	19,918
Goodwill	752	-	-	-	752
Land & Building	15,267	-	-	-	15,267
Property and equipment	337	-	29	-	366
Intangible assets	223	-	6	-	229
Derivative assets	21	-	-	-	21
Prepayments and accrued income	706	2	110	-	818
Total assets	139,146	260,475	119,462	1,691	520,774
Liabilities					
Deposits by banks	24,314	171,840	109,924	894	306,972
Customer accounts	19,013	66,496	6,180	708	92,397
Acceptances payable	636	6,372	1,418	-	8,426
Accruals and deferred income	176	69	67	-	312
Derivative liabilities	16	-	-	-	16
Other liabilities	13	-	-	-	13
Provisions for liabilities and charges	155	-	-	-	155
Tax liabilities	780	-	234	-	1,014
Deferred tax liability	38	-	-	-	38
Subordinated loan	-	14,827	-	-	14,827
Total liabilities	45,141	259,604	117,823	1,602	424,170
Net assets/(liabilities)	94,005	871	1,639	89	96,604

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.

30. Capital risk management

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.

Notes to the financial statements
Year ended 31 December 2017

31. Collateral

The Bank accepts certain forms of collateral subject to appropriate documentation as required by the Credit Policy Manual, especially legal review and certainty. As a principle, assets held as collateral in favour of the Bank must be sufficiently liquid and their value over time sufficiently stable to provide the Bank with acceptable certainty as to the value of the risk mitigation upon which it relies. Exceptions have to be approved through the credit process.

The Credit Department keeps a comprehensive record of collateral received. The Bank primarily accepts the following forms of collateral, subject to meeting the necessary legal requirements:

- Cash;
- Support instruments including bank, corporate and personal guarantees;
- Debt securities subject to meeting the external and/or internal rating criteria;
- Equities from companies within European Economic Area ("EEA") subject to rating, listing and liquidity requirements;
- Property, residential and/or commercial situated within EEA states or the MENA region subject to meeting the specified criteria; or
- Other security including trade and other receivables, stocks and inventories, plant and machinery and specialised assets such as aircraft and ships, etc.

The Credit Department is responsible for regular updates to the valuation of the underlying collateral as required by the Credit Policy Manual. The documentation entered into with the obligor specifies the Banks' rights and ability to liquidate the collateral, if required. The Management Committee is responsible for decisions regarding liquidation or appropriation of collateral based on recommendations from the Head of Credit and advice from the Bank's Solicitors.

During the year, there was no possession of underlying collateral by the Bank.

The carrying amount of financial assets recorded in the balance sheet, net of any allowances for losses, represents the Banks' maximum exposure to credit risk without taking account of any collateral obtained. The fair value of collateral and security enhancements held against loans or advances to customers is shown below:

	2017 £'000	2016 £'000
Collateral type		
Cash collateral	37,953	34,669
Banks' guarantees	15,301	34,255
Commercial real estate	34,546	39,681
Other collateral	117,055	116,515

32. Pillar III

The Bank is authorised by the FCA and PRA, and therefore is required to publish its Pillar III disclosures. These can be found on the Bank's website: www.bankofbeirut.co.uk

33. Events after the audit reporting period

The Bank signed an agreement for the issue of a 15 Year Subordinated Loan ("the Loan") of GBP 16 million on 28 December 2017 with an effective date of 1 January 2018 to Bank of Beirut Sal, its immediate and ultimate parent company. Drawdown was on 2 January 2018 with interest payable at GBP 1 Year LIBOR + 4%, paid annually, the first interest payment date being 16 Jan 2019. At the date of the drawdown the GBP 1 Year LIBOR was set at 0.77694%. Under the terms of the loan the applicable interest rate was set at 4.77694%.