بنك بيروت

Bank of Beirut (UK) Ltd

Banking Beyond Borders

Annual Report 2014

Company Registration No. 4406777

Bank of Beirut (UK) Ltd

Report and Financial Statements
31 December 2014

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Report and financial statements 2014
Officers and professional advisers

Directors

S G Sfeir (Chairman)

R C Dziengeleski

S M Osman

K C Bird

I J McCannah (resigned 31 December 2014)

A A Abdel Massih (resigned 4 March 2014)

F H Naboulsi

M J S Trench (appointed 16 April 2014)

A J Bush (appointed 6 May 2014)

Secretary
Comat Registrars Limited

Registered office
Hill House
1 Little New Street
London
EC4A 3TR

Bankers
Barclays Bank PLC
Level 11
1 Churchill Place
London E14 5HP

Solicitors
Eversheds LLP
1 Wood Street
London
EC2V 7WS

Auditor
Deloitte LLP
Chartered Accountants
London, United Kingdom

Chairman's Statement

2014 saw the start of slow economic growth and recovery across parts of the UK against a continuing backdrop of political and economic challenges in the European Union. At the same time, the rising tide of political uncertainty throughout a number of key Middle East and North African markets combined with the global drop in oil prices swayed the Bank to remain conservative and dynamically selective in its business risk appetite, strategic development and business planning.

The year heralded further expansion and investment by the Bank to its corporate governance, structure and organisation with a near 10% increase in headcount and an increased focus on areas of risk and compliance. Equally as important, the Bank continues to invest in its infrastructure, IT technology and systems in order to meet and support growth for the future.

Despite this challenging business environment in our key markets, 2014 saw marked improvements in the Bank's income streams when compared with the year previous. Indeed, net interest income increased by 10.2% to £5.1 million whilst commissions on services including Letters of Credit rose 3.75% to £7.99 million. Overall total income before expenses grew by 4.24% year on year. Complementing and supporting our growth in revenues is a solid and steady deposit book coupled with an expansion of Loans and Advances to £194.3 million, an increase of 12.4%. Total Assets for the Bank increased by 4.91%.

Notwithstanding the income gains for the Bank, the year witnessed the allocation of a specific provision of £2.1 million against a fine by the Financial Conduct Authority in respect to breaching one of the FCA's Principles for Businesses during the period 1 June 2011 to 20 March 2013. The FCA found that the Bank did not deliberately breach Principle 11, and no loss has been suffered by any of the Bank's customers or correspondent parties as a consequence of the issues identified in this case. All matters have now been fully remediated and the Bank has since significantly enhanced the resources in its compliance and risk teams. Compliance with its regulatory obligations is a key area of focus for the Bank going forward.

The result of the above provision and other administrative expenses in 2014 was an overall net profit for the Bank of £3.31 million with total Equity rising to £79.2 million and a reported Capital Adequacy ratio of 26% under CRD IV. Consequently Bank of Beirut (UK) Ltd remains profitable, highly liquid and very well capitalized.

Looking forward, the Board and its shareholders are confident that with our knowledge and understanding of the Middle East and African markets steeped in the support of the greater Bank of Beirut Group, 2015 will once again see development and consolidation of our activities leading to positive results for operations in both London and Frankfurt.

I would like to thank the Bank's shareholders, customers and staff for their selfless dedication and support, without which the results and achievements would not have been possible. Our appreciation is deep-seated, and we are grateful for your unwavering trust in our work ethic.

Salim G. Sfeir
Chairman General Manager

25 March 2015

Strategic Report

Bank of Beirut (UK) Ltd (the Bank) is an authorised institution under the Financial Services and Markets Act 2000 and commenced its operations in the UK in December 2002. Historically, the Bank has maintained a presence in London since 1981 providing important deposit and payment services to the Lebanese community based in the UK and overseas.

Since 2002, those primary services have been continued and successfully expanded, with a concentration towards facilitating the financing and provision of trade related services for businesses (largely Lebanese related) and Correspondent Banks operating between West Africa, Middle East, North Africa the UK and continental Europe.

The Bank provides a comprehensive service to its clients covering 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.

Through the location of its two branches in the major global financial centres of London and Frankfurt, combined with strategically important Representative Offices of our Parent, we are well placed to take advantage of access to a multitude of exporters, industrialists and other businesses across Europe, the Middle East and Africa. It is the Bank's role to provide the support to its clients and smooth access to those services and markets and to identify new growth and development opportunities across these core market areas.

Performance highlights

Whilst 2014 overall was generally positive in terms of growth year on year from net interest income and trade related commissions the year has been one of consolidation. This can be attributed in part to the slow economic recovery process seen across European and global markets but more directly through the continued social and political situations across the Middle East and North Africa – particularly Yemen, Iraq and Libya. With the increased risk and political uncertainty of the situation in the Middle East the Bank adjusted its business strategy over the second half of 2014 to reflect a more conservative approach in these regions, considering transactions on a selective and case by case basis. The situation has been further compounded with the on-going deterioration of global oil prices impacting directly on the economic environments of several key markets for the Bank.

In consequence the opening in 2014 of two new Representative Offices for the Bank of Beirut Group in Ghana and Libya has yet to deliver the expected growth and further business opportunities that expansion in to these two markets will provide although we remain confident that our objectives will be achieved in 2015 and beyond.

As at financial year end the Bank's total assets reached £375 million with total equity up to £79 million and a capital ratio of 26%. Meanwhile and as mentioned in the Chairman's statement, following allocation for provisions towards a regulatory fine of £2.1 million the Bank recorded a net profit of £3.3 million. Capital, funding and liquidity positions of the Bank remained comfortable throughout 2014 indeed our capital ratio under CRD IV as at 31 December 2014 remained strong at 26%.

Looking forward

In recognition of the increased impact of the regulatory environment on the financial services industry as a whole and the specific experiences realised by the Bank, we have consciously moved to strengthen our internal systems and controls with increased emphasis towards Risk, Compliance and AML.

As part of the regulatory sanction placed on the Bank, an additional suspension for undertaking and on-boarding of any new customers that are resident or incorporated in high risk jurisdictions will be in place for a period of 126 days in early 2015. With our existing foundations and core business markets firmly established over a number of years, we believe that any overall impact to the business during this period in addition to the regulatory fine will not be material to the Bank continuing as a going concern for the future.

With the internal and cultural changes as noted above, which have included additional key appointments at Board level in 2014 and further appointments already planned for 2015, together with the full support of the Bank's employees, Shareholders, Bank of Beirut Group and all stakeholders this will enable the Bank to continue to realise and meet its business strategy and objectives in 2015 and beyond.

Strategic Report (continued)

Payment of Dividends

The Directors have not recommended the payment of any dividend.

The financial statements for the reporting year ended 31 December 2014 are shown on pages 16 to 20.

Key performance indicators and ratios

The financial performance for the financial year 2014 is summarised in the following table (all figures are quoted in GBP '000s):

Income Statement	2014	2013
Net interest income	5,169	4,691
Fees and other income	8,363	8,290
Total operating income	13,532	12,981
Operating expenses	6,360	6,294
Profit before provisions & taxes	7,172	6,687

Balance Sheet	2014	2013
Loans and advances to customers	69,125	49,270
Loans and advances to banks	125,368	123,599
Total assets	374,783	357,224
Total Deposits	251,142	257,960
Shareholders' funds	79,201	75,884

Key performance indicators (%)	2014	2013
Net Interest Margin	1.73%	1.46%
Cost to income ratio	46.99%	48.49%
Return on Average Equity	4.28%	7.01%

Correspondent Banking and Trade Services

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

Services include but are not limited to confirmation and advising of Letters of Credit, Issuance of Letters of Guarantees and Standby LCs, Acceptances, documentary collections, trade advances including discounting, forfaiting, and post finance. Transactions are generally short term in nature for a maximum 180 days.

The bank maintains a strong trade finance team 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.

Strategic Report (continued)

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 Individual Liquidity Guidance (ILG) 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, two Non-Executive Directors representing the shareholder and three independent UK based Non-Executive Directors (INEDs). The UK based 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
- Management Committee

The Bank has an independent Head of Risk & Compliance with responsibility for both CF10 and CF11 functions who reports to the Chairman of the Board Audit, Risk & Compliance Committee 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. The Bank also has an Internal Audit function which reports functionally to the Chair of the Audit, Risk & Compliance Committee (ARCC).

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.

Strategic Report (continued)

Risk Governance (continued)

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 and external audit (Level 3).

The Board is responsible for ensuring the adequacy of the risk management systems of the Bank and for setting a clear statement of risk appetite. 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.

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.

The control 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 Risk Management 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 minimize 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 has significantly improved its systems and controls in this important area of the business.

Strategic Report (continued)

Internal Audit

The Internal Audit function acts independently of operations and is responsible for reviewing all business lines and support functions within the Bank. Internal Audit provides the Management and the Audit, Risk & Compliance Committee with independent assurance that the Bank's policies and procedures have been implemented effectively, and that there are adequate controls in place to mitigate significant risks so that the exposure is within acceptable tolerance levels.

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.

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 and ILAA 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 business plans are achievable within its capital and liquidity resources. Both the ICAAP and ILAA are 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

Sobhi Osman
Director & Senior Manager

25 March 2015

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Directors´ Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2014.

Principal activities and review of the business

Bank of Beirut (UK) Ltd (the Bank) is an authorised institution under the Financial Services and Markets Act 2000.
The principal activities of the Bank are the provision of trade finance, correspondent banking, commercial and retail banking services. As detailed more fully within the Strategic Report on page 3, the Bank provides a comprehensive suite of trade finance products and services to its clients and correspondent banks alike operating in Middle East and African markets. Although the Bank does consider medium term transactions on a selective basis and, on occasion, more traditional and commercial lending backed by real estate, the majority of our financing is typically trade related and short-dated, being 180 days or less. As such the Bank's core profits are derived from its trade related activities and the commissions and underlying interest income generated through its operations located in the UK and Germany. .

It is the case therefore that our business focus and growth will continue from our Middle East and African markets in the future with careful consideration towards other emerging markets within these regions.

The principal risks faced by the Bank are discussed in further detail below under the "Financial risk management objectives and policies" section.

Results and dividends

All profit for the year after taxation, which amounted to £3,317,212 (2013 - £5,132,433) was transferred to reserves. The directors do not recommend the payment of a dividend (2013 - £nil).

As already commented upon within the Chairman's statement the Board recognises that with the allocation of a £2.1 million provision towards a regulatory fine net profits after tax were reduced by 35.36% year on year. The Board however recognises that notwithstanding the significance of the provision that the Bank has been able to demonstrate a solid overall trading performance with a 4.25% increase in net operating income. These figures are achieved despite the existence of political and social uncertainty in several of the Bank's key markets coupled with depreciation in the global oil prices. These events resulted in the Bank adopting a more conservative and selective approach to business opportunities and transactions during the second half of 2014.

By virtue of a strong capital base through retention of profits in prior years, together with additional long term subordinated debt from our Parent, Bank of Beirut s.a.l. for $20 million, the capital ratio remains a healthy 26%.

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 its size and business policies. The Bank maintains adequate resources including a liquid asset buffer 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 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. Please also refer to Note 2 to the financial statements in respect of the going concern basis of the Bank.

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 Credit Committee. The Bank will take collateral when required; this may be security over a customer's assets, or more commonly, cash.

Directors´ Report (continued)

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 to mitigate 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 27 shows the interest rate sensitivity gap analysis for addressing the risk for the Bank as at 31 December 2014.

Foreign exchange risk
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.

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 in the Statement of accounting policies in the financial statements.

Directors' indemnities

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

Directors

The directors who served throughout the year were as follows:
S G Sfeir
R C Dziengeleski
S M Osman
K C Bird
I J McCannah (resigned 31 December 2014)
A A Abdel Massih (resigned 4 March 2014
F H Naboulsi
M J S Trench (appointed 16 April 2014)
A J Bush (appointed 6 May 2014)

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Directors´ Report (continued)

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 company's auditors are unaware; and
- The director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditors are 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 auditors 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

Sobhi Osman
Director & Senior Manager

25 March 2015

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 company and of the profit or loss of the company 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 company'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 company's transactions and disclose with reasonable accuracy at any time the financial position of the company 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 company 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 company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditor´s report to the members of Bank of Beirut (UK) Ltd

We have audited the financial statements of Bank of Beirut (UK) Limited for the year ended 31 December 2014 which comprise the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 31. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent auditor's report to the members of Bank of Beirut (UK) Ltd (continued)

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion the Financial Statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

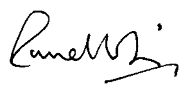
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- 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; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Russell Davis FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

25 March 2015

Income Statement
Year ended 31 December 2014

In Pounds Sterling £	Notes	2014	2013
Interest receivable	4	7,099,768	6,824,124
Interest payable	5	(1,930,396)	(2,133,351)
Net interest income		5,169,372	4,690,773
Fees and commissions receivable		7,989,732	7,700,723
Other income		372,820	589,645
Total non-interest income		8,362,552	8,290,368
Total income		13,531,924	12,981,141
Administrative expenses	6	(8,459,709)	(6,293,806)
Net impairment losses on loans and advances		(143,022)	-
Profit before taxation	7	4,929,193	6,687,335
Taxation	8	(1,611,981)	(1,554,902)
Profit for the year		3,317,212	5,132,433

Statement of other comprehensive Income
Year ended 31 December 2014

In Pounds Sterling £	Notes	2014	2013
Profit for the year		3,317,212	5,132,433
Items that may be reclassified subsequently to profit or loss:			
Available for sale financial assets			
Gains arising during the year, net of tax		3,267	613
Exchange difference on translating foreign operations, net of tax		(2,169)	(9,134)
Income tax relating to items that may be reclassified	8	(703)	(144)
Other Comprehensive income / (losses) for the year net of tax		395	(8,665)
Total Comprehensive income for the year		3,317,607	5,123,768

Balance sheet
As at 31 December 2014

In Pounds Sterling £	Notes	2014	2013
Assets			
Cash and balances at banks		46,025,977	21,120,727
Placements with banks	9	76,462,675	136,118,436
Loans and advances to customers	10	194,348,850	172,869,464
Customers' acceptances	11	27,336,110	9,969,716
Held to maturity investments:			
- Treasury bills and other eligible bills	12	2,613,529	2,463,508
Available for sale:			
- UK Treasury bills	13	25,984,720	12,671,556
Derivative assets	27	93,920	333,896
Prepayments and accrued income		652,583	536,405
Property and equipment	14	512,896	388,986
Goodwill	15	751,540	751,540
Total assets		374,782,800	357,224,234
Liabilities			
Deposits by banks	16	161,176,676	171,130,287
Customer accounts	17	89,965,175	86,829,572
Acceptances payable	11	27,336,110	9,969,716
Derivative liabilities	27	813,706	62,657
Accruals and deferred income		514,448	482,995
Other liabilities	18	216,918	219,149
Provision for liabilities and charges	19	2,100,000	-
Tax liabilities		717,103	648,996
Subordinated loan	20	12,741,394	11,997,199
Total liabilities		295,581,530	281,340,571
Equity			
Called up share capital	21	34,150,000	34,150,000
Retained earnings	22	45,051,270	41,733,663
Total equity		79,201,270	75,883,663
Total liabilities and equity		374,782,800	357,224,234
Contingent liabilities	23	125,335,189	112,378,034
Commitments	24	116,546,376	89,845,675

These financial statements were approved by the board of directors and authorised for issue on 25 March 2015. They were signed on its behalf by:

Sobhi Osman
Director & Senior Manager

Statement of changes in equity
Year ended 31 December 2014

In Pounds Sterling £	Called up share capital	Retained earnings	Total
As at 1 January 2014	34,150,000	41,733,663	75,883,663
Profit for the period	-	3,317,212	3,317,212
Other comprehensive income for the period	-	395	395
As at 31 December 2014	34,150,000	45,051,270	79,201,270

In Pounds Sterling £	Called up share capital	Retained earnings	Total
As at 1 January 2013	34,150,000	36,609,845	70,759,895
Profit for the period	-	5,132,433	5,132,433
Other comprehensive income for the period	-	(8,665)	(8,665)
As at 31 December 2013	34,150,000	41,733,663	75,883,663

Cash flow statement
Year ended 31 December 2014

In Pounds Sterling £	2014	2013
Cash flows from operating activities		
Profit before taxation	4,929,193	6,687,335
Adjustment for:		
Depreciation	133,269	128,430
Net impairment losses on loans and advances to customers	143,022	-
Operating cash flows before movements in working capital	5,205,484	6,815,765
Increase in prepaid and accrued income	(116,178)	(211,323)
Increase/(decrease) in accruals and deferred income	31,453	210,888
Increase/(decrease) in provision for liabilities and charges	2,100,000	-
Net increase in loans and advances to banks and customers	38,176,375	(1,869,303)
(Decrease)/increase in deposits by banks and customers	(6,818,008)	(13,969,170)
Increase in other liabilities	(2,231)	(125,669)
Net increase/(decrease) in derivative financial instruments	991,026	(268,504)
Cash generated/(used) in operations	39,567,921	(9,417,316)
Corporation tax paid	(1,491,500)	(1,963,750)
Corporation tax refund	-	4,348
Net cash generated/(used) in operating activities	38,076,421	(11,376,718)
Cash flows from investing activities		
Proceeds on maturity of debt securities	-	-
Purchase of debt securities	-	-
Payments for property and equipment	(260,215)	(30,554)
Proceeds on maturity of treasury bills and other eligible bills	111,119,556	237,877,690
Purchase of treasury bills and other eligible bills	(124,448,000)	(223,596,478)
Net cash generated/ (used) from investing activities	(13,588,659)	14,250,658
Cash flows from financing activities		
Proceeds from issuance of ordinary share capital	-	-
Net increase in cash and cash equivalents	24,487,762	2,873,940
Cash and cash equivalents at the beginning of the year	21,120,727	18,179,037
Effect of exchange rate changes on cash and cash equivalents	417,488	67,750
Cash and cash equivalents at the end of the year	46,025,977	21,120,727
Cash and cash equivalents comprised of:		
Cash and balances at banks	46,025,977	21,120,727

Notes to the financial statements
Year ended 31 December 2014

1. General information

Bank of Beirut (UK) Ltd ("the Bank") is a company incorporated in the United Kingdom under the Companies Act 1985. The address of the registered office is given on page 1. The nature of the Bank's operations and its principal activities are set out in the Strategic Report on pages 3 to 9 and the Directors' Report on pages 10 to 12.
These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Bank operates.
The following new and revised Standards and Interpretations have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these financial statements but may impact the accounting for future transactions and arrangements.
Amendments to IFRS 7 Financial instruments disclosures – IASB issued amendments to IFRS 7 titled Disclosures – Transfers of Financial Assets. These amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.
There are a number of other changes to IFRS that were effective from 1 January 2014. Those changes did not have a significant impact on Bank of Beirut (UK) Ltd's financial statements

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 not yet effective:
IFRS 9 'Financial Instruments' – In November 2009, the IASB issued IFRS 9 'Financial Instruments ('IFRS 9') which introduced new requirements for the classification and measurement of financial assets. In October 2010, the IASB issued an amendment to IFRS 9 incorporating requirements for financial liabilities. Together, these changes represent the first phase in the IASB's planned replacement of IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') with a less complex and improved standard for financial instruments.
Following the IASB's decision in December 2011 to defer the effective date, the standard is effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. IFRS 9 is required to be applied retrospectively but prior periods need not be restated.
The second and third phases in the IASB's project to replace IAS 39 will address impairment of financial assets measured at amortised cost and hedge accounting.
The IASB re-opened the requirements for classification and measurement in IFRS 9 in 2013 to address practice and other issues, with an exposure draft of revised proposals issued in November 2013.

Other Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

- IFRS 7 (amended) Disclosures - Offsetting Financial Assets and Financial Liabilities
- Annual Improvements to IFRSs (2009 – 2011) Cycle
- IFRS 9 Financial Instruments
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IFRS 13 Fair Value Measurement
- IAS 27 (revised) Separate Financial Statements
- IAS 28 (revised) Investments in Associates and Joint Ventures; and
- IAS 32 (amended) Offsetting Financial Assets and Financial Liabilities.

Notes to the financial statements
Year ended 31 December 2014

1. General information (continued)

The directors do not expect that the adoption of the standards listed above will have a material impact on the financial statements of the Company in future periods, except as follows:
• IFRS 7 (amended) will increase the disclosure requirements where netting arrangements are in place for financial assets and financial liabilities;
• IFRS 9 will impact both the measurement and disclosures of Financial Instruments; and
• IFRS 13 will impact the measurement of fair value for certain assets and liabilities as well as the associated disclosures.
Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2. Significant accounting policies

Basis of accounting
The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union. The financial statements have been prepared on the historical cost basis except for the revaluation of certain financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets. 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 3 to 9 and the Directors' report on pages 10 to 12 and elsewhere within the financial statements. In addition notes 27 and 28 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. Its performance has been resilient in the difficult trading conditions currently being experienced. 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 on acquisitions
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 Company's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

For the purpose of impairment testing, goodwill is allocated to cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are not amortised but tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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.

Notes to the financial statements
Year ended 31 December 2014

2. Significant accounting policies (continued)

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.

Financial assets
Financial assets are classified into held for trading, available for sale, held-to-maturity investments, designated as at fair value through profit or loss or loans and receivables.

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.

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 held for trading or available for sale financial instruments.

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.

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.

Notes to the financial statements
Year ended 31 December 2014

2. Significant accounting policies (continued)

Financial liabilities and equity (continued)
All financial liabilities are held at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.
Equity instruments issued by the Bank are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments
The Bank's activities expose it primarily to the financial risks of changes in currency exchange rates. The Bank uses foreign exchange forward contracts 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 cash equivalents
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. 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
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).

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 assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences, and deferred tax assets are generally recognised for all deductible temporary differences where it is probable that future taxable profit will be available against which the temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary differences arise from 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.

Notes to the financial statements
Year ended 31 December 2014

2. Significant accounting policies (continued)

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

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

3. 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 2, 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.

Impairment of goodwill
Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. The carrying amount of goodwill at the balance sheet date was £751,540 (2013: £751,540) with no impairment loss.

Notes to the financial statements
Year ended 31 December 2014

4. Interest receivable

Interest receivable comprises interest from:

In Pounds Sterling £	2014	2013
Loans and receivables:		
Loans and advances to banks	3,731,796	3,853,912
Loans and advances to customers	3,173,898	2,745,683
Impaired loans	1,022	-
Held to maturity investments:		
Treasury bills and other eligible bills	193,052	224,529
	7,099,768	6,824,124

The amount of interest receivable attributable to group companies is £35,075 (2013: £118,786).

5. Interest payable

Interest payable comprises interest to:

In Pounds Sterling £	2014	2013
Other financial liabilities:		
Deposit by banks	649,688	636,181
Customers' accounts	568,573	645,831
Premiums Paid	-	48,623
Others	712,135	802,716
	1,930,396	2,133,351

The amount of interest payable attributable to group companies is £699,015 (2013: £802,716).

6. Administrative expenses

Administrative expenses include:

In Pounds Sterling £	2014	2013
Staff costs during the year (including directors):		
Wages and salaries	3,016,243	3,043,291
Social security costs	348,154	356,359
Other staff costs	339,631	284,931
	3,704,028	3,684,581
Pension costs (defined contribution scheme and personal plan)	271,395	314,903
	3,975,423	3,999,484

The following expense was raised during the current year:

In Pounds Sterling £	2014	2013
Provision for liabilities and charges	2,100,000	-

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

In number of employees	2014	2013
Commercial and retail banking activities	48	46

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

In Pounds Sterling £	2014	2013
Salaries and other emoluments	842,175	805,283
Pension costs	70,880	67,099
	913,055	872,382

Notes to the financial statements
Year ended 31 December 2014

6. Administrative expenses (continued)

Directors' emoluments (continued)
The emoluments of the highest paid director for the year ended 31 December 2014 were £601,717 (2013 - £597,368). The highest paid director is not a member of the Bank's pension scheme. As per the terms of the Executive's Service Agreement, in lieu of making direct contractual contributions to a pension scheme nominated by either the Bank or the Executive, the Bank pays to the Executive an annual gross cash allowance equal to a fixed per cent of the Executive's gross annual basic salary from time to time. Any such amounts are payable at the sole direction and discretion of the Executive with the option to have such payments deferred beyond the termination of the Service Agreement. Amounts accrued under the deferred benefit payment in lieu for the year of 2014 amounted to £55,299 (2013: £52,081).

One director (2013 - one) waived his right to receive his emolument totalling £18,000 (2013 - £18,000). There was one director (2013 - one director) who was part of the Bank's pension scheme

7. Profit before taxation

The profit is stated after charging/(crediting):

In Pounds Sterling £	2014	2013
Net foreign currency gains	(372,820)	(590,115)
Auditor's remuneration		
Audit services	73,500	71,000
Non-audit services	45,438	11,163
Operating lease rentals – Land and buildings	475,062	491,087
Depreciation	133,269	128,430

The analysis of non-audit services is as follows:

In Pounds Sterling £	2014	2013
Tax services	15,600	10,000
Secretarial services	2,189	1,163
ICAAP services	9,065	-
COREP services	18,584	-
Total non-audit fees	45,438	11,163

Notes to the financial statements
Year ended 31 December 2014

8. Taxation

Current tax charge/(credit):

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

Analysis of tax charge for the year

In Pounds Sterling £	2014	2013
Current year	1,528,663	1,581,865
Double tax relief	(37,600)	-
Prior year adjustment	83,318	(26,963)
Total Current tax charge/(credit)	1,574,381	1,554,902
Overseas tax	37,600	-
Total income tax expense	1,611,981	1,554,902

The charge for tax is based upon a UK corporation tax rate of 21.5% for the calendar year 2014.The effective tax rate for the year is higher than the standard UK corporation tax. The differences are explained below.

Factors affecting the tax charge for the year

In Pounds Sterling £	2014	2013
Profit before taxation	4,929,193	6,687,335
Tax charge at average UK corporation tax rate of 21.25% (2013: 23.25%)	1,059,776	1,554,805
Effects of:		
Non deductable Expenses not deductible for tax purposes	497,995	2,853
Non taxable income	(305)	-
Capital allowances in excess of depreciation	(38,502)	8,452
Depreciation on non-qualifying assets	3,309	3,620
Unpaid Pension Costs	10,961	12,135
Other short term timing differences	(4,571)	-
Prior year adjustment	83,318	(26,963)
Tax expense for the year	1,611,981	1,554,902

A net deferred tax asset has not been recognised in respect of unpaid pensions and other timing differences (DTA: £51,121) net of accelerated capital allowances (DTL: £46,914) amounting to total net closing DTA of £4,206 (2013: £25,940).

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:

In Pounds Sterling £	2014	2013
Available for sale financial assets		
Gains arising during the year	3,267	613
Exchange difference on translating foreign operations	(2,169)	(9,134)
Total income tax recognised in other comprehensive income	(703)	(144)

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Notes to the financial statements
Year ended 31 December 2014

9. Placements with banks

In Pounds Sterling £	2014	2013
Remaining maturity		
Three months or less excluding on demand	76,462,675	136,118,436
	76,462,675	136,118,436

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.

10. Loans and advances to customers

In Pounds Sterling £	2014	2013
Repayable:		
On demand or at short notice	20,390,359	16,826,473
Remaining maturity:		
Three months or less excluding on demand	113,526,939	108,642,924
One year or less but over three months	24,037,167	39,950,644
Three years or less but over one year	26,441,835	7,449,423
Five years or less but over three years	10,096,154	-
	194,492,454	172,869,464
Impairment losses	(143,604)	-
	194,348,850	172,869,464

At the year end the bank had agreed amended repayment terms on one loan to a customer of value £410,297 (2013- £440,716).

A reconciliation of the impairment charge for the year is provided below:

In Pounds Sterling £	2014	2013
Balance as at 1 January	-	-
Write off	(582)	-
Exchange rate difference	-	-
Additions	143,604	-
Balance as at 31 December	143,022	-

11. 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.

Notes to the financial statements
Year ended 31 December 2014

12. Held to maturity - Investments

The certificates of deposit are classified as held to maturity and the movements during the year are summarised as follows:

In Pounds Sterling £	2014		2013	
	Book Value	Market Value	Book Value	Market Value
Treasury bills and other eligible bills	2,613,529	2,651,538	2,463,508	2,430,207
	2,613,529	2,651,538	2,463,508	2,430,207

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

In Pounds Sterling £	2014	2013
Balance as at 1 January	2,463,508	7,707,850
Acquisitions	17,375	16,378
Maturities	-	(5,207,850)
Exchange differences on monetary assets	132,646	(52,870)
Balance as at 31 December	2,613,529	2,463,508

13. Available for Sale

In Pounds Sterling £	2014		2013	
	Book Value	Market Value	Book Value	Market Value
UK Treasury Bills	25,979,240	25,984,720	12,669,343	12,671,556
	25,979,240	25,984,720	12,669,343	12,671,556

The UK 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:

In Pounds Sterling £	2014	2013
Balance as at 1 January	12,671,556	21,999,240
Acquisitions	124,448,000	223,580,100
Maturities	(111,119,556)	(232,669,840)
Discount received	(20,760)	(240,157)
Movement in fair value	5,480	2,213
Balance as at 31 December	**25,984,720**	**12,671,556**

Notes to the financial statements
Year ended 31 December 2014

14. Property and equipment

In Pounds Sterling £	Leasehold improvements	Fixtures, fittings and equipment	Total
Cost			
At 1 January 2013	449,533	720,632	1,170,165
Additions	-	30,554	30,554
Disposals	(1,792)	(2,835)	(4,627)
At 31 December 2013	447,741	748,351	1,196,092
Additions	1,850	258,365	260,215
Disposals	(251)	(19,487)	(19,738)
At 31 December 2014	449,340	987,229	1,436,569
Depreciation			
At 1 January 2013	193,517	490,494	684,011
Charge for the year	43,229	85,201	128,430
Disposals	(1,676)	(3,659)	(5,335)
At 31 December 2013	235,070	572,036	807,106
Charge for the year	43,034	90,235	133,269
Disposals	(213)	(16,489)	(16,702)
At 31 December 2014	277,891	645,782	923,673
Net book value			
At 31 December 2014	171,449	341,447	512,896
At 31 December 2013	212,671	176,315	388,986

15. Goodwill

In Pounds Sterling £	2014	2013
At cost	**751,540**	751,540

The goodwill arising on the acquisition of the Bank of Nova Scotia portfolio of assets and liabilities ("the Business") in 2006 is attributable to the anticipated additional profitability that the Business will contribute to the Bank in the future.

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units that are expected to benefit from that business combination. The Bank has determined that the Business constitutes a single cash generating unit and 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, growth rates and expected changes to net interest margin during the period. 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 Business. The growth rates are based on industry growth forecasts. Changes in net interest margin are based on expectations of future changes in the market.
The Bank prepares cash flow forecasts derived from the most recent financial budgets approved by management for the Business 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. The rate used to discount the forecast cash flows from the Business is 4.60 per cent.

Notes to the financial statements
Year ended 31 December 2014

16. Deposits by banks

In Pounds Sterling £	2014	2013
Repayable on demand	60,792,300	47,834,279
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	48,152,983	92,566,272
Between three months and one year	52,231,393	30,729,736
	161,176,676	171,130,287

Included in the above are amounts due to parent undertakings of £43,174,418 (2013: £37,649,035).

17. Customer accounts

In Pounds Sterling £	2014	2013
Repayable on demand	39,295,492	36,857,198
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	31,615,377	29,851,591
Between three months and one year	18,632,056	19,726,776
Between one year and five years	422,250	394,007
	89,965,175	86,829,572

18. Other liabilities

In Pounds Sterling £	2014	2013
Other taxes and social security costs	188	555
Other liabilities	216,730	218,594
	216,918	219,149

19. Provision for liabilities and charges

In Pounds Sterling £	2014	2013
Provision for liabilities and charges	2,100,000	-
	2,100,000	-

The Bank was fined by the FCA to the amount of £2.1 million on 5 March 2015 and this fine has been accounted for within the results of 2014 and are included in the administrative expenses for that year. The failings were historical issues that existed prior to 2013 all of which have now been fully remediated. For further details please see Note 30.

Notes to the financial statements
Year ended 31 December 2014

20. Subordinated Loan

The Bank signed an agreement for the issue of a 10 Year Subordinated Loan (“the Loan”) of USD 20,000,000 on 19 March 2007 to Bank of Beirut S.A.L, 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 S.A.L. 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. However, on 28 April 2008, the Board of Directors of Bank of Beirut S.A.L. 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

The interest charged for the year is calculated by applying an effective interest rate of 2.2356% (2013: 2.2376%).

In Pounds Sterling £	Liability
As at 1 January 2014	11,997,199
Accrued interest	170,881
Foreign exchange movements	573,314
As at 31 December 2014	12,741,394

In Pounds Sterling £	Liability
As at 1 January 2013	12,210,890
Accrued interest	162,607
Foreign exchange movements	(376,298)
As at 31 December 2013	11,997,199

21. Called up share capital

In Pounds Sterling £	2014	2013
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 (2013: 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

22. Reconciliation of movements in shareholders’ funds and movements on reserves

In Pounds Sterling £	Called up share capital	Retained earnings	Total
As at 1 January 2014	34,150,000	41,733,663	75,883,663
Comprehensive income for the year		3,317,212	3,317,212
Other comprehensive income for the year		395	395
As at 31 December 2014	34,150,000	45,051,270	79,201,270

Notes to the financial statements
Year ended 31 December 2014

23. Contingent liabilities

Contingent liabilities comprise:

In Pounds Sterling £	2014	2013
Irrevocable letters of credit	147,236,734	119,163,029
Guarantees	5,434,565	3,184,721
Deferred payment acceptances	(27,336,110)	(9,969,716)
	125,335,189	112,378,034

24. Commitments

In Pounds Sterling £	2014	2013
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	81,264,705	78,074,922
One year and over	35,281,671	11,770,753
	116,546,376	89,845,675

Operating lease arrangements:

In Pounds Sterling £	2014	2013
Minimum lease payments under operating leases recognised as an expense in the year	475,062	491,087

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:

In Pounds Sterling £	2014	2013
Not later than one year	467,359	479,985
Later than one year and not later than five years	1,455,999	1,887,090
Later than five years	-	57,489

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.

25. Related party transactions

During the year, the Bank entered into the following transactions with its holding company, Bank of Beirut S.A.L.:

In Pounds Sterling £	2014	2013
Interest received from holding company	35,075	118,786
Interest paid to holding company	(699,015)	(513,997)
Fee paid to holding company	(187,741)	(250,232)

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

In Pounds Sterling £	2014	2013
Deposits		
Call Deposits	8,277,167	6,666,835
Fixed Deposits	34,897,250	30,982,200
Bills Discounted	68,848	1,674,898
Bills Purchased	-	-
Letters of Credit	3,250,680	8,398,340
Acceptances	5,517,430	1,758,677

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

Notes to the financial statements
Year ended 31 December 2014

25. Related party transactions (continued)

Directors' transactions

The following transactions have taken place with directors:

The Bank made to one of its executive directors in 2014 an unsecured non-interest bearing loan, payable within 12 months, amounting to £4,081 (2013 - £3,704) in respect of personal travel costs and private healthcare costs. The balance outstanding as at 31 December 2014 was £1,771 (2013 - £1,558). The Bank agreed a non-interest bearing overdraft facility to one of its non-executive directors in 2013 to a maximum value of £50,000. The balance outstanding as at 31 December 2014 was £20,685 (2013 - £23,118).

In Pounds Sterling £	2014	2013
Deposits from Directors	58,192	43,126
	58,192	43,126

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.

In Pounds Sterling £	2014	2013
Short-term employee benefits	842,175	805,283
Post-employment benefits	70,880	67,099
	913,055	872,382

Other Related Party Transactions

These balance(s) 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 S.A.L. (Lebanon).

In Pounds Sterling £	2014	2013
Deposits from related parties	1,338,681	702,767
	1,338,681	702,767

26. Ultimate parent and controlling party

The ultimate parent and controlling party at 31 December 2014 was Bank of Beirut S.A.L., which is incorporated in Lebanon. All of the company's issued share capital is wholly owned by Bank of Beirut S.A.L. which is the parent company of the smallest and largest groups into which the results of the company are consolidated. Copies of the group accounts can be obtained from 17a Curzon St, London W1J 5HS.

27. Financial instruments and risk management

The Bank holds and issues financial instruments for three main purposes:
• to earn an interest margin or a fee;
• to finance its operations; and
• to manage the interest rate and currency risks arising from its operations and from its sources of finance.

The Bank does not have a trading book.

As at the end of 31 December 2013 and 31 December 2014, 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.

Notes to the financial statements
Year ended 31 December 2014

27. Financial instruments and risk management (continued)

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 along with those entered into with third parties:

As at 31 December 2014	Notional principal	Carrying value		Fair value	
In Pounds Sterling £	Amount	Asset	Liability	Asset	Liability
Exchange rate-related contracts					
Forward foreign exchange	28,664,084	85,073	804,860	85,073	804,860
Options	1,608,846	8,846	8,846	8,846	8,846
Of which third party	26,994,117	82,951	746,765	82,951	746,765

As at 31 December 2013	Notional principal	Carrying value		Fair value	
In Pounds Sterling £	Amount	Asset	Liability	Asset	Liability
Exchange rate-related contracts					
Forward foreign exchange	24,144,200	290,095	18,856	290,095	18,856
Options	2,524,499	43,801	43,801	43,801	43,801
Of which third party	16,006,800	225,713	17,206	225,713	17,206

Notes to the financial statements
Year ended 31 December 2014

27. Financial instruments and risk management (continued)

Classification of assets and liabilities

The assets and liabilities are classified as follows:

In Pounds Sterling £	Loans and receivables	Held to maturity	Fair value through profit and loss	Non-financial assets	Total
As at 31 December 2014					
Assets					
Cash and due from banks	46,025,977	-	-	-	46,025,977
Placements with banks	76,462,675	-	-	-	76,462,675
Loans and advances to customers	194,348,850	-	-	-	194,348,850
Customers' acceptances	27,336,110	-	-	-	27,336,110
Held to maturity investments:					
- Treasury bills and other eligible bonds	-	2,613,529	-	-	2,613,529
Available for sale:					
- UK Treasury bonds	-	-	25,984,720	-	25,984,720
Property and equipment	-	-	-	512,896	512,896
Goodwill	-	-	-	751,540	751,540
Derivative assets	-	-	93,920	-	93,920
Prepayments and accrued income	-	-	-	652,583	652,583
Total assets	344,173,612	2,613,529	26,078,640	1,917,019	374,782,800
As at 31 December 2013					
Assets					
Cash and due from banks	21,120,727	-	-	-	21,120,727
Placements with banks	136,118,43 6	-	-	-	136,118,436
Loans and advances to customers	172,869,464	-	-	-	172,869,464
Customers' acceptances	9,969,716	-	-	-	9,969,716
Held to maturity investments:					
- Treasury bills and other eligible bonds	-	2,463,508	-	-	2,463,508
Available for sale:					
- UK Treasury bonds	-	-	12,671,556	-	12,671,556
Property and equipment	-	-	-	388,986	388,986
Goodwill	-	-	-	751,540	751,540
Derivative assets	-	-	333,896	-	333,896
Prepayments and accrued income	-	-	-	536,405	536,405
Total assets	340,078,343	2,463,508	13,005,452	1,676,931	357,224,234

All financial liabilities including deposits by bank, customer accounts, acceptance payable and subordinated loan are carried at amortised cost as at the balance sheet date except for derivative liabilities which are classified as fair value through profit and loss and are carried at fair market value as at the balance sheet date.

The Bank finances its operations by a mixture of shareholders' funds, customer deposits and inter-bank deposits. The deposits raised may be in a range of currencies at floating or fixed rates of interest. The Bank's lending is usually in sterling, Euros or US dollars and may be either floating or fixed rate. The Bank uses forward foreign exchange contracts to hedge foreign exchange exposures resulting from customer facilitation. All forward foreign exchange contracts for customers are matched with corresponding contracts with banks.

Notes to the financial statements
Year ended 31 December 2014

27. 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.

27.1 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 credits and credit provisions, the approval of credit policy and subsequent amendments, and the delegation of credit approval and provisioning limits to the Credit Officer.

The Credit Officer is responsible for implementation of credit policies and for the approval of routine credit facilities within its credit approval and provisioning limits, as delegated by the Board Management Committee.

Notes to the financial statements
Year ended 31 December 2014

27. Financial instruments and risk management (continued)

27.1 Credit risk (continued)

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

	2014		2013	
In Pounds Sterling £	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
Placement with banks:				
Loans and receivables	76,462,675	76,462,675	136,118,436	136,118,436
Loans and advances to customers:				
Loans and receivables	194,348,850	194,492,454	172,869,464	172,869,464
Derivative financial assets				
Currency forwards	93,920	93,920	333,896	333,896
Net letters of credit and guarantees	125,335,189	125,335,189	112,378,034	112,378,034
Loan commitments	116,546,376	116,546,376	89,845,675	89,845,675
	512,787,010	512,787,010	511,545,505	511,545,505

	Loans and advances to customers	
In Pounds Sterling £	2014	2013
Carrying amount	194,348,850	172,869,464
Individually impaired	410,297	-
Allowance for impairment	(143,604)	-
Carrying amount	266,693	-
Past due but not impaired		
30-60 days	-	798,713
>90 days	2,452,605	576,439
Carrying amount	2,452,605	1,375,152
Neither past due nor impaired	191,629,552	171,494,312
Carrying amount	194,348,850	172,869,464

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.

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 2014

27. Financial instruments and risk management (continued)

27.1 Credit risk (continued)

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	
In thousands of Pounds Sterling £	2014	2013
Individually impaired:		
Unsecured	267	-
Past due but not impaired:		
Cash	151	531
Property	1,025	447
Unsecured	1,277	397
Neither past due nor impaired:		
Cash	182,167	157,740
Property	9,462	13,754
Carrying amount	194,349	172,869

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

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 to the Credit Officer for ratification, approval and/or recommendation to the Board 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.

Notes to the financial statements
Year ended 31 December 2014

27. Financial instruments and risk management (continued)

27.1 Credit risk (continued)

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

	Loans and advances to customers	
In thousands of Pounds Sterling £	2014	2013
Concentration by risk location		
Great Britain	14,624	15,101
Europe	23,294	35,753
Africa	122,060	57,329
Rest of the world	34,371	64,686
Total	194,349	172,869

27.2 Liquidity risk

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

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

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

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

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

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

Notes to the financial statements
Year ended 31 December 2014

27. Financial instruments and risk management (continued)

27.2 Liquidity risk (continued)

Residual contractual maturities of financial liabilities as at 31 December 2014 In thousands of Pounds Sterling £	Carrying amount	Less than one month	More than one month but not more than three months	More than three months but not more than one year	More than 1 year	Total
Non-derivative liabilities						
Deposits by banks	161,177	60,793	48,153	52,231	-	161,177
Customer accounts	89,965	39,295	31,615	18,632	423	89,965
Subordinated loan	12,741	-	-	-	12,741	12,741
	263,883	100,088	79,768	70,863	13,164	263,883
Derivative liabilities						
Forward foreign exchange contracts inflow	(30,273)	(15,671)	(14,543)	(59)	-	(30,273)
Forward foreign exchange contracts outflow	30,951	15,925	14,967	59	-	30,951
	678	254	424	-	-	678
	264,561	100,342	80,192	70,863	13,164	264,561

Residual contractual maturities of financial liabilities as at 31 December 2013 In thousands of Pounds Sterling £	Carrying amount	Less than one month	More than one month but not more than three months	More than three months but not more than one year	More than 1 year	Total
Non-derivative liabilities						
Deposits by banks	171,130	112,385	28,119	30,626	-	171,130
Customer accounts	86,829	57,503	9,254	19,679	393	86,829
Subordinated loan	11,997	-	-	-	11,997	11,997
	269,956	169,888	37,373	50,305	12,390	269,956
Derivative liabilities						
Forward foreign exchange contracts inflow	(26,669)	(15,993)	(10,338)	(338)	-	(26,669)
Forward foreign exchange contracts outflow	26,402	15,828	10,236	338	-	26,402
	(267)	(165)	(102)	-	-	(267)
	269,689	169,723	37,271	50,305	12,390	269,689

Notes to the financial statements
Year ended 31 December 2014

27. Financial instruments and risk management (continued)

27.3 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 2014 and 31 December 2013. 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 2014. Assets and liabilities are analysed in time bands according to the earlier of the time to the next interest re-pricing date or the maturity date.

Notes to the financial statements
Year ended 31 December 2014

27. Financial instruments and risk management (continued)

27.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2014

In thousands of Pounds Sterling £	Not more than 3 months	In more than three months but not more than six months	In more than six months but not more than twelve months	In more than one year but not more than five years	In more than five years	Non-interest bearing	Total
Assets							
Cash and balances at banks	-	-	-	-	-	46,026	46,026
Placements with banks	76,463	-	-	-	-	-	76,463
Loans and advances to customers	133,774	20,963	3,074	36,538	-	-	194,349
Customers acceptances	-	-	-	-	-	27,336	27,336
Held to maturity investments:	-	-	-	-	-	-	-
- Treasury bills and other eligible bills	-	-	-	1,946	667	-	2,613
Available for sale:							
- UK Treasury bonds	15,001	10,984	-	-	-	-	25,985
Property and equipment	-	-	-	-	-	513	513
Goodwill	-	-	-	-	-	752	752
Derivative assets	-	-	-	-	-	94	94
Prepayments and accrued income	-	-	-	-	-	652	652
Total assets	225,238	31,947	3,074	38,484	667	75,373	374,783
Liabilities							
Deposits by banks	108,945	33,358	18,874	-	-	-	161,177
Customers accounts	70,911	16,814	1,818	422	-	-	89,965
Acceptances payable	-	-	-	-	-	27,336	27,336
Accruals and deferred income	-	-	-	-	-	515	515
Derivative liabilities	-	-	-	-	-	814	814
Other liabilities	-	-	-	-	-	217	217
Provision for liabilities and charges	-	-	-	-	-	2,100	2,100
Tax liabilities	-	-	-	-	-	717	717
Subordinated loan	12,741	-	-	-	-	-	12,741
Equity	-	-	-	-	-	79,201	79,201
Total liabilities and equity	192,597	50,172	20,692	422	-	110,900	374,783
Interest rate sensitivity gap	32,641	(18,225)	(17,618)	38,062	667	(35,527)	
Cumulative gap	32,641	14,416	(3,202)	35,860	35,527		

Notes to the financial statements
Year ended 31 December 2014

27. Financial instruments and risk management (continued)

27.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2013

In thousands of Pounds Sterling £	Not more than 3 months	In more than three months but not more than six months	In more than six months but not more than twelve months	In more than one year but not more than five years	In more than five years	Non-interest bearing	Total
Assets							
Cash and balances at banks	-	-	-	-	-	21,121	21,121
Placements with banks	136,118	-	-	-	-	-	136,118
Loans and advances to customers	125,495	29,816	10,109	7,449	-	-	172,869
Customers acceptances	-	-	-	-	-	9,970	9,970
Held to maturity investments:	-	-	-	-	-	-	-
- Treasury bills and other eligible bills	-	-	-	-	2,463	-	2,463
Available for sale:							
- UK Treasury bonds	8,916	-	-	-	3,756	-	12,672
Property and equipment	-	-	-	-	-	389	389
Goodwill	-	-	-	-	-	752	752
Derivative assets	-	-	-	-	-	334	334
Prepayments and accrued income	-	-	-	-	-	536	536
Total assets	270,529	29,816	10,109	7,449	6,219	33,102	357,224
Liabilities							
Deposits by banks	140,504	6,068	24,558	-	-	-	171,130
Customers accounts	66,758	14,096	5,582	393	-	-	86,829
Acceptances payable	-	-	-	-	-	9,970	9,970
Accruals and deferred income	-	-	-	-	-	483	483
Derivative liabilities	-	-	-	-	-	63	63
Other liabilities	-	-	-	-	-	219	219
Tax liabilities	-	-	-	-	-	649	649
Subordinated loan	11,997	-	-	-	-	-	11,997
Equity	-	-	-	-	-	75,884	75,884
Total liabilities and equity	219,259	20,164	30,140	393	-	87,268	357,224
Interest rate sensitivity gap	51,270	9,652	(20,031)	7,056	6,219	(54,166)	
Cumulative gap	51,270	60,923	40,891	47,947	54,166		

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 2014

27. Financial instruments and risk management (continued)

27.3 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.

In %	2014	2013
Financial assets		
Placements with banks	0.83%	0.29%
Loans and advances to customers	5.67%	5.48%
Held to maturity investments – Treasury bills and other eligible bills	2.88%	5.18%
Financial liabilities		
Deposits by banks	0.53%	0.35%
Customer Accounts	0.69%	0.49%

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:

	2014		2013	
In thousands of Pounds Sterling £	100 basis points increase	100 basis points decrease	100 basis points increase	100 basis points decrease
Increase/(decrease) in annual profit	505	(526)	1,792	(2,009)

27.4 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 2014

27. Financial instruments and risk management (continued)

27.4 Foreign exchange risk (continued)

The table shown earlier in note 27 gives details of the notional principal amounts and fair values as at 31 December 2014 and 31 December 2013.
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 2014 and 31 December 2013, 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.

In thousands of Pounds Sterling £	Sterling	US dollars	EEC- denominated currencies	Other currencies	Total
As at 31 December 2014					
Assets					
Cash and due from banks	1,230	24,313	19,539	944	46,026
Placements with Banks	63,000	13,463	-	-	76,463
Loans and advances to customers	7,781	175,258	9,959	1,351	194,349
Customers' acceptances	171	18,384	8,693	88	27,336
Held to Maturity investments:					
- Treasury bills and other eligible bills	-	2,613	-	-	2,613
Available for sale:					
- UK Treasury bonds	25,985	-	-	-	25,985
Property and equipment	475	-	38	-	513
Goodwill	752	-	-	-	752
Derivative assets	94	-	-	-	94
Prepayments and accrued income	652	-	-	-	652
Total assets	100,140	234,031	38,229	2,383	374,783
Liabilities					
Deposits by banks	17,270	96,775	33,397	13,735	161,177
Customer accounts	29,048	52,355	8,279	283	89,965
Acceptances payable	171	18,384	8,693	88	27,336
Accruals and deferred income	515	-	-	-	515
Derivative liabilities	814	-	-	-	814
Other liabilities	217	-	-	-	217
Provision for liabilities and charges	2,100	-	-	-	2,100
Tax liabilities	717	-	-	-	717
Subordinated loan	-	12,741	-	-	12,741
Total liabilities	50,852	180,255	50,369	14,106	295,582
Net assets/(liabilities)	49,288	53,776	(12,140)	(11,723)	79,201

Notes to the financial statements
Year ended 31 December 2014

27. Financial instruments and risk management (continued)

27.4 Foreign exchange risk (continued)

In thousands of Pounds Sterling £	Sterling	US dollars	EEC- denominated currencies	Other currencies	Total
As at 31 December 2013					
Assets					
Cash and due from banks	3,726	915	15,992	488	21,121
Placements with Banks	83,005	53,113	-	-	136,118
Loans and advances to customers	25,197	134,202	13,476	(6)	172,869
Customers' acceptances	413	5,875	3,272	410	9,970
Held to Maturity investments:					
- Treasury bills and other eligible bills	-	2,463	-	-	2,463
Available for sale:					
- UK Treasury bonds	12,672	-	-	-	12,672
Property and equipment	340	-	49	-	389
Goodwill	752	-	-	-	752
Derivative assets	334	-	-	-	334
Prepayments and accrued income	536	-	-	-	536
Total assets	126,975	196,568	32,789	892	357,224
Liabilities					
Deposits by banks	44,968	106,551	18,401	1,210	171,130
Customer accounts	23,337	59,020	2,738	1,735	86,830
Acceptances payable	413	5,875	3,272	410	9,970
Accruals and deferred income	483	-	-	-	483
Derivative liabilities	63	-	-	-	63
Other liabilities	219	-	-	-	219
Tax liabilities	649	-	-	-	649
Subordinated loan	-	11,997	-	-	11,997
Total liabilities	70,132	183,443	24,411	3,355	281,341
Net assets/(liabilities)	56,843	13,125	8,378	(2,463)	75,883

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 Company.

28. 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 from 2013. During the year and prior year, the Bank complied with the CRDIV minimum capital requirements.
The capital structure of the Bank consists of shareholders' equity comprising issued capital and retained earnings as disclosed in note 21 and 22 as well as subordinated loans as disclosed in note 20.

Notes to the financial statements
Year ended 31 December 2014

28. 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:

In thousands of Pounds Sterling £	2014	2013
Collateral type		
Cash collateral	7,294	8,281
Banks' guarantees	39,734	16,644
Commercial real estate	16,254	16,060
Other collateral	72,096	72,216

30. Post balance sheet events

On 5 March 2015 the FCA imposed on Bank of Beirut (UK) Ltd a financial penalty of £2.1 million for breach of Principle 11 (failure to provide accurate information to the regulator) of the FCA's Principles for Business, which occurred between 1 June 2011 and 20 March 2013 (the 'Relevant Period'). This penalty was imposed because the Bank did not provide the FCA with accurate information regarding the progress of various remediation action points. This breach relates to historical issues which existed within the Bank prior to 2013 all of which have now been fully remediated by significantly enhancing the resources in compliance and risk teams in addition to hiring a new Chief Executive Officer and a new Head of Risk and Compliance.

31. 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.bankofbeiut.co.uk

www.bankofbeirut.co.uk

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