بنك بيروت

Bank of Beirut (UK) Ltd

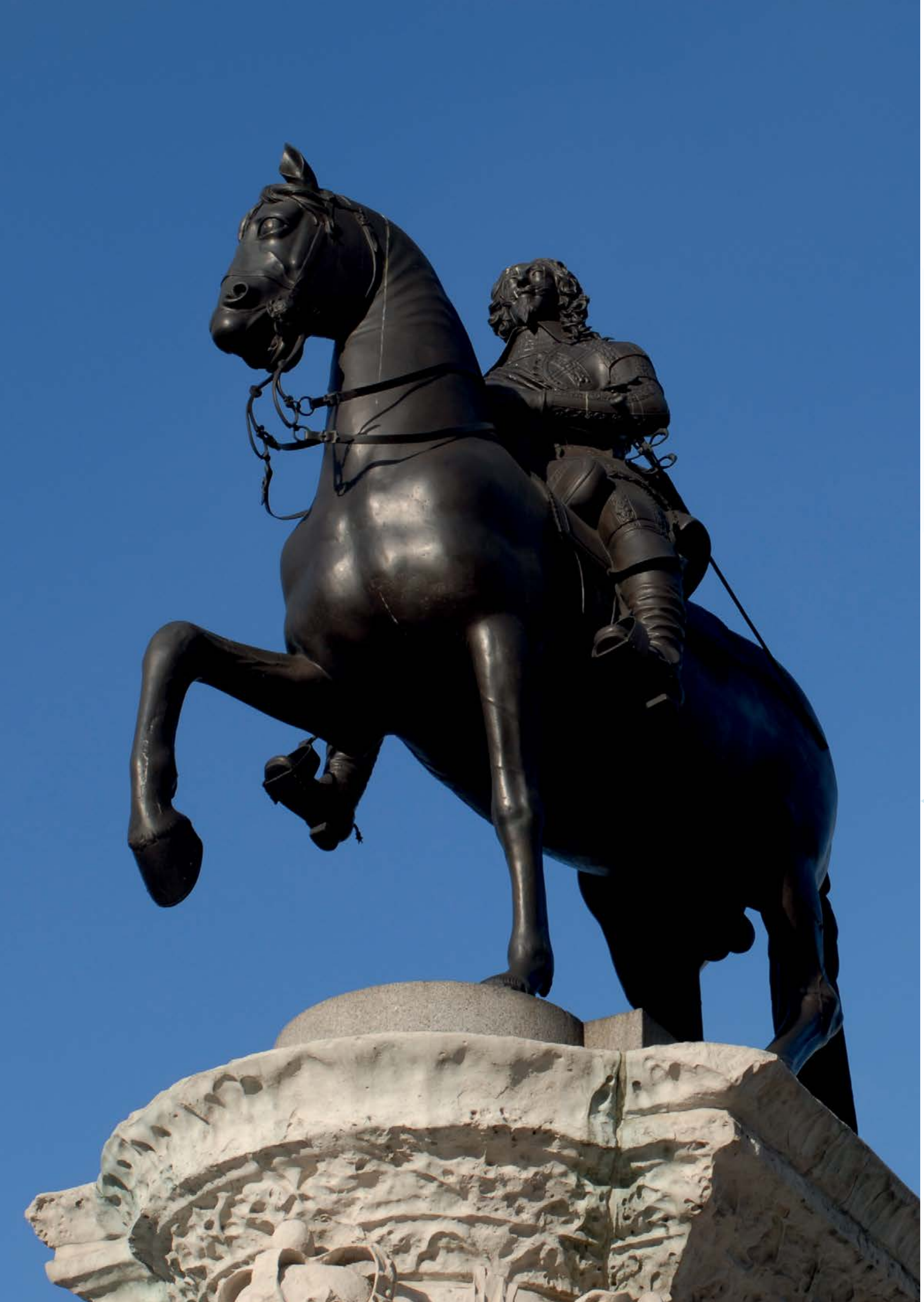
Banking Beyond Borders

Annual Report 2015

Company Registration No. 4406777

Bank of Beirut (UK) Ltd

Report and Financial Statements
31 December 2015



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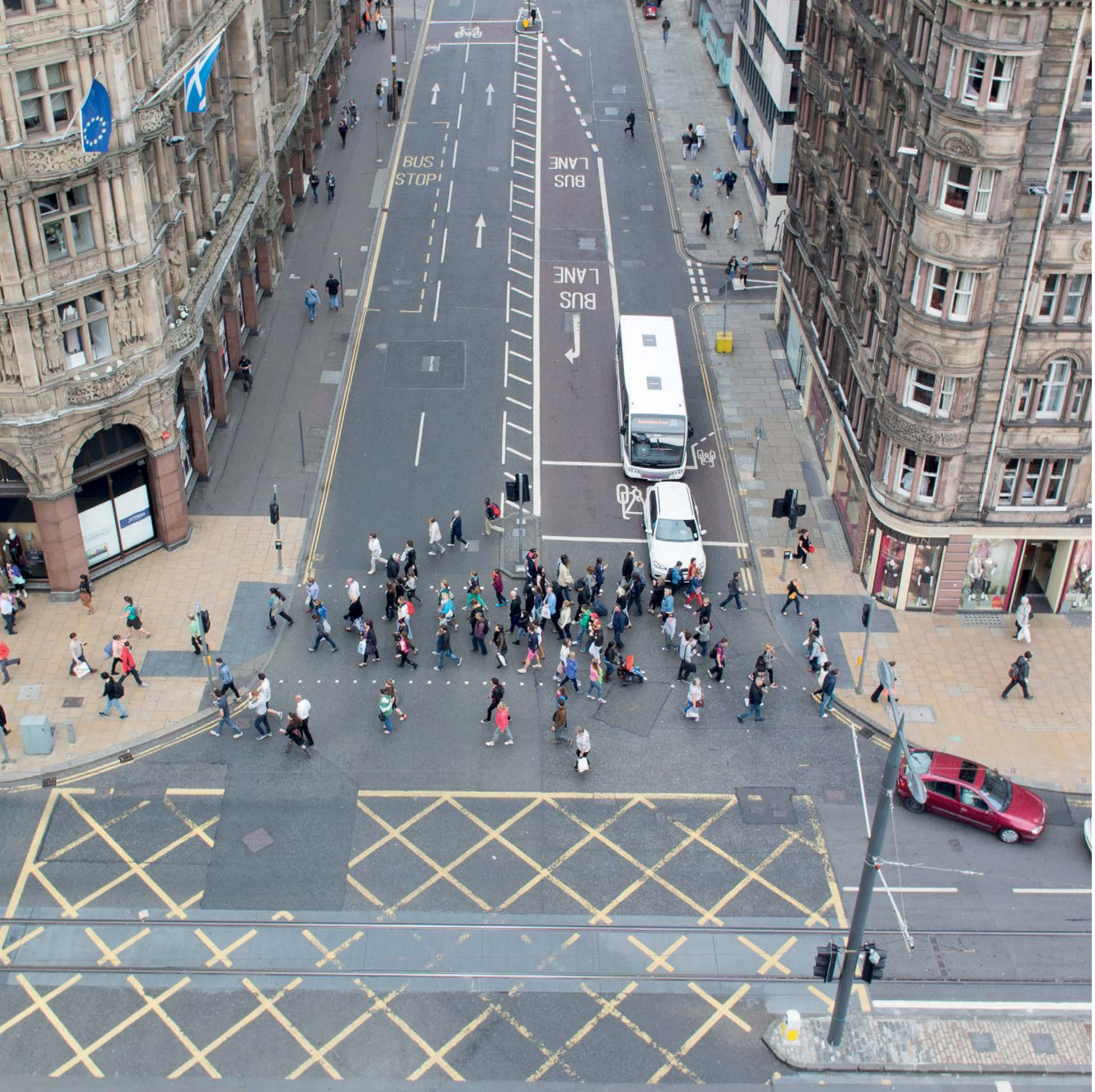


Report and financial statements 2015
Officers and professional advisers

Directors

S G Sfeir (Chairman)

R C Dziengeleski (Resigned 24 March 2015)

Sophoklis Argyrou (Appointed 24 March 2015)

S M Osman

K C Bird (Resigned 30 June 2015)

F H Naboulsi

M J S Trench

A J Bush

Elias Alouf (Appointed 22 April 2015)

Ramzi Saliba (Appointed 3 June 2015)

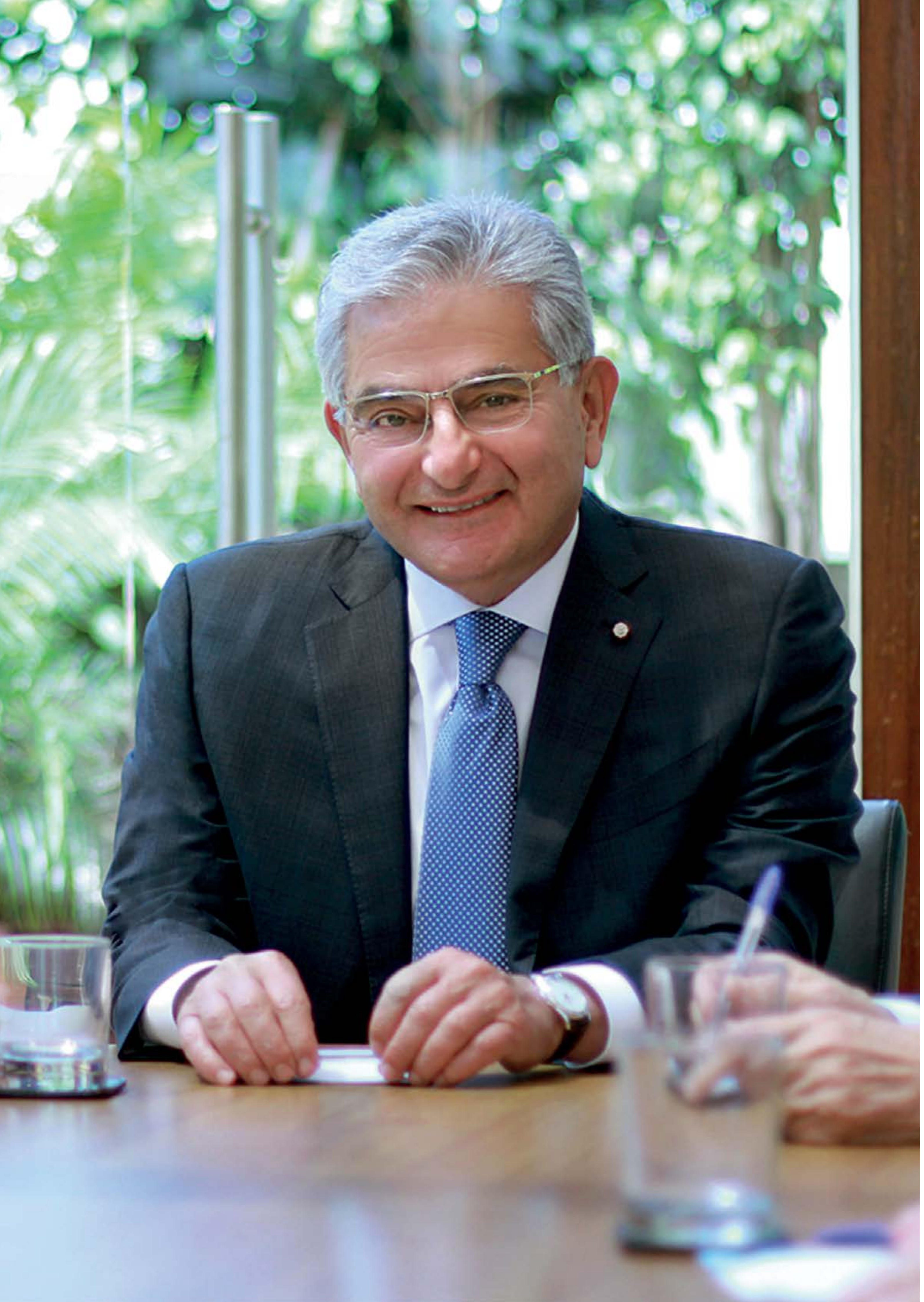
Secretary
Comat Registrars Limited

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

2015 represented a year of change for the Bank with the appointment of a new Managing Director & CEO coupled with further movements on the Banks' Board of Directors seeing two new Non-Executive Directors appointed during the year increasing our Board members from seven to eight. To complement those corporate governance changes at Board level there have also been quality additions to risk, finance, IT and internal audit.

These changes have occurred against the background of a sustained period of political and economic challenge in the UK following the general election and across the European Union where increased media focus and discussion has been devoted towards the growing migrant crisis, a direct result of the continuing social and political disturbances seen throughout several countries in the Middle East. Ever decreasing global oil prices have further impacted a number of our key Middle Eastern and African markets where economies rely heavily on oil revenues to support industry and infrastructure. Throughout this period the Bank has had to work diligently and carefully with its counterparty's and customers in order to ensure a balanced portfolio to meet a more conservative business risk appetite and look ahead in terms of strategic development and business planning.

Despite the difficulties and circumstances impacting on the Bank during this financial year, we are delighted to be able to report to our shareholders a profit before tax of £5.73million, an increase of 16% over prior year. Closer analysis however of the financial performance in 2015 demonstrates more clearly a consequence of the economic factors affecting our key markets and revenue streams. Export LC's handled during 2015 fell by 19% year on year with the underlying export LC values reducing by 36% on the back of a fall in commodity prices and leading to an overall 11% reduction in year on year Export LC commissions. At the same time the Bank's net interest income for the year was reported lower than 2014 by 5%.

Although the Bank's overall deposits have remained in line with prior year, our Loans and Advances have contracted by £28million. This is in part recognition of the slowdown seen in our Export LCs and subsequent reduced financing opportunities but equally as a result of the more conservative approach adopted in the second half of 2015 in reaction to the current economic situation seen across key markets. Looking ahead, and in an effort to diversify our portfolio, we will be working to increase the loan portfolio in 2016 through a select number of short term property transactions whilst at the same time re-focussing our business development in other existing and new markets.

After allocation of administrative expenses and taxes, the Bank has generated a consolidated net profit of £4.56 million with total shareholders' funds including subordinated loans increasing to £97.1 million and a reported Capital Adequacy ratio of 30.89% under CRD IV. Consequently Bank of Beirut (UK) Ltd remains profitable, highly liquid and very well capitalized.

Moving forward to 2016, the Board and its shareholders remain confident that with the internal governance changes that have taken place in the past 12 months coupled with the commitment and support of the parent and other group entities that we will continue to benefit by way of positive results for our operations in both London and Frankfurt. Finally, I wish to thank the Bank's shareholders, customers and staff for their selfless dedication and support, without which the Bank has no foundation on which to build and continue to grow.

Salim G. Sfeir
Chairman General Manager

20 April 2016

Strategic Report

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

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. The Bank also accepts deposits in all major currencies under its UK deposit taking license. Eligible deposits are covered by the Deposit Protection Scheme which is overseen by the Financial Services Compensation Scheme (FSCS).

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

The 2015 Financial Year was challenging for the Bank as persistent low oil prices affected US Dollar foreign currency flows into our largest West African markets. This in turn affected the Imports of those markets and the consequent Trade Finance business flows we experienced, which were down by approximately 33% as compared to 2014. This had the effect of reducing trade related commissions by £667k as compared to 2014. Net Interest Income on trade finance related instruments also saw a reduction of £549k as the Bank was not able to replace maturing on balance sheet trade finance exposures. Reduced US Dollar liquidity predominantly in Nigeria and tightening of the Central Bank of Nigeria official US Dollar auctions also meant that we experienced delays in receiving funds in settlement of outstanding trade finance liabilities but working alongside the Nigerian Banks we were able to agree repayment programmes and manage our exposure effectively.

On balance, 2015 was still a successful and profitable year for the Bank. Profit After Tax of £4.6m was recorded increasing our total equity to £83m as at 31 December 2015 and strengthening our Capital Ratio to 30.89%. Total assets at £375m remained at the same level as 2014 but Contingent liabilities, reflecting a reduction in our trade finance book, were down to £89m by comparison with £125m in 2014.

Looking forward

Bank of Beirut has gone through a transformation of its Corporate Governance structures both at Board and Senior Management level improving along the way its Risk Management, Compliance and Control processes and procedures. These improvements have provided the Bank with a solid foundation when it comes to operating in an increasingly challenging economic and regulatory environment which surrounds our main business of trade finance and the African and Middle Eastern markets and their Banks where this business emanates from.

With oil prices in 2016 expected to continue to hover at current low levels we do expect to continue to experience lower trade finance flows especially from Nigeria and to this extent we are exerting efforts to replace this trade finance business by concentrating on further building of flows from other West and North African countries. With the support of our Shareholder, Bank of Beirut Sal Group and all stakeholders we expect the Bank to continue to realise and meet its business strategy and objectives in 2016 and beyond.

Payment of Dividends

The Directors have not recommended the payment of any dividend.

The financial statements for the reporting year ended 31 December 2015 are shown on pages 19 to 55.

Strategic Report (continued)

Key performance indicators and ratios

The financial performance for the financial year 2015 is summarised in the following table (all figures are quoted in GBP '000s):

Income Statement	2015	2014
Net interest income	4,928	5,169
Fees and other income	7,829	8,363
Total operating income	12,756	13,532
Operating expenses	6,590	6,360
Profit before provisions & taxes	6,166	7,172

Balance Sheet	2015	2014
Loans and advances to customers	166,006	194,349
Loans and advances to banks	93,049	76,463
Total assets	374,575	374,783
Total Deposits	256,204	251,142
Shareholders' funds	83,764	79,201

Key performance indicators (%)	2015	2014
Net Interest Margin	1.40%	1.50%
Cost to income ratio	51.72%	46.99%
Return on Average Equity	5.60%	4.28%

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.

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.

Strategic Report (continued)

Treasury

The Bank's treasury function focuses on managing the balance sheet together with the market and liquidity risk of the Bank. The Bank does not undertake any proprietary trading activities. In accordance with regulatory requirements the Bank complies with and maintains an appropriate mix of assets for the purposes of liquidity in order to meet its Liquidity Coverage Ratio requirements as stipulated by the Prudential Regulatory Authority (PRA).

The Bank manages its asset and liability maturity mismatches, liquidity positions and interest rate positions on an on-going basis and in accordance with defined limits and criteria set within its liquidity policies. These policies are reviewed on an annual basis and monitored by the Bank's Management Committee.

Corporate Governance

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

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

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

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

- Board Credit Committee
- Board Audit, Risk & Compliance Committee
- Board Remuneration and Nomination Committee
- Management Committee

The Bank has two independent control functions.

An independent Head of Risk & Compliance who holds the UK regulatory Senior Management Functions SMF4, SMF16 and SMF17 who reports to the Board Audit, Risk & Compliance Committee (ARCC) and is responsible for the day-to-day evaluation and monitoring of the risks faced by the Bank and for submitting reports to the Bank and Board Committees.

An independent Head of Internal Audit who holds the UK regulatory Senior Management Functions SMF5 who also reports to the 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)

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.

Remuneration & Nominations Committee
The Board Remuneration and Nominations committee (“BRNC”) combines two functions. For Remuneration it sets the over-arching principles and parameters of remuneration policy, determines the annual staff bonus pool and considers and approves the remuneration arrangements of the Chairman, the executive directors, and other senior managers. The role of the Nominations function is to support and advise the Board in ensuring it is comprised of individuals who are best able to discharge the duties and responsibilities of Directors ensuring that composition and succession are regularly assessed.

All senior management functions ensure that effective procedures for risk assessment are maintained, to identify the risks relating to the activities, processes and systems of the Bank and to recommend such amendments and changes as may be required from time to time to ensure the framework remains fit for purpose. The role of the control functions is to:

- Recommend appropriate changes to risk governance & organisational structures;
- Draft and implement policies and procedures in order to maintain compliance with the regulatory framework;
- Provide periodic reports on risk positions and events to Bank and Board Committees; and
- Perform on-going monitoring and on a regular basis assess the adequacy and effectiveness of the measures and procedures put in place, and the actions taken to address any deficiencies in, the Bank's compliance with its prudential obligations.

In order to assist the Bank's management in prioritising and focusing its risk management efforts, the control functions working with line managers maintain a “Risk Register” covering the principal risks faced by the business, which is reviewed annually or in response to material developments in the business environment.

Strategic Report (continued)

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.

Internal Audit

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

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

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

Risk Management

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

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

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 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.

Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment (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.

Strategic Report (continued)

Employees

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

By order of the Board

Sophoklis Argyrou
Managing Director & CEO 20 April 2016

Directors´ Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2015.

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, 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 its 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.

The Bank's business focus and growth will continue from our Middle East and African markets but this will be complemented with careful consideration towards other emerging markets within these and new regions.

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

Results and dividends

All profit for the year after taxation, which amounted to £4.5 million (2014 - £3.3 million) was transferred to reserves. The directors do not recommend the payment of a dividend (2014 - £nil).

2015 represented a year of consolidation for the Bank with continued investment and development of its infrastructure both in terms of technology and resources. The Bank has nevertheless maintained a solid overall trading performance during the year with an increase in Return on Equity despite reduced net interest margins and an increased cost to income ratio against prior year. As alluded to more clearly in the Strategic Report these results have been achieved notwithstanding continued political and social uncertainty in several of the Bank's key markets coupled with depreciation in the global oil prices. In light of such events the Bank has maintained a more conservative and selective approach to its business opportunities and transactions throughout 2015.

By virtue of a strong capital base and 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 31%.

Directors´ Report (continued)

Risk management objectives and policies

Liquidity risk
The Bank manages its liquidity structure of assets, liabilities and commitments so that cash flows are appropriately balanced to ensure that all funding obligations are met when due and in accordance with the expectations of the PRA's liquidity regime. Banks are required to define a liquidity risk profile and appetite commensurate with 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.

Operational risk
Operational risk arises from inadequate or failed internal processes, systems and personnel or from events external to the Bank. The Management Committee review and consider all operational risks to the Bank. Where operational risk has been identified, controls and procedures, including insurance cover have been put in place in mitigation against such risks. Regular reports are made to the senior management.

Interest rate risk
Interest rate risk is the exposure of the Bank to adverse movements in interest rates. Changes in interest rates can affect the Bank's earnings by changing its net interest income. This risk mainly arises from mismatches between the interest bearing assets and liabilities on the balance sheet. Note 27 shows the interest rate sensitivity gap analysis for addressing the risk for the Bank as at 31 December 2015.

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´ Report (continued)

Directors

The directors who served throughout the year were as follows:
S G Sfeir
R C Dziengeleski (Resigned 24 March 2015)
Sophoklis Argyrou (Appointed 24 March 2015)
S M Osman
K C Bird (Resigned 30 June 2015)
F H Naboulsi
M J S Trench
A J Bush
Elias Alouf (Appointed 22 April 2015)
Ramzi Saliba (Appointed 3 June 2015)

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

Sophoklis Argyrou
Managing Director & CEO

20 April 2016

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) Ltd for the year ended 31 December 2015 which comprise the income statement, statement of comprehensive income, statement of changes in equity, cash flow statement and the related notes 1 to 30. 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 shareholders, 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 Statement of Directors' Responsibilities, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. 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 (APB'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 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; an
- 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, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

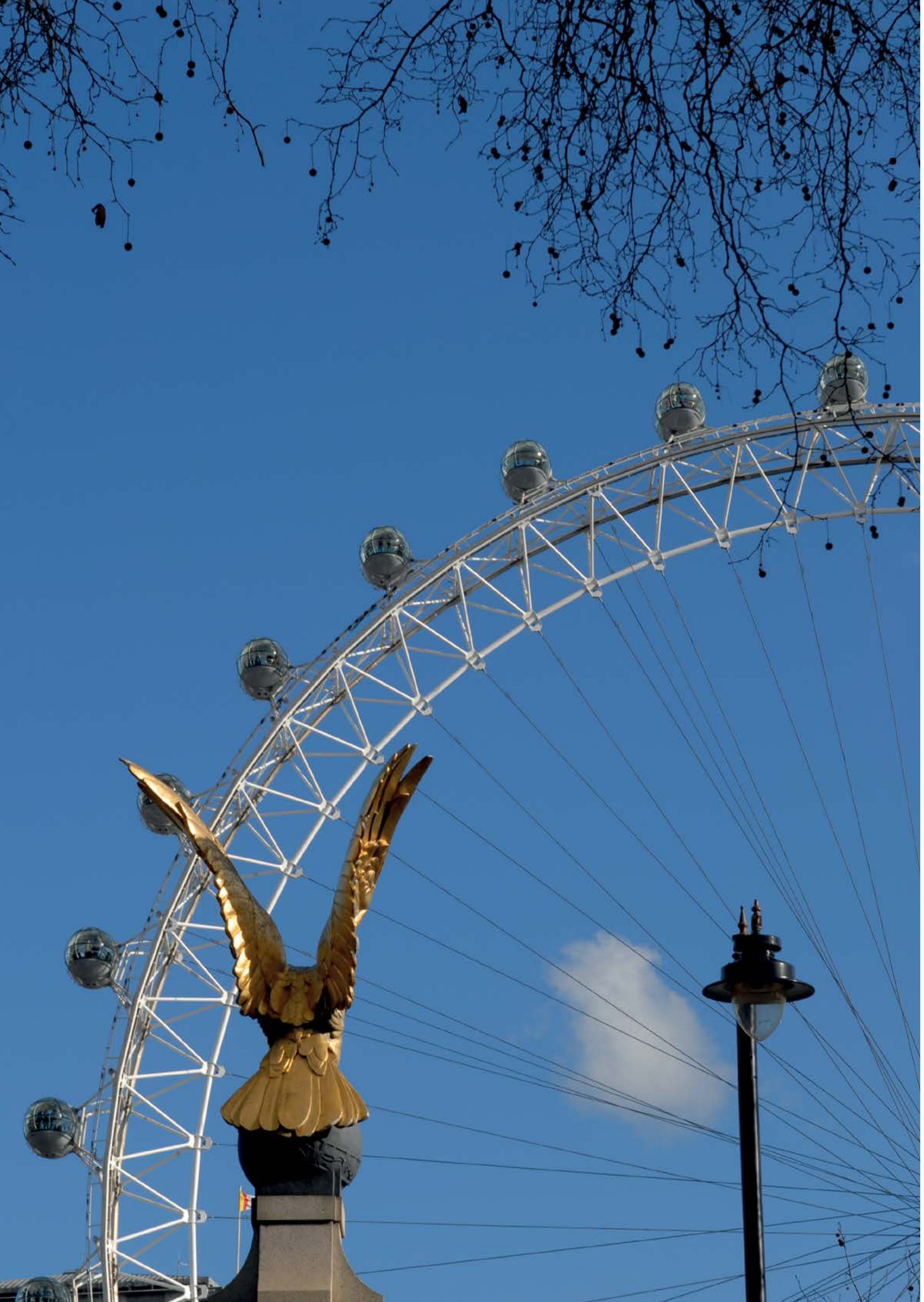
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

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

20 April 2016



Income Statement
Year ended 31 December 2015

In Pounds Sterling £	Notes	2015	2014
Interest receivable	4	7,023,597	7,099,768
Interest payable	5	(2,096,033)	(1,930,396)
Net interest income		4,927,564	5,169,372
Fees and commissions receivable		7,357,549	7,989,732
Foreign exchange income		471,167	372,820
Total non-interest income		7,828,716	8,362,552
Total income		12,756,280	13,531,924
Administrative expenses	6	(6,589,840)	(8,459,709)
Net impairment losses on loans and advances	10	(432,561)	(143,022)
Profit before taxation	7	5,733,879	4,929,193
Taxation	8	(1,172,427)	(1,611,981)
Profit for the year		4,561,452	3,317,212

Statement of comprehensive Income
Year ended 31 December 2015

In Pounds Sterling £	Notes	2015	2014
Profit for the year		4,561,452	3,317,212
Items that may be reclassified subsequently to profit or loss:			
Available for sale financial assets			
Gains arising during the year, net of tax		1,720	3,267
Exchange difference on translating foreign operations, net of tax		134	(2,169)
Income tax relating to items that may be reclassified	8	(348)	(703)
Other Comprehensive income / (losses) for the year net of tax		1,506	395
Total Comprehensive income for the year		4,562,958	3,317,607

Balance sheet
As at 31 December 2015

In Pounds Sterling £	Notes	2015	2014
Assets			
Cash and balances at banks		62,153,205	46,025,977
Placements with banks	9	93,049,280	76,462,675
Loans and advances to customers	10	166,005,988	194,348,850
Customers' acceptances	11	20,343,001	27,336,110
Held to maturity investments:			
- Treasury bills and other eligible bills	12	2,745,525	2,613,529
Available for sale:			
- UK Treasury bills	13	28,533,468	25,984,720
Derivative assets	27	60,659	93,920
Prepayments and accrued income		455,377	652,583
Property and equipment	14	381,862	413,931
Intangible assets	15	95,100	98,965
Goodwill	15	751,540	751,540
Total assets		374,575,005	374,782,800
Liabilities			
Deposits by banks	16	175,837,656	161,176,676
Customer accounts	17	80,366,298	89,965,175
Acceptances payable	11	20,343,001	27,336,110
Derivative liabilities	27	62,503	813,706
Accruals and deferred income		387,989	514,448
Other liabilities	18	3,568	216,918
Provision for liabilities and charges		-	2,100,000
Current Tax liabilities		371,211	717,103
Deferred tax liability	19	32,934	-
Subordinated loan	20	13,405,617	12,741,394
Total liabilities		290,810,777	295,581,530
Equity			
Called up share capital	21	34,150,000	34,150,000
Retained earnings	22	49,614,228	45,051,270
Total equity		83,764,228	79,201,270
Total liabilities and equity		374,575,005	374,782,800

These financial statements were approved by the board of directors and authorised for issue on 20 April 2016. They were signed on its behalf by:

S Argyrou
Managing Director & CEO
20 April 2016

Statement of changes in equity
Year ended 31 December 2015

In Pounds Sterling £	Called up share capital	Retained earnings	Total
As at 1 January 2015	34,150,000	45,051,270	79,201,270
Profit for the period	-	4,561,452	4,561,452
Other comprehensive income/(losses) for the period	-	1,506	1,506
As at 31 December 2015	34,150,000	49,614,228	83,764,228

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/(losses) for the period	-	395	395
As at 31 December 2014	34,150,000	45,051,270	79,201,270

Cash flow statement
Year ended 31 December 2015

In Pounds Sterling £	Notes	2015	2014
Cash flows from operating activities			
Profit before taxation		5,733,879	4,929,193
Adjustment for:			
Depreciation	14	196,634	133,269
Net impairment losses on loans and advances to customers	10	432,561	143,022
Operating cash flows before movements in working capital		6,363,074	5,205,484
Increase in prepaid and accrued income		197,206	(116,178)
(Decrease)/increase in accruals and deferred income		(126,459)	31,453
Increase in provision for liabilities and charges		-	2,100,000
Net increase in loans and advances to banks and customers		11,756,257	38,176,375
Increase/(decrease) in deposits by banks and customers		5,062,103	(6,818,008)
Increase in other liabilities		(213,351)	(2,231)
Net (decrease)/increase in derivative financial instruments		(717,942)	991,026
Cash generated/(used) in operations		22,320,888	39,567,921
Corporation tax paid		(1,349,500)	(1,491,500)
Corporation tax refund		38,402	-
Fine paid		(2,100,000)	-
Net cash generated/(used) in operating activities		18,909,790	38,076,421
Cash flows from investing activities			
Payments for property and equipment and intangible assets		(163,023)	(260,215)
Proceeds on maturity of treasury bills and other eligible bills		138,213,240	111,119,556
Purchase of treasury bills and other eligible bills		(140,795,400)	(124,448,000)
Net cash generated/ (used in) from investing activities		(2,745,183)	(13,588,659)
Cash flows from financing activities			
Net increase in cash and cash equivalents		16,164,607	24,487,762
Cash and cash equivalents at the beginning of the year		46,025,977	21,120,727
Effect of exchange rate changes on cash and cash equivalents		(37,379)	417,488
Cash and cash equivalents at the end of the year		62,153,205	46,025,977
Cash and cash equivalents comprised of:			
Cash and balances at banks		62,153,205	46,025,977

Notes to the financial statements
Year ended 31 December 2015

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 8 to 13 and the Directors' Report on pages 13 to 15.
These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Bank operates.

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 July 2014.

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 2015

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. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the company takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:
- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies adopted are set out below.

Going concern basis
The Bank's business activities, together with factors likely to affect its future development, performance and financial position and commentary on the Bank's financial results, its cash flows and liquidity requirements are set out in the Strategic Report on pages 8 to 13 and the Directors' report on pages 13 to 15 and elsewhere within the financial statements. In addition notes 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.

Notes to the financial statements
Year ended 31 December 2015

2. Significant accounting policies (continued)

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

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

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

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

Financial instruments
Financial assets and financial liabilities are recognised in the Bank's balance sheet when the Bank becomes a party to the contractual provisions of the instrument.
Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

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

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

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

Available for sale financial assets - Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is reclassified to profit or loss.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet date. The foreign exchange gains and losses that are recognised in profit or loss are determined based on the amortised cost of the monetary asset. Other foreign exchange gains and losses are recognised in other comprehensive income.

Notes to the financial statements
Year ended 31 December 2015

2. Significant accounting policies (continued)

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

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

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

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

The Bank does not have any held for trading 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. See page 27 for further judgements.

Financial liabilities and equity
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

An equity instrument is any contract that evidences a residual interest in the assets of the group after deducting all of its liabilities.

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

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

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

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Notes to the financial statements
Year ended 31 December 2015

2. Significant accounting policies (continued)

Property and equipment (continued)

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).

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

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

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

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

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

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

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

Notes to the financial statements
Year ended 31 December 2015

2. Significant accounting policies (continued)

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the balance sheet date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

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

Pension Schemes
The 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.

Notes to the financial statements
Year ended 31 December 2015

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 (2014: £751,540) with no impairment loss.

4. Interest receivable

Interest receivable comprises interest from:

In Pounds Sterling £	2015	2014
Loans and receivables:		
Loans and advances to banks	3,274,659	3,731,796
Loans and advances to customers	3,595,701	3,173,898
Impaired loans	6,907	1,022
Held to maturity investments:		
Treasury bills and other eligible bills	146,330	193,052
	7,023,597	7,099,768

The amount of interest receivable attributable to group companies is £46,279 (2014: £35,075).

5. Interest payable

Interest payable comprises interest to:

In Pounds Sterling £	2015	2014
Other financial liabilities:		
Deposit by banks	564,804	649,688
Customers' accounts	523,309	568,573
Group companies	1,007,920	712,135
	2,096,033	1,930,396

Notes to the financial statements
Year ended 31 December 2015

6. Administrative expenses

Administrative expenses include:

In Pounds Sterling £	2015	2014
Staff costs during the year (including directors):		
Wages and salaries	3,373,022	3,016,243
Social security costs	408,298	348,154
Other staff costs	202,532	339,631
	3,977,852	3,704,028
Pension costs (defined contribution scheme and personal plan)	283,086	271,395
	4,260,938	3,975,423

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

In Pounds Sterling £	2015	2014
Commercial and retail banking activities	51	48

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

In Pounds Sterling £	2015	2014
Salaries and other emoluments	675,060	842,175
Pension costs	54,010	70,880
	729,070	913,055

The emoluments of the highest paid director for the year ended 31 December 2015 were £248,048 (2014 - £601,717).

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

There was one director (2014 - 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 £	2015	2014
Net foreign currency gains	(455,262)	(372,820)
Auditor's remuneration		
Audit services	77,175	73,500
Non-audit services	27,221	45,438
Operating lease rentals – Land and buildings	463,690	475,062
Depreciation	196,634	133,269

The analysis of non-audit services is as follows:

In Pounds Sterling £	2015	2014
Tax services	15,600	15,600
Secretarial services	2,823	2,189
ICAAP services	-	9,065
COREP services	8,798	18,584
Total non-audit fees	27,221	45,438

Notes to the financial statements
Year ended 31 December 2015

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 £	2015	2014
Current year	1,130,148	1,528,663
Double tax relief	(102,260)	(37,600)
Prior year adjustment	9,344	83,318
Total Current tax charge/(credit)	1,037,232	1,574,381
Overseas tax	102,260	37,600
Total Current tax charge/(credit)	37,140	-
Overseas tax	(4,205)	-
Total income tax expense	1,172,427	1,611,981

The charge for tax is based upon a UK corporation tax rate of 20.25% for the calendar year 2015.
Finance Act 2013 enacted a reduction in the UK corporation tax rate to 20% with effect from 1 April 2015. The reduction in the rate impacted the current tax charge in 2015.
Finance (No. 2) Act 2015 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020. These reductions in the tax rate will impact the current tax charge in future periods. The effective tax rate for the year is higher than the standard UK corporation tax rate of 20.25%.

The differences are explained below:

Factors affecting the tax charge for the year

In Pounds Sterling £	2015	2014
Profit before taxation	5,733,879	4,929,193
Tax charge at average UK Corporation tax rate of 20.25% (2014: – 21.5%)	1,161,110	1,059,776
Effects of:		
Non deductable Expenses not deductible for tax purposes	3,146	497,995
Non taxable income	(555)	(305)
Capital allowances in excess of depreciation	-	(38,502)
Depreciation on non-qualifying assets	3,587	3,309
Unpaid Pension Costs	-	10,961
Other short term timing differences	-	(4,571)
Prior year adjustment	5,139	83,318
Tax expense for the year	1,172,427	1,611,981

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 £	2015	2014
Available for sale financial assets		
Gains arising during the year	1,720	3,267
Exchange difference on translating foreign operations	134	(2,169)
Total income tax recognised in other comprehensive income	(348)	(703)

Notes to the financial statements
Year ended 31 December 2015

9. Placements with banks

In Pounds Sterling £	2015	2014
Remaining maturity		
Three months or less excluding on demand	93,049,280	76,462,675
	93,049,280	76,462,675

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 £	2015	2014
Repayable:		
On demand or at short notice	32,495,345	20,389,777
Remaining maturity:		
Three months or less excluding on demand	74,634,853	113,526,939
One year or less but over three months	27,934,252	24,037,167
Three years or less but over one year	25,709,040	26,441,835
Five years or less but over three years	5,808,081	10,096,154
	166,581,571	194,491,872
Impairment losses	(575,583)	(143,022)
	166,005,988	194,348,850

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

In Pounds Sterling £	2015	2014
Balance as at 1 January	**143,022**	-
Additions		
Impairment charges	**416,656**	**143,022**
FX movement on impairment charges	**15,905**	-
Balance as at 31 December	**575,583**	**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 2015

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 £	2015		2014	
	Book Value	Market Value	Book Value	Market Value
Treasury bills and other eligible bills	2,745,525	2,718,465	2,613,529	2,651,538
	2,745,525	2,718,465	2,613,529	2,651,538

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

In Pounds Sterling £	2015	2014
Balance as at 1 January	2,613,529	2,463,508
Acquisitions	18,252	17,375
Exchange differences on monetary assets	113,744	132,646
Balance as at 31 December	2,745,525	2,613,529

In Pounds Sterling £	2015	2014
Remaining maturity:		
Three months or less excluding on demand	-	
One year or less but over three months	-	-
Three years or less but over one year	1,362,830	-
Five years or less but over three years	676,663	1,941,440
Five years or more	706,032	672,089
	2,745,525	2,613,529

13. Available for Sale

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 £	2015	2014
Balance as at 1 January	25,984,720	12,671,556
Acquisitions	140,795,400	124,448,000
Maturities	(138,213,240)	(111,119,556)
Discount received	(35,132)	(20,760)
Movement in fair value	1,720	5,480
Balance as at 31 December	**28,533,468**	**25,984,720**

Notes to the financial statements
Year ended 31 December 2015

14. Property and equipment

In Pounds Sterling £	Leasehold improvements	Fixtures, fittings and equipment	Total
Cost			
At 1 January 2014	447,741	501,549	949,290
Additions	1,850	158,644	160,494
Disposals	(251)	(15,062)	(15,313)
At 31 December 2014	449,340	645,131	1,094,471
Additions	27,889	70,042	97,931
Disposals	(209)	(9,503)	(9,712)
At 31 December 2015	477,020	705,670	1,182,690
Depreciation			
At 1 January 2014	235,070	373,328	608,398
Charge for the year	43,034	42,118	85,152
Disposals	(213)	(12,798)	(13,011)
At 31 December 2014	277,891	402,648	680,539
Charge for the year	49,693	78,144	127,837
Disposals	(209)	(7,339)	(7,548)
At 31 December 2015	327,375	473,453	800,828
Net book value			
At 31 December 2015	149,645	232,217	381,862
At 31 December 2014	171,449	242,482	413,931

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Year ended 31 December 2015

15. Intangible Assets

In Pounds Sterling £	Computer software
Cost	
At 1 January 2014	246,802
Additions	99,722
Disposals	(4,425)
At 31 December 2014	342,099
Additions	65,092
Disposals	(24,131)
At 31 December 2015	383,060
Depreciation	
At 1 January 2014	198,709
Charge for the year	48,117
Disposals	(3,691)
At 31 December 2014	243,135
Charge for the year	68,797
Disposals	(23,972)
At 31 December 2015	287,960
Net book value	
At 31 December 2015	95,100
At 31 December 2014	98,965

Goodwill

In Pounds Sterling £	2015	2014
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 5.47 per cent.

Notes to the financial statements
Year ended 31 December 2015

16. Deposits by banks

In Pounds Sterling £	2015	2014
Repayable on demand	62,381,575	60,792,300
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	63,202,094	48,152,983
Between three months and one year	50,253,987	52,231,393
	175,837,656	161,176,676

Included in the above are amounts due to parent undertakings of £54,994,315 (2014: £80,533,312).

17. Customer accounts

In Pounds Sterling £	2015	2014
Repayable on demand	36,823,982	39,295,492
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	33,910,421	31,615,377
Between three months and one year	9,183,811	18,632,056
Between one year and five years	448,084	422,250
	80,366,298	89,965,175

18. Other liabilities

In Pounds Sterling £	2015	2014
Other taxes and social security costs	264	188
Other liabilities	3,304	216,730
	3,568	216,918

Notes to the financial statements
Year ended 31 December 2015

19. Deferred Tax Liability

The components of income taxes are as follows:

	2015	
In Pounds Sterling £	Assets	Liabilities
Deferred tax		
United Kingdom	16,137	(49,071)
	16,137	(49,071)

Deferred income taxes are calculated on all temporary differences under the liability method using effective rate of 20% (2014:20%) Finance (No. 2) Act 2015 enacted reduction in the UK corporation tax rate to 19% with effect from 1 April 2017 and 18% with effect from 1 April 2020.

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

In Pounds Sterling £	2015
At beginning of year	-
Prior year adjustment	4,206
Income statement charge	(37,140)
Rate change adjustment	-
	(32,934)

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

Deferred income tax assets

In Pounds Sterling £	2015
Unpaid pensions	16,137
Accelerated tax depreciation	(49,071)
Net deferred tax liability	(32,934)

20. Subordinated Loan

The Bank signed an agreement for the issue of a 10 Year Subordinated Loan ("the Loan") of USD 20 million on 19 March 2007 to Bank of Beirut 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

Notes to the financial statements
Year ended 31 December 2015

20. Subordinated Loan (Continued)

The interest charged for the year is calculated by applying an effective interest rate of 2.4117% (2014: 2.2356%).

In Pounds Sterling £	2015 Liability
As at 1 January 2015	12,741,394
Accrued interest	187,603
Foreign exchange movements	476,620
As at 31 December 2015	13,405,617

In Pounds Sterling £	2014 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

21. Called up share capital

In Pounds Sterling £	2015	2014
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 2015	34,150,000	45,051,270	79,201,270
Comprehensive income for the year		4,561,452	4,561,452
Other comprehensive income for the year		1,506	1,506
As at 31 December 2015	34,150,000	49,614,228	83,764,228

23. Contingent liabilities

Contingent liabilities comprise:

In Pounds Sterling £	2015	2014
Irrevocable letters of credit	**102,873,252**	147,236,734
Guarantees	**6,523,923**	5,434,565
Deferred payment acceptances	**(20,343,001)**	(27,336,110)
	89,054,174	125,335,189

Notes to the financial statements
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24. Commitments

In Pounds Sterling £	2015	2014
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	**57,427,598**	81,264,705
One year and over	**29,942,873**	35,281,671
	87,370,471	116,546,376

Operating lease arrangements:

In Pounds Sterling £	2015	2014
Minimum lease payments under operating leases recognised as an expense in the year	463,690	475,062

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 £	2015	2014
Not later than one year	464,499	467,359
Later than one year and not later than five years	**977,532**	1,455,999

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 £	2015	2014
Interest received from holding company	**46,280**	35,075
Interest paid to holding company	**(1,001,476)**	(699,015)
Fee paid to holding company	**(202,159)**	(187,741)

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

In Pounds Sterling £	2015	2014
Deposits		
Call Deposits	**12,602,309**	8,277,167
Fixed Deposits	**42,392,006**	34,897,250
Bills Discounted	**645,136**	68,848
Letters of Credit	**2,279,678**	3,250,680
Acceptances	**2,389,359**	5,517,430

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

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25. Related party transactions (continued)

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

The Bank gave to two of its executive directors in 2015 unsecured non-interest bearing loans, payable within 12 months. These amounted to £7,363 (2014 - £4,081) in respect of personal travel costs and £1,983 (2014 - £1,771) related to private healthcare costs. Additionally, the Bank provided a non-interest bearing overdraft facility to one of its non-executive directors. The balance outstanding as at 31 December 2015 was £16,324 (2014 - £20,685).

In Pounds Sterling £	2015	2014
Deposits from Directors	42,454	58,192
	42,454	58,192

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

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

In Pounds Sterling £	2015	2014
Short-term employee benefits	675,060	842,175
Post-employment benefits	54,010	70,880
	729,070	913,055

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

In Pounds Sterling £	2015	2014
Deposits from related parties	2,502,534	1,338,681
	2,502,534	1,338,681

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

26. Ultimate parent and controlling party

The ultimate parent and controlling party at 31 December 2015 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.

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27. Financial instruments and risk management (continued)

The Bank does not have a trading book.

As at the end of 31 December 2014 and 31 December 2015, the carrying value of the financial assets and liabilities of the Bank approximates its fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties in an arm's length transaction. Market values are used to determine fair values.

Fair values of financial assets and liabilities
The carrying amount of financial assets and liabilities approximates their fair value due to the short-term maturity of the majority of the financial assets and liabilities.
All loans and advances to customers are offered at floating rates and are recorded in the balance sheet using the effective interest rate method, less provision for impairment loss. This value is considered to be a good approximation for fair value.
The fair value of derivatives held for non-trading purposes is determined by market prices, or, where market prices are not available, by applying current market information to pricing or valuation models. The fair value hierarchy for the valuation of derivatives is level 2 – inputs other than quoted prices that are observable for the asset or liability which are derived indirectly (i.e. derived from prices).
As well as using derivatives to hedge foreign exchange exposure, the Bank takes exchange rate contract orders from customers and will cover these by entering into similar positions with the head office. Set out below is a year-end comparison of carrying values and fair values of the Bank's derivative instruments along with those entered into with third parties:

As at 31 December 2015	Notional principal	Carrying value		Fair value	
In Pounds Sterling £	Amount	Asset	Liability	Asset	Liability
Exchange rate-related contracts					
Forward foreign exchange	7,504,502	58,136	45,851	58,136	45,851
Options	1,597,980	2,020	2,020	2,020	2,020
Of which third party	7,504,502	58,136	45,851	58,136	45,851

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

Notes to the financial statements
Year ended 31 December 2015

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 2015					
Assets					
Cash and due from banks	62,153,205	-	-	-	62,153,205
Placements with banks	93,049,280	-	-	-	93,049,280
Loans and advances to customers	166,005,988	-	-	-	166,005,988
Customers' acceptances	20,343,001	-	-	-	20,343,001
Held to maturity investments:					
- Treasury bills and other eligible bonds	-	2,745,525	-	-	2,745,525
Available for sale:					
- UK Treasury bonds	-	-	28,533,468	-	28,533,468
Property and equipment	-	-	-	381,862	381,862
Intangible assets				95,100	95,100
Goodwill	-	-	-	751,540	751,540
Derivative assets	-	-	60,659	-	60,659
Prepayments and accrued income	-	-	-	455,377	455,377
Total assets	341,551,474	2,745,525	28,594,127	1,683,879	374,575,005
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	-	-	-	413,931	413,931
Intangible assets				98,965	98,965
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

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. 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 2015

27. Financial instruments and risk management (continued)

Valuation hierarchy

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

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

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

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

In Pounds Sterling £	Quoted Market prices (Level 1)	Valuation techniques using observable data (Level 2)	Valuation techniques using non-observable market data (Level3)
Financial Assets			
UK Treasury Bonds – Available For Sale	28,533,468	-	-
Derivative assets		60,659	-
As at 31 December 2015	28,533,468	60,659	-

In Pounds Sterling £	Quoted Market prices (Level 1)	Valuation techniques using observable data (Level 2)	Valuation techniques using non-observable market data (Level3)
Financial Assets			
UK Treasury Bonds – Available For Sale	25,984,720	-	-
Derivative assets		93,920	-
As at 31 December 2014	25,984,720	93,920	-

Notes to the financial statements
Year ended 31 December 2015

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.

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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:

	2015		2014	
In Pounds Sterling £	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
Placement with banks:				
Loans and receivables	93,049,280	93,049,280	76,462,675	76,462,675
Loans and advances to customers:				
Loans and receivables	166,005,988	162,966,794	194,348,850	191,318,554
Derivative financial assets				
Currency forwards	60,659	60,659	93,920	93,920
Net letters of credit and guarantees	89,054,174	83,256,424	125,335,189	120,687,763
Loan commitments (unutilised)	8,059,516	5,653,626	10,690,522	10,690,522
	356,229,617	344,986,783	406,931,156	399,253,434

	Loans and advances to customers	
In Pounds Sterling £	2015	2014
Carrying amount	166,005,988	194,348,850
Individually impaired	3,867,544	410,297
Allowance for impairment	(575,583)	(143,604)
Suspended interest	(235,356)	-
Carrying amount	3,056,605	266,693
Past due but not impaired	9,217,685	2,452,605
Carrying amount	2,452,605	1,375,152
Neither past due nor impaired	153,731,698	191,629,552
Carrying amount	166,005,988	194,348,850

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

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

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

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27. Financial instruments and risk management (continued)

27.1 Credit risk (continued)

Remaining maturity

In Pounds Sterling £	2015	2014
Three months or less excluding on demand	9,217,685	2,452,605
One year or less but over three months	-	-
Three years or less but over one year	-	-
	9,217,685	2,452,605

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 £	2015	2014
Individually impaired:		
Cash	1,201,276	-
Property	435,033	-
Unsecured	1,420,295	266,693
Past due but not impaired:		
Cash	1,307,085	151,491
Property	174,878	1,024,725
Unsecured	7,736,723	1,276,389
Neither past due nor impaired:		
Cash	127,644,055	182,167,656
Property	16,443,520	9,461,896
Unsecured	9,644,123	-
Carrying amount	166,005,988	194,348,850

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.

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27. Financial instruments and risk management (continued)

27.1 Credit risk (continued)

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

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

The Bank is exposed to concentration risk due to its customer base being largely financial institutions predominantly located in the Middle East and Africa. In this respect the Bank continues to look at opportunities in an attempt to spread and grow its client base, both within the MEA region and externally, to mitigate this risk.

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

	Loans and advances to customers	
In thousands of Pounds Sterling £	2015	2014
Concentration by risk location		
Great Britain	9,278,019	14,623,557
Europe	7,190,794	23,293,730
Africa	122,035,570	122,060,215
Rest of the world	27,501,605	34,371,348
Total	166,005,988	194,348,850

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 2015

27. Financial instruments and risk management (continued)

27.2 Liquidity risk (continued)

Residual contractual maturities of financial liabilities as at 31 December 2015 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	175,838	125,584	14,294	35,960	-	175,838
Customer accounts	80,366	70,734	6,815	2,369	448	80,366
Subordinated loan	13,406	-	-	-	13,406	13,406
	269,610	196,318	21,109	38,329	13,854	269,610
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
	270,288	196,572	21,533	38,329	13,854	270,288

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

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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 2015 and 31 December 2014. 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 2015. Assets and liabilities are analysed in time bands according to the earlier of the time to the next interest re-pricing date or the maturity date.

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Year ended 31 December 2015

27. Financial instruments and risk management (continued)

27.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2015

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	-	-	-	-	-	62,153	62,153
Placements with banks	93,049	-	-	-	-	-	93,049
Loans and advances to customers	106,555	25,158	4,776	25,709	5,808	-	166,006
Customers acceptances	-	-	-	-	-	20,343	20,343
Held to maturity investments:							
- Treasury bills and other eligible bills	-	-	-	2,046	700	-	2,746
Available for sale:							
- UK Treasury bonds	15,972	12,561	-	-	-	-	28,533
Property and equipment	-	-	-	-	-	382	382
Intangible assets	-	-	-	-	-	95	95
Goodwill	-	-	-	-	-	752	752
Derivative assets	-	-	-	-	-	61	61
Prepayments and accrued income	-	-	-	-	-	455	455
Total assets	215,576	35,719	4,776	27,755	6,508	84,241	374,575
Liabilities							
Deposits by banks	125,584	14,294	35,960	-	-	-	175,838
Customers accounts	70,734	6,815	2,369	448	-	-	80,366
Acceptances payable	-	-	-	-	-	20,343	20,343
Accruals and deferred income	-	-	-	-	-	388	388
Derivative liabilities	-	-	-	-	-	63	63
Other liabilities	-	-	-	-	-	3	3
Tax liabilities	-	-	-	-	-	371	371
Deferred Tax Liability	-	-	-	-	-	33	33
Subordinated loan	13,406	-	-	-	-	-	13,406
Equity	-	-	-	-	-	83,764	83,764
Total liabilities and equity	209,724	21,109	38,329	448	-	104,965	374,575
Interest rate sensitivity gap	5,852	14,610	(33,553)	27,307	6,508	(20,724)	
Cumulative gap	5,852	20,462	(13,091)	14,216	20,724	-	

Notes to the financial statements
Year ended 31 December 2015

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	-	-	-	-	-	414	414
Intangible assets	-	-	-	-	-	99	99
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
Tax liabilities	-	-	-	-	-	2,100	2,100
Subordinated loan	12,741	-	-	-	-	717	717
Equity	-	-	-	-	-	-	12,741
	-	-	-	-	-	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		

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.

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Year ended 31 December 2015

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 %	2015	2014
Financial assets		
Placements with banks	0.31%	0.83%
Loans and advances to customers	5.47%	5.67%
Held to maturity investments – Treasury bills and other eligible bills	2.74%	2.88%
Financial liabilities		
Deposits by banks	0.43%	0.53%
Customer Accounts	0.55%	0.69%

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:

	2015		2014	
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	281	(292)	505	(526)

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.

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Year ended 31 December 2015

27. Financial instruments and risk management (continued)

27.4 Foreign exchange risk (continued)

The table shown in note 27 gives details of the notional principal amounts and fair values as at 31 December 2015 and 31 December 2014.

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 2015 and 31 December 2014, 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 2015					
Assets					
Cash and due from banks	2,567	48,730	9,892	964	62,153
Placements with Banks	71,500	21,549	-	-	93,049
Loans and advances to customers	11,740	135,775	18,491	-	166,006
Customers' acceptances	130	17,627	2,586	-	20,343
Held to Maturity investments:					
- Treasury bills and other eligible bills	-	2,746	-	-	2,746
Available for sale:					
- UK Treasury bonds	28,533	-	-	-	28,533
Property and equipment	344	-	38	-	382
Intangible assets	83		12		95
Goodwill	752	-	-	-	752
Derivative assets	61	-	-	-	61
Prepayments and accrued income	455	-	-	-	455
Total assets	116,165	226,477	30,969	964	374,575
Liabilities					
Deposits by banks	13,994	137,676	23,910	258	175,838
Customer accounts	18,699	55,675	5,382	610	80,366
Acceptances payable	130	17,627	2,586	-	20,343
Accruals and deferred income	179	175	34	-	388
Derivative liabilities	63	-	-	-	63
Other liabilities	3	-	-	-	3
Provision for liabilities and charges	371	-	-	-	371
Tax liabilities	33	-	-	-	33
Subordinated loan	-	13,406	-	-	13,406
Total liabilities	33,472	224,559	31,912	868	290,811
Net assets/(liabilities)	82,693	1,918	(943)	96	83,764

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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 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	378	-	36	-	414
Intangible assets	97		2		99
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
Tax liabilities	2,100	-	-	-	2,100
Subordinated loan	717	-	-	-	717
	-	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

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 2014. 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.

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29. 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 £	2015	2014
Collateral type		
Cash collateral	9,371	7,294
Banks' guarantees	32,939	39,734
Commercial real estate	17,600	16,254
Other collateral	90,165	72,096

30. Pillar III

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