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

Annual Report 2016

Company Registration No. 4406777

Bank of Beirut (UK) Ltd

Report and Financial Statements
31 December 2016

Table of Contents


BUS
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BUS
LANE
BUS
LANE

Report and financial statements 2016
Officers and professional advisers

Directors

Salim G Sfeir (Chairman)

Sophoklis Argyrou

Martin Osborne

Fawaz H Naboulsi

Marcus John S Trench

Anthony J Bush

Ramzi Saliba

Antoun Samia

Secretary
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Solicitors
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Auditor
Deloitte LLP
Chartered Accountants
London, United Kingdom

Chairman's Statement

Market conditions globally have remained turbulent throughout 2016 some of which have impacted directly on our strategic business model and our operations in the UK and Germany. Those market conditions have been driven by continuing political and economic change across the UK and EU, in particular the UK publics BREXIT vote and decision to leave the EU. Outside of Europe, we have witnessed decreased trade flows from several key markets in the Middle East and North Africa whilst trade business from our West African markets has remained robust. The shifting flows and business patterns during this unsettled period have led the Bank to continuously review and carefully manage its strategy and risk appetite ensuring that we maintain a balanced risk portfolio. 2016 also saw a recovery and stabilising of global oil prices to which our markets are integrally linked.

Although a difficult period in terms of political uncertainty and global economics, the Bank can consider the year 2016 as one of consolidation. This is demonstrated in our being able to report to our shareholders a profit after tax of £5.31m (2015 - £4.56m), an increase of 16.4%.

2016 started slowly however business flows picked up steadily from quarter two onwards. Whilst the weakened sterling exchange rate has had a positive impact on our currency fee income following the BREXIT decision, this was supported by almost 80% of the export LCs handled by London being opened in the period from May to December and overall export LC's opened in 2016 being 31% up on 2015. The generation of increased trade volumes also delivered consequential and positive increases in the Banks overall net interest income being £5.77m (2015 - £4.93m), an increase of 17% year on year. This has been achieved in part through the Banks careful assessment of its core market and associated credit risks including where appropriate the re-pricing of risk and management of its lending policy. This strategy is further borne out by reported net impairment provisions of less than 0.5% of total loans and advances to customers and banks in 2016.

The Banks total liabilities are reported at £394.8m (2015 - £290.8m) an increase of 35%, which is in part as a result of the weakened sterling exchange rate, but also a reflection of the Banks increased efforts to strengthen its wholesale funding to support the Bank in maintaining its regulatory liquidity ratios with the LCR reported at 168% (2015 – 144%). Our primary lending strategy remains directed towards short-dated trade related advances - identified by a 77% ratio of total loans and advances maturing within 180 days. It is worth noting also that the Bank's loans and advances ratio to total deposits is only 54% which remains prudently low by industry standards.

With the addition of the Banks retained earnings for 2016, we are pleased to report that total shareholders' funds including subordinated loans have now risen beyond £100m to stand at £105.3m (2015 - £97.1m). The continued growth in shareholders' funds provides the Bank with a solid funding platform in support of the bank's asset book. The Banks Capital Adequacy Ratio for 31 December 2016 remains strong at 25.36% (2015 - 30.89%) despite the impact of revaluations on currency assets due to the weaker sterling exchange rates.

Looking ahead, the Board and its shareholders are confident that following several years of consolidation and enhancements across our overall infrastructure and governance controls that the Bank can look forward positively to delivering continued growth and profitability in accordance with its strategic plan. None of these achievements are possible without the support and dedication of the Bank's shareholders, customers and staff to whom we are truly thankful.

Salim G. Sfeir
Chairman
24 April 2017

Strategic Report

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

As the only fully licenced Lebanese owned Bank in the UK, we aim to leverage on the Banks affinity with Lebanon. The Bank markets itself as a trade finance boutique house, with a correspondent banking network reach to all major export geographies, specialising in all aspects of Export Trade Finance with an established coverage of Financial Institutions within predominantly Western African countries and to a lesser extent within Eastern and Northern African countries. In addition we act as a confirming house for a number of Lebanese and other Banks in the Middle Eastern region. Our comprehensive service covers the full range of Trade Finance products, the financing of which is primarily of a short dated nature (up to 180 days) but with occasional medium term transactions. Selectively, the Bank also provides traditional lending services to its retail and corporate clients and through our UK deposit taking license we maintain a modest retail deposit base of £88.2m. Eligible deposits are covered by the Deposit Protection Scheme which is overseen by the Financial Services Compensation Scheme (FSCS).

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

Performance highlights

The Banks performance during the first half of 2016 was reflective of the continued depression in global oil prices and the impact on US Dollar foreign currency flows into our largest West African markets. The consequential effect of which was seen in reduced imports into those markets, particularly Nigeria but also on the ability of our correspondent banks to access liquidity and settle underlying trade related liabilities. In Nigeria, the stabilising of oil prices at an average of US$50 p/barrel and subsequent support provided through Central Bank (CBN) interventions eventually eased the situation during the year resulting in increased trade flows and volumes during the second half of 2016. Therefore despite the early downturn, the Bank managed to generate Fee and Commission income of £7.51m (2015 - £7.36m), an increase of 2%. Interest Income in contrast saw a 20% upturn year on year, achieved through the booking of several new medium term corporate loans but also in the re-pricing of short term trade related loans to reflect active dynamic risk management. This position could not have been achieved without the constructive effort and support of the BoB Group Representative Offices in Nigeria and Ghana. By working closely and demonstrating our continued support for the respective correspondents during these difficult market conditions has strengthened our position and enabled us to effectively manage our exposures to such an extent that no provisioning has been required in relation to these markets.

Overall 2016 can be considered as a positive and profitable year for the Bank. Profit after Tax of £5.31m (2015 - £4.56m) was recorded increasing our total equity to £89.1m as at 31 December 2016 (2015 - £83.7m).Whilst the BREXIT decision clearly had a positive FX impact on the currency income drivers, the reverse can be attributed to the subsequent inflation in our Balance Sheet and reduction of the Capital Ratio to 25.36% (2015 - 30.89%). The Bank maintains a GBP operating currency but our trade markets and business activity dictates that our functional currencies are predominantly USD and EUR. Total assets closed at £483.9m (2015 - £374.5m).

Looking forward

Having completed and improved internal restructuring together with strengthening of its overall compliance, risk and corporate governance structures, controls and procedures the Bank is well placed to meet the present and forthcoming economic and regulatory environment challenges which face the financial industry. Indeed, we are confident that this platform will not only enable us to expand and grow our core business of trade finance across the African and Middle Eastern markets but also facilitate the addition of complimentary banking services and products to our customers and correspondent banks in these regions and our home states of the UK and Germany.

With oil prices stabilised above US$50 p/barrel and further encouraging support being provided to the Nigerian banks from the CBN there is renewed confidence and expectation that increased trade flows seen during the second half of 2016 will

Strategic Report (continued)

Looking forward (continued)

continue in 2017. In the first half of 2017 the Bank will embark on several marketing efforts across the African region in an effort to consolidate and manage its exposures in Nigeria but also to continue our strategy to develop trade finance business 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 2017 and beyond.

BREXIT

The outcome of the EU Referendum held on 23 June 2016 resulted in the UK public voting for Great Britain to leave the EU. The result, which was received with surprise in financial markets, led to the resignation of the Prime Minister but more importantly to the weakening of the pound against the Euro and US Dollar. The short term effects of the weakened exchange rate has impacted positively on our profitability in terms of fee income, which is derived predominantly in US Dollars, the size of our balance sheet but negatively in terms of our capital ratios.

Looking ahead the UK Government has since served notice and triggered Article 50 of the EU Treaty for Britain to leave the EU within two years. The Bank has operated a branch in Frankfurt, Germany since 2008 constituted under the current EU Passport rights for financial institutions. In light of these historic events, the Bank has established a working group including participants from each of the UK, German and Parent Bank entities.

During the next few months the Bank will consider any impacts to the status of the Frankfurt Branch by virtue of the existing passport rights and actively assess and monitor its options, engaging and consulting with regulators in the UK and Germany as needed in order to find the most suitable solution. Net profit from our operation in Germany for 2016 represented 7.45% (2015 – 6.55%) of consolidated net profit for the Bank, a trend which has been positively increasing in recent years and demonstrating the growing importance of the Frankfurt operation.

Given the nature of the Bank's operations and business model and after careful review and discussion internally, we are satisfied that there are no significant changes to the nature of the principal risks impacting on our business as a result of the decision to leave the EU.

Payment of Dividends

The Directors have not recommended the payment of any dividend.

The financial statements for the reporting year ended 31 December 2016 are shown on pages 19 to 55.

Key performance indicators and ratios

The financial performance for the financial year 2016 is summarised in the following table (all figures are quoted in GBP '000s):

Income Statement	2016	2015
Net interest income	5,774	4,928
Fees and other income	8,126	7,828
Total operating income	13,900	12,756
Operating expenses	6,728	6,590
Profit before provisions & taxes	7,172	6,166

Balance Sheet	2016	2015
High Quality Liquid Assets	70,992	33,946
Loans and advances to customers	192,510	166,006
Total assets	483,997	374,575
Total Deposits	357,311	256,204
Shareholders' funds*	105,360	97,170

Key performance indicators (%)	2016	2015
Capital Adequacy Ratio	25.36%	30.89%
Liquidity Coverage Ratio	168.60%	144.14%
Cost to income ratio	47.40%	51.72%
Return on Average Equity	5.96%	5.60%

* Includes BoB Group Term Subordinated Loan

Strategic Report (continued)

Correspondent Banking and Trade Services

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

Services include but are not limited to confirmation and advising of Letters of Credit, Issuance of Letters of Guarantees and Standby 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.

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 PRA.

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

Corporate Governance

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

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

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

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

Strategic Report (continued)

Corporate Governance (continued)

The Bank has two independent control functions.

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

An independent Head of Internal Audit who holds the UK regulatory Senior Management Function SMF5 and who reports to the Chairman of the ARCC who is in turn an Independent Non-Executive Director of the Board.

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

Risk Governance

The Bank engages a dedicated Risk Manager reporting to the Head of Risk & Compliance. Risk management within the Bank is a strategically important role ensuring the development and maintenance of the Bank's risk framework, its risk matrix and its risk appetite. The risk appetite defines the strategic approach of the bank and its business plans ensuring that its business strategy falls within the overall risk appetite and that the Bank incurs a level of risk that is individually and in aggregate acceptable to the Board.

The Bank follows the industry standard approach of "3 Lines of Defence" comprising:

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

Strategic Report (continued)

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

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

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

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

AML & Compliance

The Bank maintains an independent compliance function, which is empowered to challenge business decisions. The Bank's compliance function is responsible for ensuring that adequate policies and procedures are in place to maintain the Bank's and its employees' compliance with its legal and regulatory obligations in respect of both AML and conduct of business issues. Such policies and procedures are designed to detect and 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 Plan and budget. The Board is satisfied that Internal Audit has the appropriate resources.

Risk Management

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

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

Strategic Report (continued)

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

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

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

Risk limits are monitored on a daily, weekly or monthly basis as appropriate to the nature of the underlying risks.

ICAAP, ILAAP and the overarching RRP statements are prepared and submitted to the Board of the Bank. These are developed as part of the annual planning and budgeting process to ensure that the Bank's strategy and business plans are achievable within its capital and liquidity resources. The ICAAP, ILAAP and RRP are all subject to interim review and update in response to material changes to the business or regulatory environments.

Employees

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

By order of the Board

Sophoklis Argyrou
Managing Director & CEO

24 April 2017

Directors´ Report

The Directors present their annual report and the audited financial statements for the year ended 31 December 2016. The financial statements have been prepared in accordance with the Companies Act 2006 and applicable accounting standards.

Results and dividends

All profit for the year after taxation, which amounted to £5,309,748 (2015 - £4,561,452) was transferred to reserves. The directors do not recommend the payment of a dividend (2015 - £nil).

Going Concern

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

Directors´ Report (continued)

Risk management objectives and policies

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

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. During the second half of 2017 the Bank, in coordination with its parent, will deliver and implement its IFRS9 reporting solution in order to meet revised financial accounting and regulatory requirements from 1 January 2018.

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

Interest rate risk
Interest rate risk is the exposure of the Bank to adverse movements in interest rates. Changes in interest rates can affect the Bank's earnings by changing its net interest income. This risk mainly arises from mismatches between the interest bearing assets and liabilities on the balance sheet. Note 29 shows the interest rate sensitivity gap analysis for addressing the risk for the Bank as at 31 December 2016.

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.

Directors' indemnities

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

Directors´ Report (continued)

Directors

The directors who served on the Board throughout the year were as follows:
Salim G Sfeir
Sophoklis Argyrou
Fawaz H Naboulsi
Marcus John S Trench
Anthony J Bush
Ramzi Saliba
Martin J Osborne (Appointed 18.08.2016)
Antoun Samia (Appointed 23.08.2016)
Sobhi M Osman (Deceased 12.01.2016)
Elias Alouf (Resigned 30.04.2016)

Auditor

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

- so far as the director is aware, there is no relevant audit information of which the Bank's auditor is unaware; and
- the director has taken all the steps that he/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 Bank's auditor is aware of that information.

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

Deloitte LLP has expressed their willingness to continue in office as 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

24 April 2017

Directors' responsibilities statement

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

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

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

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

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

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 2016 which comprise the income statement, the statement of comprehensive income, the balance sheet, the statement of changes in equity, the cash flow statement and the related notes 1 to 33. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

Respective responsibilities of directors and auditor

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

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

Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Bank'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 Bank's affairs as at 31 December 2016 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

24 April 2017

Income Statement
Year ended 31 December 2016

In Pounds Sterling £	Notes	2016	2015
Continuing operations			
Interest receivable	5	8,455,847	7,023,597
Interest payable	6	(2,681,618)	(2,096,033)
Net interest income		5,774,229	4,927,564
Fees and commissions receivable		7,517,638	7,357,549
Foreign exchange income		608,057	471,167
Total non-interest income		8,125,695	7,828,716
Total income		13,899,924	12,756,280
Administrative expenses	7	(6,727,934)	(6,589,840)
Net impairment losses on loans and advances	11	(380,567)	(432,561)
Profit before taxation	8	6,791,423	5,733,879
Taxation	9	(1,481,675)	(1,172,427)
Profit for the year		5,309,748	4,561,452

Statement of comprehensive Income
Year ended 31 December 2016

In Pounds Sterling £	Notes	2016	2015
Profit for the year		5,309,748	4,561,452
Items that may be reclassified subsequently to profit or loss:			
Available for sale financial assets			
Loss arising during the year, net of tax		(5,448)	1,720
Exchange difference on translating foreign operations, net of tax		79,248	134
Income tax relating to items that may be reclassified	9	1,090	(348)
Other Comprehensive income for the year net of tax		74,890	1,506
Total Comprehensive income for the year		5,384,638	4,562,958

Balance sheet
As at 31 December 2016

In Pounds Sterling £	Notes	2016	2015
Assets			
Cash and balances at banks		96,052,314	62,153,205
Placements with banks	10	145,241,043	93,049,280
Loans and advances to customers	11	192,509,826	166,005,988
Customers' acceptances	12	19,951,401	20,343,001
Held to maturity investments:			
- Treasury bills and other eligible bills	13	3,301,300	2,745,525
Available for sale:			
- UK Treasury bills	14	17,993,240	28,533,468
- US Treasury bills	14	7,282,841	-
Derivative assets	29	11,542	60,659
Prepayments and accrued income		489,102	455,377
Property and equipment	15	286,549	381,862
Intangible assets	16	126,418	95,100
Goodwill	17	751,540	751,540
Total assets		483,997,116	374,575,005
Liabilities			
Deposits by banks	18	269,035,000	175,837,656
Customer accounts	19	88,276,500	80,366,298
Acceptances payable	12	19,951,401	20,343,001
Derivative liabilities	29	12,767	62,503
Accruals and deferred income		287,338	387,989
Other liabilities	20	216,192	3,568
Provision for liabilities and charges		-	-
Current Tax liabilities		818,673	371,211
Deferred tax liability	21	38,745	32,934
Subordinated loan	22	16,211,634	13,405,617
Total liabilities		394,848,250	290,810,777
Equity			
Called up share capital	23	34,150,000	34,150,000
Retained earnings	24	54,998,866	49,614,228
Total equity		89,148,866	83,764,228
Total liabilities and equity		483,997,116	374,575,005

These financial statements were approved by the board of directors and authorised for issue on 24 April 2017. They were signed on its behalf by:

S Argyrou
Managing Director & CEO
24 April 2017

Statement of changes in equity
Year ended 31 December 2016

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 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 2016	34,150,000	49,614,228	83,764,228
Profit for the period	-	5,309,748	5,309,748
Other comprehensive income for the period	-	74,890	74,890
As at 31 December 2016	34,150,000	54,998,866	89,148,866

Cash flow statement
Year ended 31 December 2016

In Pounds Sterling £	Notes	2016	2015
Cash flows from operating activities			
Profit before taxation		6,791,423	5,733,879
Adjustment for:			
Depreciation	15	188,886	196,634
Net impairment losses on loans and advances to customers	11	497,083	432,561
Operating cash flows before movements in working capital		7,477,392	6,363,074
Increase/(decrease) in prepayments and accrued income		(33,726)	197,206
Decrease in accruals and deferred income		(100,650)	(126,459)
Net (increase)/decrease in loans and advances to banks and customers		(86,090,873)	11,756,257
Increase in deposits by banks and customers		101,107,546	5,062,103
Increase/(decrease) in other liabilities		212,624	(213,531)
Net (decrease)/increase in derivative financial instruments		(619)	(717,942)
Cash generated from operations		22,571,694	22,320,888
Corporation tax paid		(984,750)	(1,349,500)
Corporation tax refund		-	38,402
Fine paid		-	(2,100,000)
Net cash generated by operating activities		21,586,944	18,909,790
Cash flows from investing activities			
Payments for property and equipment and intangible assets		(117,452)	(163,023)
Proceeds on maturity of treasury bills and other eligible bills		57,240,550	138,213,240
Purchase of treasury bills and other eligible bills		(53,966,599)	(140,795,400)
Net cash generated from investing activities		3,156,499	(2,745,183)
Cash flows from financing activities			
Net increase in cash and cash equivalents		24,743,443	16,164,607
Cash and cash equivalents at the beginning of the year		62,153,205	46,025,977
Effect of exchange rate changes on cash and cash equivalents		9,155,666	(37,379)
Cash and cash equivalents at the end of the year		96,052,314	62,153,205
Cash and cash equivalents comprised of:			
Cash and balances at banks		96,052,314	62,153,205

Notes to the financial statements
Year ended 31 December 2016

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.

2. Adoption of new and revised Standards

New and revised IFRSs in issue but not yet effective
At the date of authorisation of these financial statements, the Bank has not applied the following new and revised IFRSs that have been issued but are not yet effective and in some cases had not yet been adopted by the EU:

- IFRS 9 Financial Instruments

- IFRS 15 Revenue from Contracts with Customers

- IAS 16 and IAS 38 (amendments) Clarification of Acceptable Methods of Depreciation and Amortisation

- IAS 16 and IAS 41 (amendments) Agriculture: Bearer Plants

- IAS 19 (amendments) Defined Benefit Plans: Employee Contributions

- IAS 27 (amendments) Equity Method in Separate Financial Statements

- IFRS 10 and IAS 28 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

- Annual Improvements to IFRSs 2010-2012:
  Amendments to : IFRS2: Share-based Payments, IFRS 3 Business Combinations, IFRS 8 Operating Segments, IFRS 13 Fair Value Measurement, IAS 16 Property, Plant and Equipment, IAS 24 Related Party Disclosures and IAS 38 Intangible Assets.

- Annual Improvements to IFRSs 2011-2013:
  Amendments to: IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 3 Business Combinations, IFRS 13 Fair Value Measurement and IAS 40 Investment Property.

- Annual Improvements to IFRSs 2012-2014 Cycle:
  Amendments to: IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, IFRS 7 Financial Instruments: Disclosures, IAS 19 Employee Benefits and IAS 34 Interim Financial Reporting.

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 that IFRS 9 will impact both the measurement and disclosures of financial instruments and IFRS 15 may have an impact on revenue recognition and related disclosures .Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of IFRS 9 and IFRS 15 until a detailed review has been completed.

Notes to the financial statements
Year ended 31 December 2016

3. 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 Bank takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis. In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and• Level 3 inputs are unobservable inputs for the asset or liability.
- 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 29 and 30 to the financial statements include the Bank's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposures to liquidity risk and credit risk. The Bank has a proven and conservative business model. 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 Bank'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 2016

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 2016

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 28 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.

Notes to the financial statements
Year ended 31 December 2016

2. Significant accounting policies (continued)

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

Leasehold improvements	over the lease term
Fixtures, fittings and equipment	10% to 33.33%

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

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

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

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

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

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

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

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

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

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

Notes to the financial statements
Year ended 31 December 2016

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

Foreign currency translation
Transactions in foreign currencies are recorded at the rate of exchange ruling at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling on the balance sheet date. All differences arising are taken to the income statement. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains or losses are recognised directly to equity. For such non-monetary items, any exchange component of that gain or loss is also recognised directly to equity.
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 2016

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

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

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

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 (2015: £751,540) with no impairment loss.

5. Interest receivable

Interest receivable comprises interest from:

In Pounds Sterling £	2016	2015
Loans and receivables:		
Loans and advances to banks	4,349,533	3,274,659
Loans and advances to customers	3,942,824	3,595,701
Impaired loans	-	6,907
Held to maturity investments:		
Treasury bills and other eligible bills	163,490	146,330
	8,455,847	7,023,597

The amount of interest receivable attributable to group companies is £69,475 (2015: £46,279).

6. Interest payable

Interest payable comprises interest to:

In Pounds Sterling £	2016	2015
Deposit by banks	693,246	564,804
Customers' accounts	628,097	523,309
Group companies	1,360,275	1,007,920
	2,681,618	2,096,033

Notes to the financial statements
Year ended 31 December 2016

7. Administrative expenses

Administrative expenses include:

In Pounds Sterling £	2016	2015
Staff costs during the year (including directors):		
Wages and salaries	3,361,473	3,373,022
Social security costs	367,909	402,298
Other staff costs	294,836	202,532
	4,024,218	3,977,852
Pension costs (defined contribution scheme and personal plan concluded in 2015)	232,012	283,086
Total staff costs	4,256,230	4,260,938
Occupancy costs	747,414	745,298
Administrative costs	1,535,404	1,386,970
Depreciation	188,886	196,634
Total administrative expenses	6,727,934	6,589,840

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

	2016	2015
Commercial and retail banking activities	54	51

Directors' emoluments

Directors' remuneration during the year consists of:

In Pounds Sterling £	2016	2015
Salaries and other emoluments	609,736	675,060
Pension costs	40,550	54,010
	650,286	729,070

The emoluments of the highest paid director for the year ended 31 December 2016 were £371,178 (2015 - £248,048).

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

There were two directors (2015 - one director) who were part of the Bank's pension scheme.

8. Profit before taxation

The profit is stated after charging/(crediting):

In Pounds Sterling £	2016	2015
Net foreign currency gains	(608,057)	(455,262)
Auditor's remuneration		
Audit services	86,400	77,175
Non-audit services	31,931	27,221
Operating lease rentals – Land and buildings	474,832	463,690
Depreciation	188,885	196,634

The analysis of non-audit services is as follows:

In Pounds Sterling £	2016	2015
Tax services	12,950	15,600
Company Secretarial services	4,001	2,823
SCV health check services	14,980	-
COREP services	-	8,798
Total non-audit fees	31,931	27,221

Notes to the financial statements
Year ended 31 December 2016

9. Taxation

Current tax charge:

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

Analysis of tax charge for the year

In Pounds Sterling £	2016	2015
Current year	1,355,198	1,130,148
Double tax relief	(117,077)	(102,260)
Prior year adjustment	47,026	9,344
Total Current tax charge	1,285,147	1,037,232
Overseas tax	190,717	102,260
Deferred tax – current year	5,811	37,140
Deferred tax – prior year	-	(4,205)
Total income tax expense	1,481,675	1,172,427

The charge for tax is based upon a UK corporation tax rate of 20% for the calendar year 2016.
Finance Act 2013 enacted a reduction in the UK corporation tax rate to 20% with effect from 1 April 2016. The reduction in the rate impacted the current tax charge in 2016.
Finance (No.2) Act 2015 enacted reductions in the UK corporation tax rate to 19% with effect from 1 April 2017. Further reductions were introduced in Finance Act 2016 over corporation tax rate of 17% with effect from 1 April 2020. These reductions in the tax rate will impact the current tax charge in future periods. The differences are explained below:

The differences are explained below:

Factors affecting the tax charge for the year

In Pounds Sterling £	2016	2015
Profit before taxation	6,791,423	5,733,879
Tax charge at average UK Corporation tax rate of 20% (2015: – 20.25%)	1,358,284	1,161,110
Effects of:		
Non-deductible Expenses not deductible for tax purposes	7,630	3,146
Non-taxable income	-	(555)
Capital allowances in excess of depreciation	-	-
Depreciation on non-qualifying assets	1,932	3,587
Unpaid Pension Costs	-	-
Other short term timing differences	-	-
Prior year adjustment	47,026	5,139
Foreign tax credits	73,640	-
Adjust closing Deferred tax to average rate 20%	(6,837)	-
Tax expense for the year	1,481,675	1,172,427

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 £	2016	2015
Available for sale financial assets		
(Losses)/gains arising during the year	(5,448)	1,720
Exchange difference on translating foreign operations	79,248	134
Total income tax recognised in other comprehensive income	1,090	(348)

Notes to the financial statements
Year ended 31 December 2016

10. Placements with banks

In Pounds Sterling £	2016	2015
Remaining maturity		
Three months or less excluding on demand	145,241,043	93,049,280
	145,241,043	93,049,280

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

11. Loans and advances to customers

In Pounds Sterling £	2016	2015
Repayable:		
On demand or at short notice	37,257,557	32,495,345
Remaining maturity:		
Three months or less excluding on demand	86,950,768	74,634,853
One year or less but over three months	57,922,775	27,934,252
Three years or less but over one year	11,451,392	25,709,040
Five years or less but over three years	-	5,808,081
	193,582,492	166,581,571
Impairment losses	(1,072,666)	(575,583)
	192,509,826	166,005,988

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

In Pounds Sterling £	2016	2015
Balance as at 1 January	575,583	143,022
Additions		
Impairment charges	380,567	416,656
FX movement on impairment charges	116,516	15,905
Balance as at 31 December	1,072,666	575,583

12. Customers' acceptances and acceptances payable

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

Notes to the financial statements
Year ended 31 December 2016

13. Held to maturity Investments

In Pounds Sterling £	2016		2015	
	Book Value	Market Value	Book Value	Market Value
Treasury bills and other eligible bills	3,301,300	3,251,055	2,745,525	2,718,465
	3,301,300	3,251,055	2,745,525	2,718,465

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

In Pounds Sterling £	2016	2015
Balance as at 1 January	2,745,525	2,613,529
Acquisitions	21,948	18,252
Exchange differences on monetary assets	533,827	113,744
Balance as at 31 December	3,301,300	2,745,525

In Pounds Sterling £	2016	2015
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	2,459,195	1,362,830
Five years or less but over three years	-	676,663
Five years or more	842,105	706,032
	3,301,300	2,745,525

14. 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:

UK Treasury Bills

In Pounds Sterling £	2016	2015
Balance as at 1 January	28,533,468	25,984,720
Acquisitions	44,250,000	140,795,400
Maturities	(52,811,400)	(138,213,240)
Discount received	(8,637)	(35,132)
Sales	(2,000,000)	-
Movement in fair value	29,809	1,720
Balance as at 31 December	**17,993,240**	**28,533,468**

US Treasury Bills

In Pounds Sterling £	2016	2015
Balance as at 1 January	-	-
Acquisitions	9,716,599	-
Maturities	(2,429,150)	-
Discount received	(4,478)	-
Movement in fair value	(130)	-
Balance as at 31 December	**7,282,841**	**-**

Notes to the financial statements
Year ended 31 December 2016

15. Property and equipment

In Pounds Sterling £	Leasehold improvements	Fixtures, fittings and equipment	Total
Cost			
At 1 January 2015	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
Additions	2,891	27,619	30,510
Disposals	-	(18,790)	(18,790)
Translation dfference	581	26,983	27,564
At 31 December 2016	480,492	741,482	1,221,974
Depreciation			
At 1 January 2015	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
Charge for the year	50,115	81,403	131,518
Disposals	-	(18,790)	(18,790)
Translation dfference	582	21,287	21,869
At 31 December 2016	378,072	557,353	935,425
Net book value			
At 31 December 2016	102,420	184,129	286,549
At 31 December 2015	149,645	232,217	381,862

Notes to the financial statements
Year ended 31 December 2016

16. Intangible Assets

In Pounds Sterling £	Computer software
Cost	
At 1 January 2015	342,099
Additions	65,092
Disposals	(24,131)
At 31 December 2016	383,060
Additions	86,942
Translation difference	12,569
At 31 December 2016	482,571
Depreciation	
At 1 January 2015	243,135
Charge for the year	68,797
Translation difference	(23,972)
At 31 December 2015	287,960
Charge for the year	57,367
Disposals	-
Translation difference	10,826
At 31 December 2016	356,153
Net book value	
At 31 December 2016	126,418
At 31 December 2015	95,100

17. Goodwill

In Pounds Sterling £	2016	2015
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 rate used to discount the forecast cash flows from the Business is 9.20 per cent being the cost of capital. 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.

Notes to the financial statements
Year ended 31 December 2016

18. Deposits by banks

In Pounds Sterling £	2016	2015
Repayable on demand	126,889,605	62,381,575
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	78,782,700	63,202,094
Between three months and one year	63,362,695	50,253,987
	269,035,000	175,837,656

Included in the above are amounts due to parent undertakings of £111,026,426 (2015: £54,994,315).

19. Customer accounts

In Pounds Sterling £	2016	2015
Repayable on demand	38,532,937	36,823,982
With agreed maturity dates or periods of notice, by remaining maturity:		
Within three months	36,532,036	33,910,421
Between three months and one year	13,211,527	9,183,811
Between one year and five years	-	448,084
	88,276,500	80,366,298

20. Other liabilities

In Pounds Sterling £	2016	2015
Other taxes and social security costs	191	264
Other liabilities	216,001	3,304
	216,192	3,568

Notes to the financial statements
Year ended 31 December 2016

21. Deferred Tax Liability

The components of income taxes are as follows:

2016

In Pounds Sterling £	Assets	Liabilities
Deferred tax		
United Kingdom	-	(38,745)
	-	(38,745)

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 17% (2015: 20%) Finance (No. 2) Act 2016 enacted reduction in the UK corporation tax rate to 19% with effect from 1 April 2017 and 17% with effect from 1 April 2020.

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

In Pounds Sterling £	2016	2015
At beginning of year	(32,934)	-
Prior year adjustment	-	4,206
Income statement charge	(5,811)	(37,140)
Rate change adjustment	-	-
At end of year	(38,745)	(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 £	2016	2015
Unpaid pensions	-	16,137
Accelerated tax depreciation	(38,745)	(49,071)
Net deferred tax liability	(38,745)	(32,934)

22. Subordinated Loan

The Bank signed an agreement for the issue of a 10 Year Subordinated Loan (“the Loan”) of USD 20 million on 19 March 2007 to Bank of Beirut Sal, its immediate and ultimate parent company. Drawdown was on 29 May 2007 with interest payable at 3 Month LIBOR + 1%, paid annually. On the issuance date, Bank of Beirut Sal. had the option to convert all or part of the Loan into new shares in the Bank on the basis of the par value of the Bank’s shares at the exchange rate applicable on the conversion date. However, on 28 April 2008, the Board of Directors of Bank of Beirut Sal. agreed to the removal of the conversion option of the loan resulting in the transfer of the equity portion of the subordinated loan to retained earnings.
At its meeting on 10 September 2012 the Board of Directors agreed to the following amendments of the Subordinated Loan Agreement:

• Interest payable on the loan at 3 Month LIBOR + 2% effective 30 November 2012
• Extension of the Loan maturity date to 29 May 2027

Notes to the financial statements
Year ended 31 December 2016

22. Subordinated Loan (Continued)

The interest charged for the year is calculated by applying an effective interest rate of 2.9373% (2015: 2.4117%).

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

In Pounds Sterling £	2015
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

23. Called up share capital

In Pounds Sterling £	2016	2015
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 (2015: 34,150,000) ordinary shares of £1 each at beginning of the year	**34,150,000**	34,150,000
34,150,000 ordinary shares of £1 each at end of the year	**34,150,000**	34,150,000

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

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

25. Contingent liabilities

Contingent liabilities comprise:

In Pounds Sterling £	2016	2015
Irrevocable letters of credit	**154,085,170**	102,873,252
Guarantees	**7,109,733**	6,523,923
Deferred payment acceptances	**(19,951,401)**	(20,343,001)
	141,243,502	89,054,174

Notes to the financial statements
Year ended 31 December 2016

26. Commitments

In Pounds Sterling £	2016	2015
Formal standby facilities, credit lines and other commitments to lend:		
Less than one year	**100,626,632**	57,427,598
One year and over	**17,176,990**	29,942,873
	117,803,622	87,370,471

In Pounds Sterling £	2016	2015
Of which undrawn commitments	14,410,094	8,059,516

Operating lease arrangements:

In Pounds Sterling £	2016	2015
Minimum lease payments under operating leases recognised as an expense in the year	474,832	463,690

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 £	2016	2015
Not later than one year	468,724	464,499
Later than one year and not later than five years	**537,323**	977,532

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

27. Related party transactions

During the year, the Bank entered into the following transactions with its holding company, Bank of Beirut, s.a.l.:

In Pounds Sterling £	2016	2015
Interest received from holding company	**69,675**	46,280
Interest paid to holding company	**(1,379,799)**	(1,001,476)
Fee paid to holding company	**(213,601)**	(202,159)

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

In Pounds Sterling £	2016	2015
Deposits		
Call Deposits	**57,089,657**	12,602,309
Fixed Deposits	**53,936,769**	42,392,006
Exposures to:		
Bills Discounted	**3,255,751**	645,136
Letters of Credit	**7,662,551**	2,279,678
Acceptances	**127,334**	2,389,359

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

Notes to the financial statements
Year ended 31 December 2016

27. Related party transactions (continued)

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

The Bank gave to two of its executive directors in 2016 unsecured non-interest bearing loans, payable within 12 months. These amounted to £1,668 (2015 - £7,363) in respect of personal travel costs and £2,010 (2015 - £1,983) 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 2016 was £16,552 (2015 - £16,324).

In Pounds Sterling £	2016	2015
Deposits from Directors	91,147	42,454
	91,147	42,454

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 £	2016	2015
Short-term employee benefits	609,736	675,060
Post-employment benefits	40,550	54,010
	650,286	729,070

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

In Pounds Sterling £	2016	2015
Deposits from related parties	3,268,531	2,502,534
	3,268,531	2,502,534

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

28. Ultimate parent and controlling party

The ultimate parent and controlling party at 31 December 2016 was Bank of Beirut Sal, which is incorporated in Lebanon. All of the Bank's issued share capital is wholly owned by Bank of Beirut Sal, which is the parent company of the smallest and largest groups into which the results of the Bank are consolidated. Copies of the group accounts can be obtained from 17a Curzon St, London W1J 5HS.

29. Financial instruments and risk management

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

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

The Bank does not have a trading book.

As at the end of 31 December 2015 and 31 December 2016, the carrying value of the financial assets and liabilities of the Bank approximates its fair value. The fair value of a financial instrument is the amount at which the instrument could be exchanged in a current transaction between willing parties in an arm's length transaction. Market values are used to determine fair values.

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

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

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

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

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

As at 31 December 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
Totals	9,102,482	60,156	47,871	60,156	47,871
Of which third party	7,504,502	58,136	45,851	58,136	45,851

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

Classification of assets and liabilities

The assets 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 2016					
Assets					
Cash and due from banks	96,052,314	-	-	-	96,052,314
Placements with banks	145,241,043	-	-	-	145,241,043
Loans and advances to customers	192,509,826	-	-	-	192,509,826
Customers' acceptances	19,951,401	-	-	-	19,951,401
Held to maturity investments:					
- Treasury bills and other eligible bonds	-	3,301,300	-	-	3,301,300
Available for sale:					
- UK Treasury bonds	-	-	17,993,240	-	17,993,240
- UK Treasury bonds	-	-	7,282,841	-	7,282,841
Property and equipment	-	-	-	286,549	286,549
Intangible assets				126,418	126,418
Goodwill	-	-	-	751,540	751,540
Derivative assets	-	-	11,542	-	11,542
Prepayments and accrued income	-	-	-	489,102	489,102
Total assets	453,754,584	3,301,300	25,287,623	1,653,609	483,997,116
As at 31 December 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

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

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

Valuation hierarchy

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities where prices are readily available and represent actual and regularly occurring market transactions on an arm's length basis. An active market is one in which transactions occur with sufficient frequency to provide on-going pricing information,

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly as prices or indirectly derived from prices; and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data ("unobservable inputs").

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

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

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	17,993,240	-	-
US Treasury Bonds – Available For Sale	7,282,841	-	-
Derivative assets	-	11,542	-
As at 31 December 2016	25,276,081	11,542	-
Financial Liabilities			
Derivative assets	-	12,767	-
As at 31 December 2016	-	12,767	-

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	-
Financial Liabilities			
Derivative Liabilities	-	62,503	-
As at 31 December 2015	-	62,503	-

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

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

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

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

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

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

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

29.1 Credit risk

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

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

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.1 Credit risk (continued)

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

	2016		2015	
In Pounds Sterling £	Carrying Value	Maximum Exposure	Carrying Value	Maximum Exposure
Placement with banks:				
Loans and receivables	145,241,043	145,241,043	93,049,280	93,049,280
Loans and advances to customers:				
Loans and receivables	192,509,826	187,313,592	166,005,988	162,966,794
Derivative financial assets				
Currency forwards	11,542	11,542	60,659	60,659
Net letters of credit and guarantees	141,243,502	134,939,476	89,054,174	83,256,424
Loan commitments (unutilised)	14,410,094	12,770,721	8,059,516	5,653,626
	493,416,007	480,276,374	356,229,617	344,986,783

	Loans and advances to customers	
In Pounds Sterling £	2016	2015
Carrying amount	192,509,826	166,005,988
Individually impaired	2,663,767	3,867,544
Allowance for impairment	(1,072,666)	(575,583)
Suspended interest	(388,227)	(235,356)
Carrying amount	1,202,874	3,056,605
Past due but not impaired	9,797,813	9,217,685
Neither past due nor impaired	181,509,139	153,731,698
Carrying amount	192,509,826	166,005,988

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

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

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

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.1 Credit risk (continued)

Remaining maturity

In Pounds Sterling £	2016	2015
Three months or less excluding on demand	9,797,813	9,217,685
One year or less but over three months	-	-
Three years or less but over one year	-	-
	9,797,813	9,217,685

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 £	2016	2015
Individually impaired:		
Cash	-	1,201,276
Property	-	435,033
Unsecured	1,202,874	1,420,295
Past due but not impaired:		
Cash	5,740,697	1,307,085
Property	69,825	174,878
Unsecured	3,987,291	7,735,723
Neither past due nor impaired:		
Cash	121,002,836	127,644,055
Property	25,834,836	16,443,520
Bank guarantee	26,668,282	-
Unsecured	8,003,185	9,644,123
Carrying amount	192,509,826	166,005,988

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 by the Credit Department to the MD and CEO for ratification, approval and/or recommendation to the Management Committee/Main Board for direction as to remedial action.

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.1 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 £	2016	2015
Concentration by risk location		
Great Britain	19,605,460	9,278,019
Europe	5,591,722	7,190,794
Africa	126,339,548	122,035,570
Rest of the world	40,973,096	27,501,605
Total	192,509,826	166,005,988

29.2 Liquidity risk

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

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

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

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

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

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

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.2 Liquidity risk (continued)

Residual contractual maturities of financial liabilities as at 31 December 2016 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	269,035	157,252	48,420	63,363	-	269,035
Customer accounts	88,276	57,729	17,336	12,667	544	88,276
Subordinated loan	16,212	-	-	-	16,212	16,212
	373,523	214,981	65,756	76,030	16,756	373,523
Derivative liabilities						
Forward foreign exchange contracts inflow	(835)	(227)	(608)	-	-	(835)
Forward foreign exchange contracts outflow	840	234	606	-	-	840
	5	7	(2)	-	-	5
	373,528	214,988	65,754	76,030	16,756	373,523

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

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.3 Interest rate risk

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

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

The tables shown below summarise the repricing mismatches on the Bank's assets and liabilities as at 31 December 2016 and 31 December 2015. Items are allocated to time bands by reference to the earlier of the next contracted interest rate repricing date and the maturity date.

Exposure to interest rate movements arise where there is an imbalance between variable rate and fixed rate and non-rate sensitive assets and liabilities. The table below shows the interest rate sensitivity gap exposures for the Bank as at 31 December 2016. Assets and liabilities are analysed in time bands according to the earlier of the time to the next interest re-pricing date or the maturity date.

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.3 Interest rate risk (continued)

Interest rate sensitivity gap analysis 31 December 2016

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

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.3 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
Subordinated loan	-	-	-	-	-	33	33
Equity	13,406	-	-	-	-	-	13,406
	-	-	-	-	-	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	-	-

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

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.3 Interest rate risk (continued)

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

In %	2016	2015
Financial assets		
Placements with banks	**0.43%**	0.31%
Loans and advances to customers	**5.62%**	5.47%
Held to maturity investments – Treasury bills and other eligible bills	**2.73%**	2.74%
Financial liabilities		
Deposits by banks	**0.45%**	0.43%
Customer Accounts	**0.55%**	0.55%

The management of interest rate risk against interest rate gap limits is supplemented by monitoring the sensitivity of the Bank's financial assets and liabilities to various interest rate scenarios. The table below shows the impact on annual profit of a 100 basis point rise or fall in the base rate, and assumes a constant balance sheet position:

	2016		2015	
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	**572**	**(592)**	281	(292)

29.4 Foreign exchange risk

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

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

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

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.4 Foreign exchange risk (continued)

The table in note 29 gives details of the notional principal amounts and fair values as at 31 December 2016 and 31 December 2015.

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 2016 and 31 December 2015, 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 2016					
Assets					
Cash and due from banks	12,204	29,517	51,957	2,375	96,053
Placements with Banks	72,500	50,611	22,129	-	145,240
Loans and advances to customers	27,648	139,321	25,541	-	192,510
Customers' acceptances	1,182	15,960	2,619	191	19,952
Held to Maturity investments:					
- Treasury bills and other eligible bills	-	3,301	-	-	3,301
Available for sale:					
- UK Treasury bonds	17,993	-	-	-	17,993
- US Treasury bonds	-	7,283	-	-	7,283
Property and equipment	253	-	33	-	286
Intangible assets	117	-	9	-	126
Goodwill	752	-	-	-	752
Derivative assets	12	-	-	-	12
Prepayments and accrued income	388	29	72	-	489
Total assets	133,049	246,022	102,360	2,566	483,997
Liabilities					
Deposits by banks	20,367	155,951	91,898	819	269,035
Customer accounts	23,586	57,699	6,438	554	88,277
Acceptances payable	1,182	15,960	2,619	191	19,952
Accruals and deferred income	154	111	22	-	287
Derivative liabilities	13	-	-	-	13
Other liabilities	216	-	-	-	216
Tax liabilities	671	-	147	-	818
Deferred tax liability	39	-	-	-	39
Subordinated loan	-	16,212	-	-	16,212
Total liabilities	46,228	245,933	101,124	1,564	394,849
Net assets/(liabilities)	86,821	89	1,236	1,002	89,148

Notes to the financial statements
Year ended 31 December 2016

29. Financial instruments and risk management (continued)

29.4 Foreign exchange risk (continued)

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
Provisions 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

The carrying amounts of derivative assets and liabilities represent fair values and have been included in the heading of sterling currency. Foreign exchange risk on these instruments has been reflected through the currency swaps off balance sheet line, which represents the notional principal amounts in respect of forward foreign exchange derivatives utilised for managing the foreign exchange risk position of the Bank.

30. Capital risk management

The Bank manages its capital to ensure that it will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. The Bank's overall strategy remains unchanged. 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 23 and 24 as well as subordinated loans as disclosed in note 22.

Notes to the financial statements
Year ended 31 December 2016

31. Collateral

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

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

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

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

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

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

In thousands of Pounds Sterling £	2016	2015
Collateral type		
Cash collateral	34,669	9,371
Banks' guarantees	34,255	32,939
Commercial real estate	39,681	17,600
Other collateral	116,515	90,165

32. Pillar III

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

33. Events after the audit reporting period

There have been no material events since the reporting date that would require disclosure or adjustment to these financial statements.

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