A year of opportunity

London

Dubai

Annual Report & Accounts 2013

BLME
BANK ON OUR PRINCIPLES

Open for
business

Hong Kong will issue a Sukuk in 2014

Underpinning excellent progress made by the Islamic finance industry.

Luxembourg will issue a Sukuk in 2014

Demonstrating a maturing market which will give rise to extensive opportunities for BLME.

In 2007 we opened for business in London

The financial capital of Europe.

In 2013 we opened our doors in Dubai

The global capital for Islamic finance.

With maturity comes opportunity

Dubai Stock Exchange

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2013 Group Highlights for BLME Holdings plc

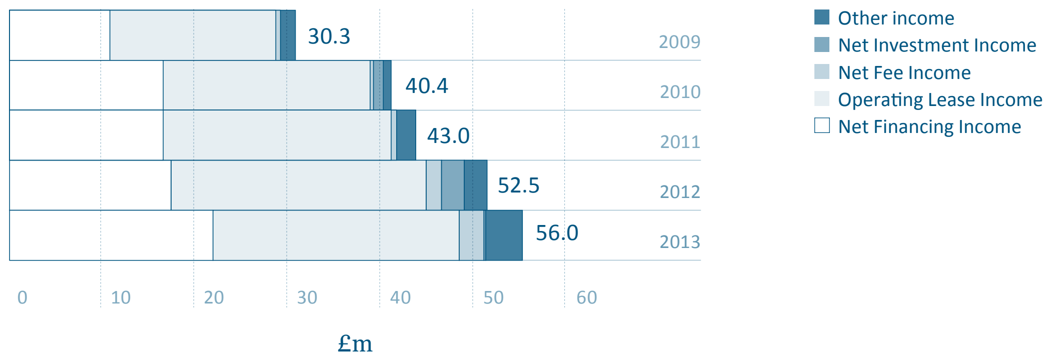
Key Milestones...

BLME Holdings plc is now listed on NASDAQ Dubai, the first Islamic bank on the exchange.

BLME has opened a representative office in the Dubai International Finance Centre

Consolidated Total Operating Income (£m)

£56m



Key Achievements...

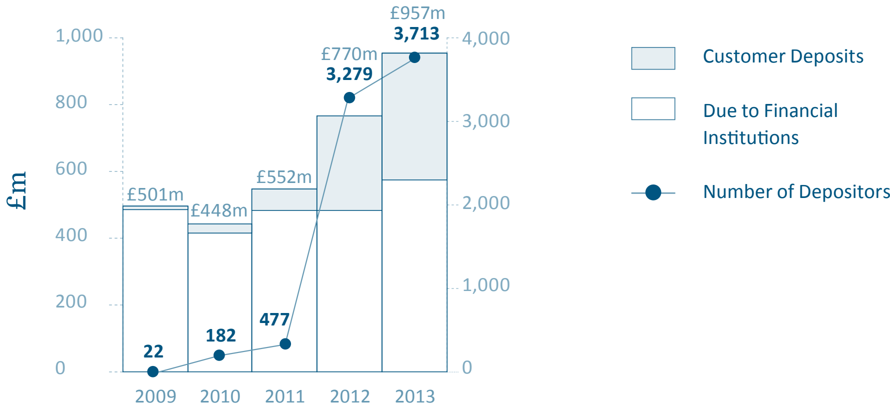
Appointed co-lead Manager on the Islamic Development Bank Sukuk in June 2013

Participating in the award winning Yaas Sukuk I

Significant increase in the number of depositors

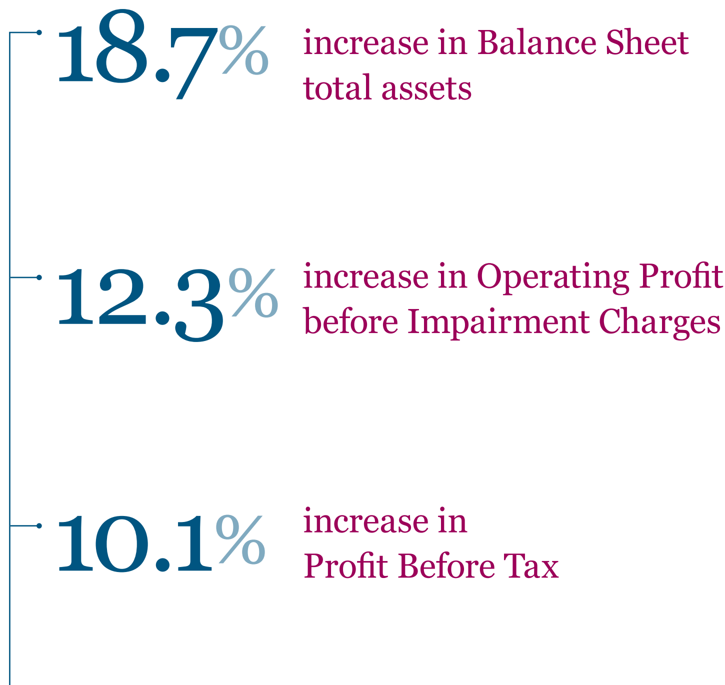
Being awarded best Islamic bank in the UK for the sixth consecutive year

Total Deposits



2013 Group Highlights for BLME Holdings plc

Key Financial Achievements...



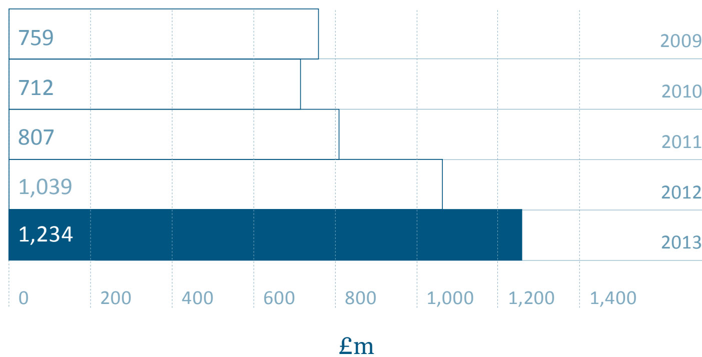
18.7% increase in Balance Sheet total assets

12.3% increase in Operating Profit before Impairment Charges

10.1% increase in Profit Before Tax

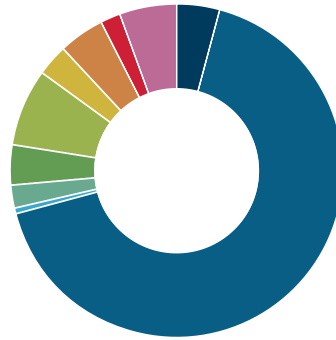
Consolidated Total Assets (£m)

£1,234m



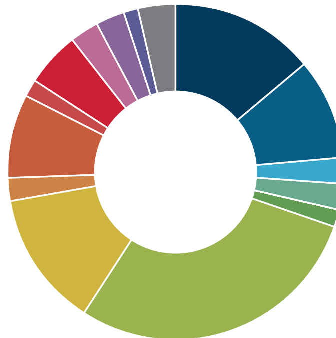
Exposure by Country as at 31 December 2013

Country	%
USA	4.27%
United Kingdom	66.78%
Luxembourg	0.38%
France	2.26%
United Arab Emirates	4.00%
Saudi Arabia	7.39%
Qatar	3.14%
Kuwait	4.52%
Bahrain	1.76%
Other Countries	5.50%



Exposure by Sector as at 31 December 2013

Sector	%
GCC financial institutions	14.07%
UK financial institutions	9.68%
European financial institutions	2.56%
Other financial institutions	2.44%
Mining and quarrying	0.08%
Manufacturing	1.67%
Real estate	28.91%
Transportation and storage	13.04%
Government	2.12%
Wholesale / Retail	8.15%
Oil and Gas	1.51%
Commodities	5.25%
Energy	2.74%
Construction	2.91%
Telecoms	1.31%
Others	3.56%



Naming convention and abbreviations:

In this document, the expression “the Company” refers to BLME Holdings plc which is the ultimate parent company of the BLME Group and is listed on NASDAQ Dubai.

The expression “the Group” or “the BLME Group” refers to BLME Holdings plc and its subsidiaries.

The name of the principal subsidiary, Bank of London and The Middle East plc is shortened to “BLME”, “BLME plc” or “the Bank” in narrative text.

Chairman's statement

In the name of Allah, the Most Gracious, the Most Merciful

To the Shareholders of BLME Holdings plc

I am pleased to report on another year of substantial progress for the BLME Group. The Group has delivered a strong financial performance with an increase in Profit before Tax of 10.1% to £6.1 million in the 12 months to 31 December 2013. There was an increase in Operating Profit before Impairment Charges of 12.3% to £8.2 million and growth in Balance Sheet total assets across the Group of 19% which positions the Group well for the future.

The Group achieved two key milestones that formed an integral part of the original business plan: to open a representative office of the Bank in the Gulf region and to list the Group on a global exchange. The Dubai representative office was officially opened in 2013 and this was marked by a successful launch event. The office provides existing and target clients with valuable information about investment opportunities within the GCC and the UK. The listing on NASDAQ Dubai was a notable achievement and provides the BLME Group with both visibility and access to investors, and also represents a significant step toward realising our Shareholders' ambitions for the Group. The representative office and the listing have placed BLME at the heart of the growing Islamic finance industry in Dubai and the region.

The Board is committed to maintaining the highest standards of corporate governance and considers this a vital part of its ongoing responsibilities. The Board has embraced the additional regulatory and corporate governance requirements of a listed bank. As Chairman I have ensured that members of the Board have had access to the appropriate training and professional support.

I would like to express my gratitude for the support provided by our Sharia'a Supervisory Board. Without their invaluable knowledge and guidance BLME would not be able to maintain its position as the leading Islamic bank in Europe. I am also grateful to the senior management team and staff whose skills and expertise are vital to the success of the Bank.

It has been my privilege to serve as Chairman of the BLME Group for the past seven years, in which the Bank has developed and grown during a period of unprecedented market turbulence. I have seen BLME develop from a business plan on paper to the largest and most profitable Islamic bank in Europe. BLME has grown from the initial project team in Kuwait, to a UK authorised bank with over 100 staff located in the City and West-End of London and now with a representative office in Dubai. The Bank is well capitalised, has a balance sheet in excess of £1.2 billion and is growing in profitability. This growth and success has demonstrated the validity of the original business plan. The Bank has built a strong and diversified business base and has become the leading Islamic bank in Europe.

During my Chairmanship BLME received its banking licence from the UK Financial Services Authority ("FSA") in July 2007 and by February 2008 the Bank had successfully completed its second private placement bringing BLME's total capital base to £250 million. This solid capital base, the largest of any UK Islamic bank, has been the foundation of the success and consistent growth of the Bank.

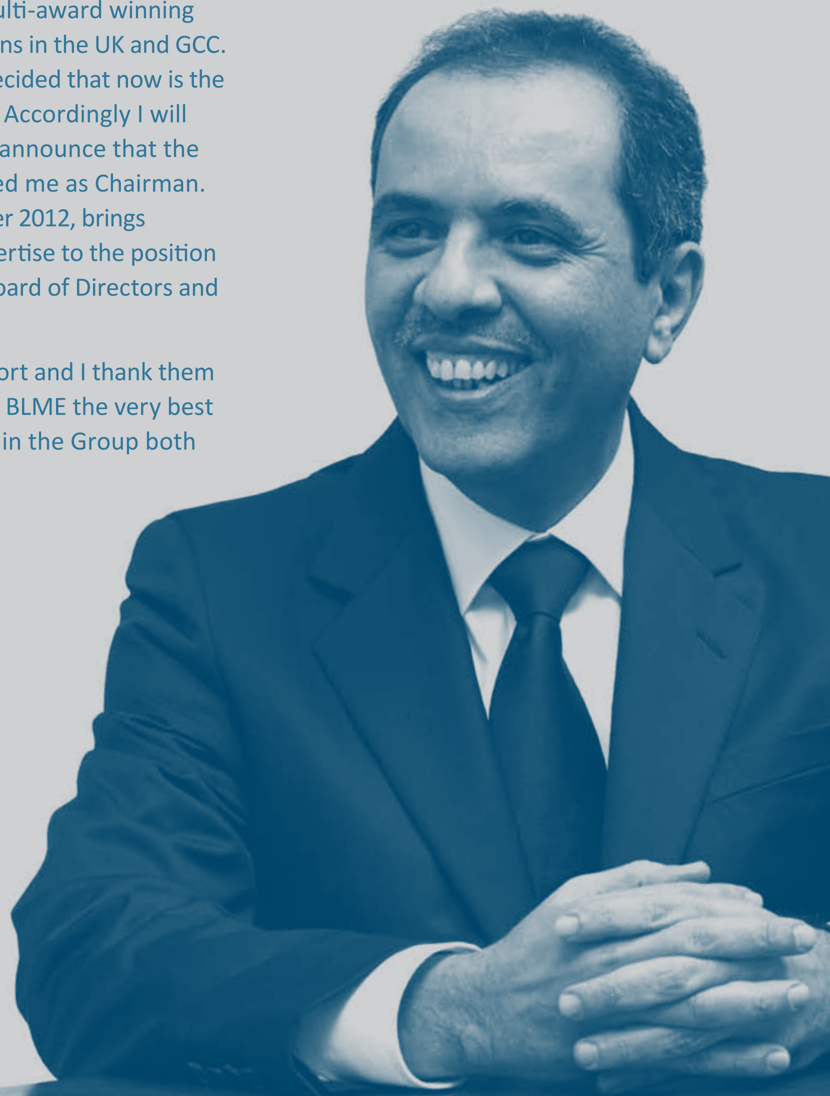
In 2009 the Bank opened a second office in the West-end of London providing a base for our Private Banking and Asset Management businesses. Private Banking has matured and now has an attractive suite of products centred on UK property. Asset Management has a competitive fixed income offering which includes the only Sharia'a compliant US dollar income fund that is A rated by Moody's.

In 2011 and 2012 BLME continued to expand its product offering with the launch of a Light Industrial Building Fund and the introduction of three new departments Islamic Capital Markets, ABL Finance and Acquisition Finance. These achievements have led to BLME offering the broadest range of products and services of any of the European Islamic banks.

During my Chairmanship I have seen BLME grow into a multi-award winning bank providing innovative and competitive financial solutions in the UK and GCC. As BLME enters the next stage of its development I have decided that now is the right time for me to step down as Chairman of the Board. Accordingly I will retire from the Board on 31 March 2014. I am pleased to announce that the Board has selected Adel Abdul Wahab Al Majed to succeed me as Chairman. Adel, who has been a member of the Board since December 2012, brings relevant business experience and senior management expertise to the position and will be well served by a supportive and experienced Board of Directors and an excellent management team.

I am grateful to our Shareholders for their consistent support and I thank them for their loyalty during my time as Chairman. Finally I wish BLME the very best for the future and will continue to take an active interest in the Group both as a founder and as a Shareholder.

Yacob Al-Muzaini
Chairman
27 February 2014



Chief Executive Officer's statement

2013 was an important year for both the BLME Group and the Islamic finance industry.

The Company listed on NASDAQ Dubai in October 2013 and this further enhances BLME's position as the market leading Islamic bank. In the UK, BLME has established itself as the leading Islamic bank and now services the corporate mid-market with a full range of banking products. The Bank's representative office in Dubai became operational and is already developing meaningful introductions to both institutional and private clients as evidenced by the Bank's appointment as Co-Lead Manager of the Islamic Development Bank ("IDB") Sukuk in June 2013.

Business summary and results

In the year to 31 December 2013 the Group reported an Operating Profit before Tax of £6.1 million. The Group has increased its Operating Profit before Impairment Charges by 12.3% in 2013. There was strong business growth in 2013 across the Bank's Corporate Banking and Wealth Management Divisions. This was reflected by the Group Balance Sheet total assets which grew by 19% in the period and allowed the BLME Group to meet the growth targets in the Group's strategy. I am encouraged that the Group's costs for the period have been contained despite one off set-up costs for the representative office and the professional fees incurred for the listing on NASDAQ Dubai, this was in addition to product development and necessary IT infrastructure costs that will underpin the Group's growth strategy.

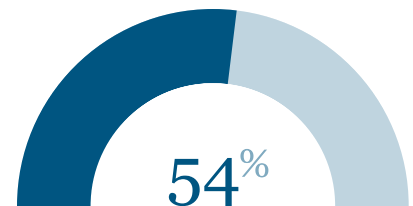
During the year there was a 6.8% increase in Total Operating Income from £52.5 million in 2012 to £56.0 million. The Balance Sheet total assets increased from £1.04 billion to £1.23 billion. The 13% growth in deposits over the period leaves the Bank well positioned to increase financing further and means that the Bank meets the more stringent regulatory liquidity ratios. BLME's capital adequacy ratio remains well in excess of current and impending Basel III standards. It is also pleasing to note that Net Fee Income increased by 54% to £2.7 million, demonstrating a more mature product offering, and increased earnings diversification, as well as helping to improve return on capital.

Credit situation

The Bank has minimised credit exposure to those countries most impacted by the economic crisis in the Eurozone and to the countries most affected by the political instability in the Middle East. During 2013 there was a single counterparty default where the majority of the obligation was recoverable, but which resulted in a write off of £1.9 million. Other than this there were no new provisions of any significance. Impaired loans, as a percentage of total loans and operating lease assets decreased from 5.1% to 4.0%.

£6.1m

Operating Profit before Tax for the Group



Increase in Net Fee Income.

Risk Management

In 2013 market participants had to contend with additional regulation which required increased levels of liquidity and changes to capital adequacy in preparation for the full implementation of Basel III. In this more onerous regulatory environment I welcome the progress made by BLME over the past year. The Bank continues to strengthen its Risk Management department and enhance the credit, market and operational risk management processes, procedures and infrastructure.

Due to the Bank's strong capital base, it is well positioned to deliver its growth strategy whilst continuing to meet the higher capital ratios required of banks leading to 2018. BLME is maintaining the diversity and maturity of its funding sources. As a result of this continuing initiative the Bank has seen a 13% increase in the number of depositors in 2013, mainly due to the continued success of the Bank's Premier Deposit Account.

Corporate Banking

In line with the growth plans for the Bank, Corporate Banking assets grew to £684 million for the period ending 31 December 2013. There was a significant increase in segment contribution to £13.9 million from £8.4 million in 2012. The Division's two core businesses, Leasing and Property Finance, both continued to grow and develop their product offering and are recognised by the market as key players in their respective sectors. The more recently established departments of Trade Finance, ABL Finance and Acquisition Finance are increasingly contributing to Corporate Banking's performance. It is particularly encouraging that Corporate Banking continues to grow its market share and is able to provide a full suite of products to a diverse range of companies within the UK mid-market.

Wealth Management

Wealth Management comprises Private Banking, Asset Management and Islamic Capital Markets. The Wealth Management Division saw asset growth of 7%. Private Banking's expertise is in providing advice and finance to customers seeking to acquire high-end UK residential property, in addition to introducing property investment opportunities. It continues to contribute to the growing client base and the Bank's Fee Income via the successful property sourcing service.

In Asset Management, the US$ Income Fund's performance since launch was ranked in the top percentile of a peer group of 735 funds by Lipper Hindsight, the Reuters fund ranking service. In 2013 the US$ Income Fund outperformed its benchmark. Like many of its peers the Global Sukuk Fund did not meet its benchmark due to volatility in the fixed income markets caused by the US Federal Reserve's announcement of the tapering of its quantitative easing programme. Now that the Dubai representative office is open and is providing better access to potential clients we expect to see significant growth in our assets under management during 2014.

The Islamic Capital Markets ("ICM") department performed well in 2013, participating in several high profile deals such as the award winning Yaas Sukuk. The ICM department develops and participates in innovative Islamic finance solutions such as the debut $70 million Al Bayan Group Holding Company syndicated Islamic finance facility. It also introduces GCC financial institutions to deals in the UK. ICM's position within Wealth Management has improved the department's access to the GCC market and has strengthened the Bank's product distribution in the GCC.

Treasury

2013 was a more challenging time for the Treasury Division, following a strong performance the previous year, because of volatile fixed income (Sukuk) markets, especially during the middle of the year. Treasury successfully diversified BLME's funding base with new depositors, in particular by attracting new customers to the BLME Premier Deposit Account. The total value of Premier Deposit Accounts has grown from £236 million to £270 million over the past 12 months. In addition, the number of depositors increased from 3,279 to 3,713 over the period. This increase in the term, value and number of depositors has strengthened BLME's ability to meet the regulatory demands for banks to establish longer term sources of funding.

Our staff and expertise

BLME has continued to gain recognition for its expertise in Islamic finance and its commitment to broader industry development. In 2013, for the sixth consecutive year, BLME was voted the Best Islamic Bank in the UK in a market poll conducted by Islamic Finance News. BLME was also awarded Best Islamic Asset Manager in Europe by Islamic Finance News and was named Best Islamic Bank in the UK in the annual Euromoney Islamic Finance Awards. These awards reflect the quality and dedication of the Bank's staff to providing a service and product offering that is competitive with the conventional market and is at the same time fully Sharia'a compliant. BLME has maintained its position as the largest Islamic bank in Europe, continues to broaden its product offering and to bring its distinctive range of financial solutions and investment products to clients in both the UK and the GCC.

In order to maintain the Bank's position as a leading provider of Islamic financial services we remain committed to investing in the skills and knowledge of our staff. BLME promotes the Islamic Finance Qualification, and ensures that staff have access to Chartered Institute for Securities and Investment training so that staff remain fully compliant with both Islamic banking principles and the rapid changes in UK and global banking regulation.

Islamic Finance Industry

2013 was a landmark year for the Islamic finance industry. HH Sheikh Mohammed bin Rashid Al Maktoum, Vice President and Prime Minister of the UAE and Ruler of Dubai, has committed to establishing Dubai as the economic capital of Islamic finance. In London the World Islamic Economic Forum was held outside a Muslim country for the first time. David Cameron, the British Prime Minister announced that a UK Sovereign Sukuk would be issued in 2014. BLME continues to work with HM Treasury and UK Trade and Investment ("UKTI") on the issuance of a UK Sukuk. Since the UK's announcement, Luxembourg has confirmed that it will issue a Sukuk in 2014 and Hong Kong intends to do the same. These government led Sukuk developments underpin the excellent progress made by the Islamic finance industry and demonstrate a maturing market which will give rise to extensive opportunities for BLME.

Outlook for the future

Overall, the Group is well positioned for the year ahead. I am confident that the BLME strategy, which was approved by the Board in December 2013, is appropriate for today's market conditions and will provide direction for our business operations. As the global economy recovers we expect to see an improvement in the overall performance of BLME. I am confident in the outlook for the current financial year and look forward to the future.

Finally I would like to thank Yacob Al Muzaini, our retiring Chairman for his dedicated service to the Bank and for his continued support and commitment to the BLME Group. The Chairman has been an invaluable source of guidance and expertise since the launch of BLME. On behalf of the Board and the staff of the Bank I would like to express our appreciation and thanks to him.

Humphrey Percy
Chief Executive Officer
27 February 2014

From

£236m

to

£270m

The value of BLME Premier Deposit Accounts has grown by 14% over the past 12 months

The Group has increased its Operating Profit before Impairment Charges by 12.3% in 2013

The Board and Executive Management

Yacob Yousef Al-Muzaini – *Chairman (Independent)*

Yacob is the Non-executive Chairman of the Board of the Company. He has more than 30 years of leadership experience in private and public sector financial institutions. Until 2008 he was the Chairman and Managing Director of Boubyan Bank K.S.C, thereafter he became the Managing Director of Hayat Invest Company, Kuwait. Yacob has also held several board memberships of national and international companies and investment funds.

Sheikh Abdullah Jaber Al-Ahmed Al-Sabah – *Vice Chairman*

Abdullah is the Non-executive Vice Chairman of the Board of the Company. He is the Deputy Director General for Investment at Kuwait's Public Institution for Social Security and Chairman of Housing Finance Company and Ahli United Bank of Kuwait. Previously he was Vice President at Wafra Investment Advisory Group in New York between 1991 – 1998, where he was involved with projects in direct equity, real estate and equity portfolios.

EXECUTIVE DIRECTORS

Humphrey Percy – *Chief Executive Officer*

Humphrey is Chief Executive Officer of the Company and joined BLME as Chief Executive Officer in August 2006. Humphrey has more than 30 years of international banking experience. In the course of his career he has worked at J. Henry Schroder Wagg, Barclays Merchant Bank (later Barclays de Zoete Wedd/BZW) and WestLB where he held positions including CEO, Managing Director, General Manager, and Head of Global Financial Markets. Humphrey is experienced in building new functions and product areas, and has managed a number of global businesses within Barclays and WestLB as well as founding his own business in 2002 where he remains Non-executive Chairman.

Richard Williams – *Chief Financial Officer*

Richard is Chief Financial Officer of the Company and joined BLME as Chief Financial Officer and Company Secretary in November 2006. Having qualified as a chartered accountant with KPMG in 1980, Richard's early career in investment banking was spent with Chase Manhattan, Credit Agricole and Bankers Trust. He then spent 10 years at Robert Fleming & Co setting up their Global Equities Derivatives business, including three years in Hong Kong with Jardine Fleming. Richard also has experience with start-up companies and in private equity with Legal & General Ventures.

Nigel Denison – *Director, Head of Wealth Management and Treasury*

Nigel is an Executive Director of the Company and joined BLME as Director and Head of Treasury in November 2006. In 2009 he established the Asset Management business and in 2011 assumed responsibility for the Private Banking unit creating a single Wealth Management Division. Before joining BLME he was Head of European Distribution for WestLB's Global Markets unit which included treasury, capital markets and emerging markets. Nigel began his career at Barclays Merchant Bank (later Barclays de Zoete Wedd/BZW), where he became Head of Trading for Barclays Swaps and Options European business, based in London. He then worked in New York where he ran the derivatives trading operations for Barclays.

NON–EXECUTIVE DIRECTORS

Neil Holden *(Independent)*

Neil is Chairman of the Remuneration Committee of the Company. He is a mathematician and chartered accountant with more than 25 years experience of international banking focusing on financial control, risk management and governance. His executive roles included Head of Corporate and Investment Banking Credit for Standard Bank Group, Head of Risk for Standard Bank Plc, and previously various senior roles at WestLB and Hambros Bank covering all risk, finance and operational disciplines. He is also a Non-executive Director of Stanbic International Insurance Limited and Integrated Financial Arrangements Plc.

Frank Vermeulen *(Independent)*

Frank is Chairman of the Audit Committee of the Company. He has a master's degree in Dutch law and has more than 20 years experience in finance. For most of this period Frank worked for ABN Bank NV in a variety of roles in different countries, including Head of Corporate Banking, Syndications & International for Saudi Hollandi Bank, Riyadh. In 1992 he joined Olayan Financing Company in Riyadh, where he worked until his retirement at the end of 2006. At Olayan he held the positions of Treasurer and Chief Financial Officer and various board positions in affiliated companies in the Middle East and Europe. He also acts as an advisor for Jarir Marketing Company, Riyadh, where he is a member of the audit committee, and is involved in risk management at Saudi Hollandi Bank.

Michael Williams *(Independent)*

Michael Williams is Chairman of the Risk Committee of the Company. He is a qualified banker with an extensive background in international finance. He has held a number of senior and board level positions in the UK and more recently in the Middle East. Michael currently is Chairman of a UK public limited company with interests in IT and recruitment and is Chairman of a Business Services Group in the United Arab Emirates. Prior to this he was Chief Executive Officer of the International Bank of Qatar in Doha before which he was the Chief Executive Officer of the National Bank of Fujairah in the UAE having previously been the Managing Director of Nomura Bank International Plc for 6 years. Michael started his career with Barclays Bank Group working for them for 25 years holding a number of senior positions including Managing Director of Barclays Global Services and Corporate Banking Director at Barclays Bank PLC.

Adel Abdul Wahab Al-Majed

Adel is a Non-executive member of the Board. He has over 30 years of experience in banking. He is currently Chief Executive Officer and Vice-Chairman of BLME's largest shareholder, Boubyan Bank K.S.C, having previously held the position of Chairman. From 1980 to 2009 Adel worked for National Bank of Kuwait where he held a number of positions including Deputy Chief Executive Officer and General Manager. Adel has played a key role in the development of the Kuwait banking sector including regulation, shared enterprises (Credit Bureau and K-Net Shared Switch) and Islamic Banking. He currently holds a board position with Visa APCEMEA – Senior Client Council and is Chairman of United Capital Bank.

Zeyad Al-Mukhaizeem

Zeyad is a Non-executive member of the Board. He is an investment banking leader with a background in financial services, investment management, real estate, and business restructuring / turnaround. Zeyad began his career with Kuwaiti Manager Company and has held investment banking and management positions with Kuwait Finance House and AREF Investment Group where he is currently the Executive Director of the International Investment Division. Zeyad holds numerous board positions and is currently Chairman of the Board and Executive Committee for Munshaat Real Estate Projects Company and a member of the Board and Executive Committee of Ibdar Bank B.S.C. along with board positions for real estate and private equity funds.

Group Strategic report

Strategic report and business review

2013 was a landmark year for the BLME Group having listed on NASDAQ Dubai in October 2013 and opened a representative office in Dubai. BLME is the largest Islamic bank in Europe and is the only bank that focuses on the UK corporate mid-market, offering a full suite of banking products.

In the year to 31 December 2013 the Group continued to build on its established Treasury and Corporate Banking businesses and develop its Wealth Management offering including Asset Management, Islamic Capital Markets and Private Banking.

The Group's core aim is to be the largest and most profitable wholly Islamic bank in Europe providing a broad range of financial services and delivering an acceptable return to shareholders. A key strategic goal of the BLME Group is to generate organic growth from the existing financing businesses whilst developing the Bank's fee generative businesses such as Asset Management. In addition the Group will consider short-term tactical opportunities to assist delivery of the strategy by accelerating growth in profits and return on equity.

The Directors consider pre-tax return on equity, net operating profit before taxation, Balance Sheet total assets, cost income ratio (after adjusting for operating lease depreciation) and net fee income as a proportion of operating profit before impairment charges to be the key performance indicators of the Group.

Key performance indicators	2013	2012
Pre-tax return on equity	2.5%	2.3%
Net operating profit before taxation	£6.1m	£5.5m
Balance Sheet total assets	£1.23bn	£1.04bn
Cost income ratio (adjusted for operating lease depreciation)	76.5%	76.4%
Net fee income / operating profit before impairment charges	33.5%	24.4%

In order to achieve these key performance indicators BLME will continue to grow its Corporate Banking businesses particularly the more recently established departments such as Acquisition Finance and ABL Finance. The Dubai representative office will introduce fee generative business opportunities to the Wealth Management division in addition to supporting the Treasury division.

The Group will continue prudently to employ our capital and maintain robust capital adequacy and liquidity ratios. BLME was compliant with the leverage ratio, which measures tier 1 capital to balance sheet exposures, at 31 December 2013 and has incorporated this measure in the capital planning process. The ratio will be reported to the Prudential Regulation Authority ("PRA") in 2014 and becomes effective in 2018.

A description of the principal risks and uncertainties facing the business is detailed in Note 37 and further information on strategy and business review is provided in the Chief Executive Officer's Statement on pages 10 to 12 and the Directors' Report on pages 21 to 26.

By order of the Board

Richard Williams
Company Secretary
27 February 2014

Consolidated Total Assets (£m)

£1,234m

The Balance Sheet increased by 19% from £1.039 billion to £1.234 billion

The 13% growth in deposits over the period leaves the bank well positioned to increase financing further and means that the Bank meets the more stringent regulatory liquidity ratios.

Directors' report

The Directors present their annual report and audited financial statements for the period ended 31 December 2013.

Principal activities

BLME Holdings plc ("the Company") was incorporated in the United Kingdom on 24 April 2013 and its principal activity is to act as a holding company for Bank of London and The Middle East plc ("the Bank" or "BLME"). The insertion of the Company as a holding company of the Bank was effected pursuant to a Scheme of Arrangement which is explained in more detail in the "Principal changes in the Group" section below.

BLME is an independent wholesale bank authorised by the UK's PRA and regulated by the Financial Conduct Authority (the "FCA") and the PRA. The Bank provides a range of Sharia'a compliant banking services to businesses and individuals with a strong focus on Europe and the Middle East. BLME has three strategic business divisions – Corporate Banking, Wealth Management and Treasury – offering competitive and innovative financial products and services.

Financial results and dividends

The financial statements for the reporting period ended 31 December 2013 are shown on pages 47 to 125. The consolidated Group profit for the year after taxation amounts to £4,314,726 (2012: £3,840,755). The unconsolidated profit of the Company for the period after taxation amounts to £Nil (2012: not applicable). The Directors do not recommend the payment of a dividend (2012: £Nil).

Principal changes in the Group

Scheme of Arrangement of Bank of London and The Middle East plc

As part of the preparation of the BLME Group for Admission to the Official List of Securities of Dubai Financial Services Authority ("DFSA") and Admission to Trading on NASDAQ Dubai ("Admission"), a corporate reorganisation was implemented by means of a Court-approved scheme of arrangement under sections 895 to 899 of the UK Companies Act. Pursuant to the Scheme of Arrangement, BLME's Shareholders exchanged their ordinary shares in BLME for a beneficial interest in the ordinary shares of the Company.

The effects of the implementation of the BLME Scheme of Arrangement were as follows:

i. instead of having its issued share capital owned by BLME's Shareholders, BLME is now a wholly-owned subsidiary of the Company
ii. instead of owning a given number of shares in BLME, each BLME Shareholder now beneficially owns approximately one Company share for every 25 BLME shares that it held prior to the BLME Scheme of Arrangement becoming effective
iii. the Company became the new holding company of the BLME Group

Pursuant to the BLME Scheme of Arrangement, the issued share capital of BLME was reduced by cancelling and extinguishing the ordinary shares of BLME in issue immediately prior to the BLME Scheme of Arrangement becoming effective (the "Scheme shares"), following which the credit arising in the books of BLME as a result of the cancellation was applied in paying up in full new ordinary shares of BLME, such that the aggregate nominal value of such new ordinary shares equalled the aggregate nominal value of the Scheme shares cancelled. BLME new ordinary shares were issued to the Company which, as a result, became the holding company of BLME and the BLME Group.

In consideration for the cancellation of the Scheme shares, the BLME Shareholders were entitled to a beneficial interest in one Company share for every 25 Scheme shares held. The principal purpose of the consolidation was to enable a price to be established for the Company's shares at Admission which the Directors considered to be at an appropriate level for effective and orderly market dealings in the Company's shares to commence on NASDAQ Dubai.

A meeting of the holders of BLME shares convened by an order of the Court pursuant to section 896 of the UK Companies Act was held on 10 June 2013 at which the BLME Scheme of Arrangement was approved by a majority in number, representing not less than 75 per cent. in value of Shareholders present and voting, either in person or by proxy.

A general meeting of the BLME Shareholders, to approve amongst other things:

i. the BLME Scheme of Arrangement
ii. the cancellation of the Scheme shares
iii. the application of the reserve arising as a result of the cancellation of the Scheme shares to paying up the new BLME shares and the allotment of the new BLME shares to the Company

was also held on 10 June 2013 and the above proposals were approved as special resolutions by not less than 75 per cent. in value of the votes cast.

The Court hearing at which the BLME Scheme of Arrangement was sanctioned was held on 2 October 2013 and the BLME Scheme of Arrangement became effective on this date.

Reduction of capital of the Company

In order to provide greater flexibility to facilitate the future payment of dividends if the financial position of the Company justifies the payment of a dividend, the Company completed a Reduction of Capital during 2013.

As a merger reserve in the books of the Company was created upon the BLME Scheme of Arrangement becoming effective on 2 October 2013, this merger reserve was capitalised through an allotment and issue of 175 million Deferred Shares of £1 each to BLME which were cancelled on 7 October 2013, thus creating a distributable reserve in the books of the Company equal to the nominal value of the Deferred Shares so cancelled.

The Court hearing confirming the Company Reduction of Capital was held on 7 October 2013 and the Company Reduction of Capital became effective on this date.

Risk

The Group has exposure to the following risk categories arising from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

A full description of how the Group manages these risks is provided in Note 37.

Directors and Directors' interests

Humphrey Percy, Richard Williams and Nigel Denison were appointed to the Board of the Company on 24 April 2013. The Non-executive Directors were appointed to the Board of the Company on 26 April 2013. The Directors of BLME are the same as the Directors of the Company. The position of all of the Company's independent Non-executive Directors complies with the DFSA Markets Rules provisions for independence.

The date of appointment to the Board of the Company and to the relevant Committee is set out below:

Name and Committee Chairmanships	Date of Appointment	Date of Resignation	Committee Memberships
Yacob Yousef Al-Muzaini (Independent) *Chairman of the Board* *Chairman of the Nominations Committee*	26 April 2013		Nominations
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah *Vice Chairman of the Board*	26 April 2013		Nominations Audit Remuneration Risk
Humphrey Percy	24 April 2013		Executive
Richard Williams	24 April 2013		Executive
Nigel Denison	24 April 2013		Executive
Neil Holden (Independent) *Chairman of the* *Remuneration Committee*	26 April 2013		Audit Risk Remuneration
Frank Vermeulen (Independent) *Chairman of the Audit Committee*	26 April 2013		Nominations Audit Risk
Ibrahim Al Qadhi	26 April 2013	6 June 2013	Audit
Michael Williams (Independent) *Chairman of the Risk Committee*	26 April 2013		Remuneration Risk
Adel Abdul Wahab Al-Majed	26 April 2013		Risk
Zeyad Al-Mukhaizeem	7 February 2014		

Ibrahim Al Qhadi stepped down from the Board on 6 June 2013 and the Board would like to take this opportunity to thank him for his contribution to the Bank over the last four years. The Board welcomes Zeyad Al-Mukhaizeem onto the Board.

All of the current directors will retire as directors at the Company's first Annual General Meeting. They may offer themselves for re-appointment at the first Annual General Meeting of the Company.

The Group provided all Directors with qualifying third party indemnity provisions during the financial year and at the date of this report.

The Directors who held office at 31 December 2013 had the following beneficial interests in the ordinary shares of the Company at the end of the year and in BLME at the start of the year.

Name	Class of share (BLME Holdings plc)	Number of shares held at the end of the year	Class of share (Bank of London and The Middle East plc)	Number of shares held at the start of the year
Yacob Yousef Al-Muzaini	Ordinary 25p	1,460,000	Ordinary 1p	36,500,000
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah	Ordinary 25p	80,000	Ordinary 1p	2,000,000
Humphrey Percy	Ordinary 25p	346,000	Ordinary 1p	8,650,000
Richard Williams	Ordinary 25p	140,000	Ordinary 1p	3,500,000
Nigel Denison	Ordinary 25p	200,000	Ordinary 1p	5,000,000
Neil Holden	Ordinary 25p	30,000	Ordinary 1p	750,000
Frank Vermeulen	Ordinary 25p	10,522	Ordinary 1p	263,051
Michael Williams	Ordinary 25p	Nil	Ordinary 1p	Nil
Adel Abdul Wahab Al-Majed	Ordinary 25p	Nil	Ordinary 1p	Nil

Chairman's other significant commitments

Director	Company	Appointment	Date of Appointment	Date of Resignation
Yacob Yousef Al-Muzaini	Hayat Invest	Vice Chairman and Managing Director	1 December 2008	
	Hayat Indian Equity Fund	Director	1 August 2009	
	Hayat Real Estate Investment Co (Saudi Limited Liability Co)	Manager, Managerial Board of the Company	1 March 2011	
Adel Abdul Wahab Al-Majed	Boubyan Bank K.S.C.	Chairman	5 March 2012	26 March 2013
		Chief Executive Officer and Vice Chairman	27 March 2013	

The Board considers that Yacob Yousef Al-Muzaini's other commitments, while Chairman of the Company, do not present a conflict of interest with the Group. The Board acknowledges that Adel Abdul Wahab Al-Majed's other commitments may give rise to conflicts of interest and have procedures in place to ensure that the Group is not disadvantaged. A Director shall not vote at a meeting of the Board or of a Committee of the Board on any resolution concerning a matter in which a direct or indirect interest is held.

The Directors complete annual conflicts of interest declarations and ensure the Board is informed of any change in circumstances throughout the year.

Sharia'a Supervisory Board members

The Sharia'a Supervisory Board members during the period were as follows:

- Sheikh Dr. Abdulaziz Al-Qassar (Chairman)
- Sheikh Dr. Esam Khalaf Al-Enezi
- Sheikh Dr. Mohammed Daud Bakar

Policy and practice on payment of creditors

The Group's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated.

Political and charitable contributions

The Group made no political contributions during the period (2012: £Nil). Charitable donations of £10,839 were made during the period (2012: £Nil).

Going concern

The Directors have reviewed the business activities and financial position of the Group and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future.

In making this assessment the Directors have considered a wide range of information about the current and future condition of the Group including the strategic direction, activities and risks that affect the financial position.

In particular the Directors have assessed the 2014 budget and future plans. For these reasons the financial statements have been prepared on a going concern basis.

Disclosure of information to auditors

The Directors who held office at the date of approval of this Directors' report confirm that so far as they are each aware there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Auditor

As KPMG Audit Plc has instigated an orderly wind down of its business, in accordance with Section 489 of the Companies Act 2006, a resolution for the appointment of KPMG LLP as auditor of the Company is to be proposed at the forthcoming Annual General Meeting.

By order of the Board

Richard Williams
Company Secretary
27 February 2014

> "BLME has grown from the initial project team in Kuwait, to a UK authorised bank with over 100 staff located in the City and West-End of London and now with a representative office in Dubai. The Bank is well capitalised, has a balance sheet in excess of £1.2 billion and is growing in profitability."

Yacob Al-Muzaini
Chairman

From

£52.5m

to £56m

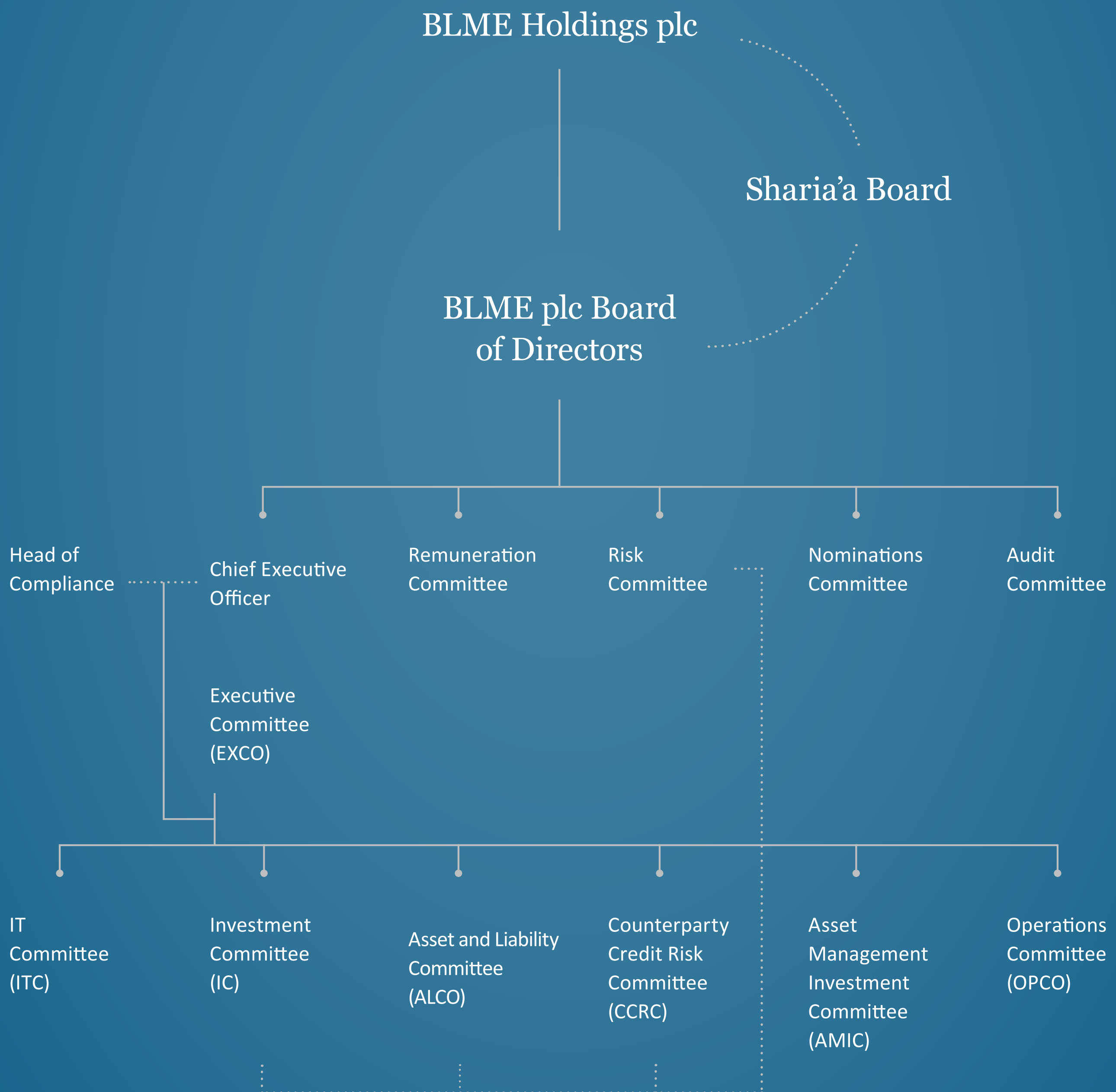
During the year there was a 6.8% increase in Total Operating Income from £52.5 million in 2012 to £56.0 million.

Corporate governance report

The Company complies with the Corporate Governance Principles as set out in section 3.2 of the DFSA Markets Rules. Since Admission, the Company has applied the Corporate Governance principles of the DFSA Markets Rules and has complied with its principles other than point 33 of the Markets Rules App4 Corporate Governance Best Practice Standards which requires the identification of a senior independent Director. The Nominations Committee is in the process of identifying a senior independent Director to the Board of the Company.

The Board considers that good corporate governance is central to achieving the Group's objectives. To this end, the Board has established a structured operating framework, which determines risk appetite in line with the Group's defined strategic objectives. This is achieved through a formalised process of risk and mitigating control identification and management. Board and executive committee structures have been implemented, together with clearly defined roles and responsibilities for both the individuals and the committees. These committees oversee the activities of the Group and help ensure controls are operating as designed. These structures, including individual department business plans ensure that appropriate financial and human resources are in place to deliver the Group's strategic objectives. Policies and behavioural standards have been established and reiterated to all staff through regular training programmes, including anti-money laundering and financial crime, the UK Bribery Act, conflicts of interest and treating customers fairly.

Board and Board Committees



The Board of Directors

The Board is responsible for the Group's system of corporate governance.

At 31 December 2013 the Board of Directors comprised three Executive Directors:

- **Humphrey Percy**
  Chief Executive Officer
- **Richard Williams**
  Chief Financial Officer
- **Nigel Denison**
  Director and Head of Wealth Management and Treasury

and seven Non-executive Directors, including the Non-executive Chairman:

- **Yacob Yousef Al-Muzaini**
  Non-executive Chairman
- **Sheikh Abdullah Jaber Al-Ahmed Al-Sabah**
  Vice Chairman of the Board
- **Neil Holden**
  Chairman of the Remuneration Committee
- **Frank Vermeulen**
  Chairman of the Audit Committee
- **Michael Williams**
  Chairman of the Risk Committee
- **Adel Abdul Wahab Al-Majed**
- **Zeyad Al-Mukhaizeem**

The appointment of Directors is considered by the Nominations Committee and ratified by the Board. Pursuant to the provisions of the Company's Articles of Association, any Director who has been appointed by the Board during the financial year, rather than at a general meeting of Shareholders, must stand for election by the Shareholders at the first annual general meeting following their appointment. As a result, all Directors in the Company then in office will stand for re-election at the upcoming Annual General Meeting. Following that Annual General Meeting the Directors must stand for re-election by the Shareholders at least every three years.

Non-executive Directors are appointed for three-year renewable terms, which may be terminated by giving three months' notice.

All the Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring compliance with Board procedures and applicable regulations. Independent professional advice is available to the Directors at BLME's expense where they judge it necessary to discharge their duties as Directors.

Board Meetings

The Board of Directors meets at least quarterly and has a defined agenda of matters reserved for its decision. The Board is responsible for the overall Group strategy, setting the risk

BOARD AND BOARD COMMITTEES (CONTINUED)

appetite, approval of major capital expenditure projects and consideration of major financing matters. The Directors discharge their duties within a framework of controls relating to the assessment and management of risk.

The matters specifically referred to the Board for decision include the approval of the annual report and financial statements, the payment of dividends, the long-term objectives of the Group, the strategies necessary to achieve these objectives, the Group's budgets and plans, significant credit exposures, significant capital expenditure items, significant investments and disposals, the organisational structure of the Group, the arrangements for ensuring that the Group manages risk effectively and any significant change in accounting policies or practices.

The Board of Directors met five times between incorporation on 24 April 2013 and 31 December 2013 in person or via telephone; each meeting was attended by all members.

Board Committees

The Board has delegated to the Committees of the Company the responsibility to review and make recommendations to the full Board.

The Board Committees operate within clearly defined terms of reference which can be found on the Group's website.

Board Audit Committee

The Audit Committee is chaired by Frank Vermeulen and comprises Sheikh Abdullah Jaber Al-Ahmed Al-Sabah and Neil Holden.

The Committee's main responsibility is to review any reports from management, the internal auditor, and the external auditor regarding the accounts and the internal control systems implemented throughout the Group, along with consideration of both interim and annual accounts. It also makes recommendations to the Board on the appointment of the auditors and their audit fee.

The Board considers that the members of the Audit Committee possess recent and relevant financial experience. The Audit Committee has unrestricted access to the Company's auditors. The external auditor, KPMG, provides non-audit services in addition to the provision of audit services. In the year ending 31 December 2013, non-audit services provided by KPMG comprised advice with regard to accounting for the BLME Scheme of Arrangement, taxation and other miscellaneous services. Further details regarding the fees paid to KPMG for these services is included in Note 13 on page 86.

The Audit Committee is responsible for reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process. The process through which the Committee assesses the auditor's independence and objectivity each year includes the following:

- a review of non-audit services provided to the Group and related fees
- discussion with the auditors of any relationships with the Group and any other parties that could affect independence or the perception of independence
- a review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including the regular rotation of the audit partner
- obtaining written confirmation from the auditors that, in their professional judgement, they are independent

The Audit Committee of the Company met once between incorporation on 24 April 2013 and 31 December 2013 and the meeting was attended by all members.

Board Risk Committee

The Risk Committee is chaired by Michael Williams and comprises Frank Vermeulen, Sheikh Abdullah Jaber Al-Ahmed Al-Sabah, Neil Holden and Adel Abdul Wahab Al-Majed.

It is responsible for taking decisions within delegated authority and for providing guidance, advice and recommendations to the Board on credit, market, liquidity, direct

investment, residual value and operational risks with a view to re-enforcing a culture that encourages good stewardship of risk. Within this mandate it reviews risk levels in consideration of the Group's overall risk appetite, market conditions and business strategy. It also overviews BLME's Internal Capital Adequacy Assessment Process ("ICAAP") and Individual Liquidity Adequacy Assessment ("ILAA") submissions to the PRA for financial impacts and to the FCA for conduct risks, and assesses the adequacy of stress testing, and risk policy and regulatory developments.

Ultimate responsibility for risk rests with the Board and the Risk Committee which, through the annual ICAAP, approve the risk appetite for each major class of risk at a macro level in line with BLME's business model and strategic priorities. The management of risk is delegated to the Executive Committee and, in particular, to the six committees of the Bank responsible for risk oversight (being ALCO, CCRC, ITC, IC, OPCO and AMIC).

The day to day independent oversight of risk is performed by the Bank's Risk Department. This process is supported by Finance Department's internal control role in monitoring adherence to risk limits, management action triggers, regulatory limits etc.

The Risk Committee of the Company did not meet between incorporation on 24 April 2013 and 31 December 2013; however the Risk Committee of the Bank met on ten occasions during the year.

Board Remuneration Committee

The Remuneration Committee is chaired by Neil Holden and comprises Sheikh Abdullah Jaber Al-Ahmed Al-Sabah and Michael Williams.

The Remuneration Committee ensures that staff, management and executive compensation is appropriately aligned to business and individual performance, and is consistent with Shareholder interests and is in compliance with the FCA's Remuneration Code. It performs these duties within a framework that takes account of prevailing market conditions, best market practice and regulatory compensation guidelines. The Remuneration Committee has appointed Kepler Associates as a professional advisor. Kepler Associates is independent and has no connection with BLME.

The Remuneration Committee of the Company did not meet between incorporation on 24 April 2013 and 31 December 2013; however the Remuneration Committee of the Bank met on six occasions during the year.

More information regarding the Group's Remuneration policy is included in the Remuneration Report on pages 40 to 41.

Board Nominations Committee

The Nominations Committee is chaired by Yacob Yousef Al-Muzaini and comprises Sheikh Abdullah Jaber Al-Ahmed Al-Sabah and Frank Vermeulen.

The Nominations Committee is responsible for matters relating to the composition of the Board, including the appointment of new Directors, and making recommendations to the Board as appropriate. The Committee is also responsible for overseeing the annual performance evaluation of the Board, its principal Committees and the Chairman.

The Nominations Committee identifies qualified candidates to be Directors, through a robust and prudent process, with the use of external consultants as necessary. All candidates must be approved by the PRA.

The Directors of the Company are the same as the Directors of BLME so neither an external consultancy nor an open advertising process was used in the appointment of any of the current Directors to the Board of the Company.

The Nominations Committee of the Company met once between incorporation on 24 April 2013 and 31 December 2013 and the meeting was attended by all members.

BOARD AND BOARD COMMITTEES (CONTINUED)

Chairman and Chief Executive

The roles of Chairman and executive management, led by the Chief Executive Officer, are separated and clearly defined:

a. The Non-executive Chairman, Yacob Yousef Al-Muzaini, is responsible for the leadership of the Board, ensuring effectiveness in all aspects of its role, reviewing the Board's agenda and conducting Board meetings, and ensuring effective communication with Shareholders and the conduct of Shareholders meetings.

b. Executive management is led by the Chief Executive Officer, Humphrey Percy, who has been delegated responsibility by the Board for the day-to-day management of the Group within the control and authority framework set by the Board. The Chief Financial Officer, Richard Williams, and Head of Wealth Management and Treasury, Nigel Denison, assist the Chief Executive Officer in managing the business.

c. The Company Secretary, Richard Williams, is responsible for ensuring good information flows within the Board and its Committees and between senior management and Non-executive Directors, as well as facilitating inductions and assisting with professional development of Board members as required. The Company Secretary ensures that Board procedures are fully complied with, and advises the Board, through the Chairman, in all governance matters. The Board has the responsibility of appointing and removing the Company Secretary.

Board balance

The Board includes a balance of Executive and Non-executive Directors such that no individual, or small group of individuals, can dominate the Board's decision taking. The size of the Board and balance of skills is considered appropriate for the requirements of the business. No one other than the Committee chairman and Committee members is entitled to be present at a meeting of the Audit, Nomination, Risk or Remuneration Committees, but others may attend at the invitation of each Committee.

During the period ended 31 December 2013, three of the Directors were Executive Directors; four were Non-executive Directors who were considered by the Company to be independent.

The Board believes that the Non-executive Directors who are classified as independent have retained their independent character and judgement. The Board periodically reviews the independence of its Non-executive Directors to assess whether their judgement could be impaired in any way which could affect the interests of the Company. The Board uses objective criteria to make this assessment, including:

- the length of term which the Non-executive Director has already served
- whether the Non-executive Director has any material business relationships which may conflict with the interests of the Company
- relationships with other Directors
- whether the Non-executive Director is a Shareholder
- the nature of the Non-executive remuneration, including any participation in employee incentive arrangements

Information and professional development

The Board is supplied in a timely manner with information in a form, and of a quality appropriate to enable it to discharge its duties. The Chief Financial Officer is responsible for ensuring the Directors receive accurate, timely and clear information, which is provided by operational management and enhanced or clarified where necessary.

Having commissioned an independent Board Effectiveness Review of the Bank during 2013 and implemented the recommendations of the review, the Group will conduct a Board Effectiveness Review of both the Company and the Bank in 2014.

Financial reporting

The Board is responsible for presenting a balanced and understandable assessment of the Group's position and prospects, extending to interim reports and returns to regulators, including statutory requirements.

Internal control

The Directors are responsible for reviewing the effectiveness of the Group's internal controls on an annual basis. There is an on-going process to identify, evaluate and manage risk, which has been in place throughout the period and is regularly reviewed by the Board.

The Group has in place systems and controls to ensure adherence with the disclosure requirements of the DFSA Markets Rules including mechanisms to monitor compliance with the requirements relating to Corporate Governance, Connected Persons, Restricted Persons, Related Party or Related Party Transactions and control of Inside Information. As the first line of defence management test the adequacy of the systems and controls that are in place. They are also periodically tested independently through the Compliance Monitoring Plan providing a second line of defence and by thorough reviews conducted by Internal Audit as the third line of defence. The findings of these reports and subsequent tracking of the remedial actions required are monitored by the appropriate internal committees and by the Audit Committee to ensure all open action points are closed and the adequacy of all systems and controls are maintained.

The system includes internal controls covering financial, operational and compliance areas and risk management. There are limitations to any system of internal control, which can only provide reasonable but not absolute assurance with respect to the preparation of financial information, the safeguarding of assets and the possibility of misstatement or loss.

Relations with Shareholders

The Directors place great importance on maintaining good communications with all investors. The Group reports formally to Shareholders twice a year with the publication of its interim and annual reports.

The Chairman maintains a strong relationship with the major Shareholders, and Shareholder activity is reported to the Board via the Chairman.

No steps are taken to prevent Shareholders consulting with other Shareholders on issues concerning their basic Shareholder rights and the Board works to protect minority Shareholders from any oppressive or abusive action by controlling Shareholders.

Investor Relations is a strategic management responsibility that integrates finance, communications, marketing and compliance to enable the most effective two-way communication between the Group and the investment community. It enables a full appreciation of the Group's business activities, strategy and prospects and allows the market to make an informed judgement about the fair value and appropriate ownership of the BLME Group. Investor Relations takes many forms, for example:

- Meetings with analysts
- Meetings with investors
- Handling investors' requests
- Official reporting
- Company press releases
- Annual and Interim reports
- Investor Relations section on the Bank's website (**http://www.blme.com/#/page/investor-relations**)

The BLME Group Investor Relations team members are:

- **Richard Williams**
  Chief Financial Officer
- **Waleed Al-Omar**
  Head of Investor Relations
- **Emma Harrold**
  Assistant Company Secretary
- **Michelle Arnold**
  Head of Marketing and Communications
- **Peter Bulkeley**
  Head of Finance, Wealth Management

BOARD AND BOARD COMMITTEES (CONTINUED)

Since the launch of BLME in July 2007, the Bank has developed a culture of active and open communication with its individual and institutional Shareholders via various channels such as written notifications, and face-to-face meetings.

The Company will hold an Annual General Meeting ("AGM") each year in addition to any other General Meetings held during the year. All Shareholders who are entitled to receive notice under the Articles of Association are given written notice at least 21 clear days prior to every AGM and at least 14 clear days for other General Meetings. All Shareholders are entitled to attend, speak and vote in person or via their appointed proxy holder(s). The Chairman of the Company and the respective Chairs of the Board Committees are in attendance at the General Meetings to address Shareholders' questions.

In 2013, prior to the listing on NASDAQ Dubai, BLME management met with and presented to several brokers in Dubai. BLME management continued to engage with the Bank's Shareholders to update them on the developments of the BLME Scheme of Arrangement and the NASDAQ Dubai listing which took place on 8 October 2013.

On 16 September 2013, BLME management held a press conference in Dubai to announce the Company's Intention to List ("ITL") on NASDAQ Dubai and to increase the awareness of the Group in the market. The ITL announcement received positive media coverage in the Gulf region and worldwide. During this visit BLME management also introduced the Bank and presented BLME's interim results to brokers and analysts at an event that was organised by NASDAQ Dubai at Dubai Financial Market. The session was also attended by the Company's Sponsor, Corporate Broker and Custodian.

On 23 September 2013, Deutsche Bank, as the appointed Registrar and Custodian, held a webinar for brokers to walk through the Group structure upon Admission to trading and pre and post listing operational processes. Representatives from BLME, NASDAQ Dubai and EFG-Hermes were also present during the webinar and available to answer questions.

The Group's Company Secretary, supported by the Head of Investor Relations continues to assist Shareholders in establishing trading accounts with their custodian or broker by moving their shares out of the "omnibus" account that the Company has set up at Deutsche Bank. The Group continues to engage with Shareholders, research analysts and the media to provide greater understanding of the Bank.

Sharia'a Supervisory Board report

In the name of Allah, the Most Gracious, the Most Merciful

To the Shareholders of BLME Holdings plc

Assalamu Alaikum wa Rahmat Allah wa Barakatuh.

The management of the BLME Group is responsible for ensuring that the Group conducts its business in accordance with the principles of the Sharia'a. It is the responsibility of the Sharia'a Supervisory Board to form an independent opinion, based on the review of the operations, agreements and transactions conducted by the BLME Group. It is the responsibility of management to implement the decisions of the Sharia'a Supervisory Board.

We, the Sharia'a Supervisory Board of BLME Holdings plc have reviewed and monitored the operations, agreements and transactions conducted by the Group during the period 1 January 2013 to 31 December 2013 and have reviewed the BLME Holdings plc Annual Report and Accounts for the year ended 31 December 2013. We conducted our reviews to form an opinion as to whether the BLME Group has complied with the principles of the Sharia'a and with specific fatwa rulings and guidelines issued by the Sharia'a Supervisory Board.

It is the Sharia'a Supervisory Board's opinion that:

1. The operations, agreements and transactions entered into and conducted by BLME Group during the year 1 January 2013 to 31 December 2013 and which were reviewed by the Sharia'a Supervisory Board are in compliance with the principles of the Sharia'a.
2. The distribution of profits and the sharing of losses in terms of the investment accounts at BLME are in compliance with the principles of the Sharia'a.
3. All income and profit generated by the BLME Group during the year 1 January 2013 to 31 December 2013 has been derived from Sharia'a compliant sources.

Moreover, the Group does not pay zakat on behalf of its Shareholders and it is the sole responsibility of the individual Shareholders to make their zakat payments.

We ask Allah to lead the management and staff of the BLME Group towards integrity, correctness and further success.

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

Signed on behalf of the Sharia'a Supervisory Board of BLME Holdings plc

Sheikh Dr. Abdulaziz Al-Qassar
27 February 2014

Remuneration report

Statement from the Chairman of the Board Remuneration Committee

Dear Shareholder,

As Chairman of the Board Remuneration Committee I am pleased to introduce the Remuneration Report for 2013 to provide information regarding the BLME Group's remuneration policy and decisions.

2013 was a landmark year for the Group reaching some key milestones such as the Company successfully listing on NASDAQ Dubai and the Bank opening our GCC representative office in Dubai. Business performance is analysed in detail in the Chairman's and Chief Executive Officer's statements on pages 8 to 12.

Remuneration Policy

Our performance over 2013 has only been possible by recruiting and retaining an experienced and skilled workforce. Our Remuneration Policy is designed to ensure that our staff are motivated and capable of supporting our business strategy. The policy is guided by the following principles:

- Remuneration is set at appropriate levels and is benchmarked against the external market place
- Remuneration is designed to ensure effective risk management, consistent with the Group's stated risk appetite
- Performance measures and robust targets are aligned with shareholder interests and linked to business strategy and objectives

Remuneration report

In order to set remuneration levels the Group assesses the extent to which targets have been met and performance achieved. Total remuneration includes salary, car allowance, annual discretionary bonus, pension contributions and long-term incentives. In line with the Group's Remuneration and Benefits Policy performance measures and targets are linked to business objectives.

These targets are robust and measured on a consistent and regular basis. Long-term incentives are designed with external expert advice and in keeping with relevant industry best practice. The Group does not apply a formulaic approach to remuneration on the grounds that this could encourage

REMUNERATION COMMITTEE MEMBERS

Neil Holden

Sheikh Abdullah Jaber Al Ahmed Al Sabah

Michael Williams

REMUNERATION COMMITTEE GUESTS

Kepler Associates (advisor)

Humphrey Percy

Richard Williams

2013 REMUNERATION COMMITTEE ACTIVITY

- Approval of updates to the regulatory Remuneration Policy Statement
- Annual review of staff salaries in conjunction with a salary benchmarking survey
- Review and approval of share schemes awards and performance assessment against targets for DABS and USOPs
- Review and approval of Executive Directors remuneration
- Approval of the bonus pool and discretionary bonuses for senior staff

inappropriate risk taking. The pay-out levels depend on the performance of the Group, the relevant business units and the individual and claw-back operates where appropriate.

A discretionary bonus forms part of the Group's remuneration package, a portion of the discretionary bonus is paid in cash during the first quarter following the year end. The remaining portion is formed of long-term incentive plans that align incentives with long-term objectives.

For senior executives and Code staff (employees who have been designated as Code staff in accordance with the PRA / FCA Combined Handbook) this portion of the annual discretionary bonus is generally deferred using a Deferred Annual Bonus Scheme ("DABS"). The Group also has an Approved Share Option Plan ("ASOP") and an Unapproved Share Option Plan ("USOP") with the latter generally limited to the Executive directors and senior management. Awards under the USOP are generally subject to forfeiture if performance conditions are not met.

During 2013 the Committee has striven to ensure that the Group's Remuneration and Benefits Policy is fair and transparent and that the remuneration framework supports our business strategy whilst discouraging inappropriate risk taking and appropriately rewarding staff. The Remuneration Committee does not plan to materially amend the Remuneration and Benefits Policy and the framework that is currently in place during 2014.

Neil Holden
Chairman, Board Remuneration Committee
27 February 2014

Additional information on the structure of our share-based payment schemes, including our Deferred Annual Bonus Scheme, and all awards made under these schemes is provided in the Share-based payments note on pages 87 to 92.

Net Fee Income increased by 54% to £2.7 million

demonstrating a more mature product offering, and increased earnings diversification, as well as helping to improve return on capital.

Statement of Directors' responsibilities

In respect of the annual report and financial statements

The Directors are responsible for preparing the Strategic report, the Directors' report and the Group and the Parent company financial statements, in accordance with applicable laws and regulations.

Company law requires the Directors to prepare the Group and the Parent company financial statements for each financial year. Under that law the Directors have elected to prepare both the Group and the Parent company financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and applicable Law.

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 Group and Parent company and of their profit or loss for that period.

In preparing each of the Group and Parent company's financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether they have been prepared in accordance with IFRS as adopted by the EU
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent company will continue in business

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Parent company's transactions and disclose with reasonable accuracy at any time the financial position of the Parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

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

Independent auditor's report

TO THE MEMBERS OF BLME HOLDINGS PLC

We have audited the financial statements of BLME Holdings plc for the year ended 31 December 2013 set out on pages 47 to 125. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the Parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 43, 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.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's web-site at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2013 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;

- the Parent company's financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches not visited by us; or
- the Group 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.

Paul Furneaux

Senior Statutory Auditor
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London 27 February 2014

13%

BLME has seen a 13% increase in the number of depositors in 2013

Consolidated income statement

For the year 1 January 2013 to 31 December 2013

Income	Note	2013	2012
		£	£
Income from financing and investing activities	6	43,208,042	30,779,337
Returns to financial institutions and customers	7	(20,933,149)	(13,637,879)
Net margin		**22,274,893**	**17,141,458**
Fee and commission income		3,204,510	2,007,364
Fee and commission expense		(464,109)	(229,940)
Net fee income		**2,740,401**	**1,777,424**
Net fair value (losses) / gains on investment securities	8	(552,442)	3,601,119
Net fair value gains / (losses) on investment properties	21	718,381	(1,049,455)
Operating lease income		26,869,782	27,250,053
Other operating income	9	3,962,947	3,746,636
Total operating income		**56,013,962**	**52,467,235**
Expenses			
Personnel expenses	11	(13,405,238)	(12,145,670)
Operating lease depreciation	25	(21,315,726)	(21,646,350)
Other depreciation and amortisation	24, 26	(273,903)	(383,660)
Other operating expenses	13	(12,466,172)	(10,174,384)
Change in third party interest in consolidated funds	35	(383,600)	(840,720)
Total operating expenses		**(47,844,639)**	**(45,190,784)**
Operating profit before impairment charges		**8,169,323**	**7,276,451**
Net impairment charge on financial assets	15	(2,099,538)	(1,761,293)
Net operating profit before tax		**6,069,785**	**5,515,158**
Tax expense	16	(1,755,059)	(1,674,403)
Profit for the year		**4,314,726**	**3,840,755**
Earnings per share		Pence	Pence
Basic earnings per share	17	2.23	1.97
Diluted earnings per share	17	2.22	1.96

All of the profit for the financial year and the prior year was derived from continuing activities.

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year 1 January 2013 to 31 December 2013

Income	2013	2012
	£	£
Profit for the year	**4,314,726**	**3,840,755**

Other comprehensive income

Items that may be reclassified subsequently to profit or loss if specific conditions are met:		
Foreign currency translation differences for foreign operations	(4,155)	10,932
Foreign currency translation differences for cash flow hedging reserve	98,719	252,175
Changes in fair value of cash flow hedges taken to equity	1,358,872	1,032,897
Change in fair value of available-for-sale financial assets taken to equity	(639,700)	(393,849)
Transfer from fair value reserve to income statement in respect of amortisation of reclassified financial assets	–	74,324
Income tax on other comprehensive income	(182,843)	(273,700)
Other comprehensive income for the year net of income tax	**630,893**	**702,779**
Total comprehensive profit for the year attributable to equity holders of the Parent company	**4,945,619**	**4,543,534**

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2013

Assets	*Note*	2013	2012
		£	£
Cash and balances with banks		65,649,884	159,600,938
Due from financial institutions	*19*	133,390,526	132,413,746
Investment securities	*20*	128,014,007	104,840,753
Financing arrangements	*22*	594,571,253	359,379,248
Finance lease receivables	*23*	199,156,031	151,925,014
Operating lease assets	*25*	77,002,129	84,930,433
Investment properties	*21*	24,340,000	27,816,788
Property and equipment	*24*	649,690	406,353
Intangible assets	*26*	1,265,924	734,532
Other assets	*27*	7,809,064	13,217,372
Deferred tax assets	*16*	1,864,783	3,693,000
Total assets		**1,233,713,291**	**1,038,958,177**

Liabilities			
Due to financial institutions	*28*	648,417,624	512,113,261
Due to customers	*29*	308,479,501	257,747,298
Profit rate swaps	*10*	1,972,903	5,308,045
Third party interest in consolidated funds	*35*	13,951,246	11,235,024
Other liabilities	*30*	18,109,128	12,905,427
Total liabilities		**990,930,402**	**799,309,055**

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of financial position *(continued)*

As at 31 December 2013

Equity	*Note*	2013	2012
		£	£
Share capital	*33*	48,983,423	48,983,423
Merger reserve	*34*	15,999,851	190,999,851
Other reserve		15,226,477	15,226,477
Fair value reserve		(524,046)	(49,624)
Cash flow hedging reserve		(2,121,576)	(3,231,046)
Share-based payment reserve		3,210,307	1,069,056
Foreign currency translation reserve		(65,980)	(61,825)
Retained earnings		162,074,433	(13,287,190)
Total equity attributable to equity holders of the Parent company		**242,782,889**	**239,649,122**
Total liabilities and equity		**1,233,713,291**	**1,038,958,177**

These financial statements were approved by the Board of Directors on 27 February 2014 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Chief Financial Officer

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Company statement of financial position

As at 31 December 2013

Assets	*Note*	2013	2012
		£	£
Cash and balances with banks		50,001	–
Investment in subsidiary	*20*	243,143,580	–
Total assets		**243,193,581**	**–**

Equity			
Share capital	*33*	48,983,423	–
Merger reserve	*34*	15,999,851	–
Share-based payment reserve		3,210,307	–
Retained earnings		175,000,000	–
Total equity attributable to equity holders of the Parent company		**243,193,581**	**–**
Total liabilities and equity		**243,193,581**	**–**

These financial statements were approved by the Board of Directors on 27 February 2014 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Chief Financial Officer

Company Registration Number: 08503102

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year 1 January 2013 to 31 December 2013

Cash flows from operating activities	2013	2012
	£	£
Operating profit before tax	6,069,785	5,515,158
Adjusted for:		
Exchange differences	271,992	6,984,323
Fair value (gains) / losses on investment properties	(718,381)	1,049,455
Fair value losses / (gains) on investment securities	1,328,100	(1,059,288)
Provision for impairment	2,099,538	1,844,621
Depreciation and amortisation	21,589,629	22,030,009
Loss on disposal of property and equipment	17,334	–
Share-based payment awards	152,763	135,627
Accretion of instruments held under financing arrangements	(19,791)	(80,926)
Mark to market movement in profit rate swaps	(822,579)	(284,946)
Amortisation of fair value reserve	–	74,324
	29,968,390	**36,208,357**

Net increase in operating assets:		
Due from financial institutions	(976,780)	(55,589,891)
Financing arrangements	(236,141,783)	(62,456,735)
Recovery of impaired assets	–	(83,328)
Finance lease receivables	(48,369,824)	(20,852,751)
Operating lease assets	(13,755,143)	(15,187,032)
Other assets	84,755	(5,279,800)
	(299,158,775)	**(159,449,537)**

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows *(continued)*

For the year 1 January 2013 to 31 December 2013

Net increase in operating liabilities:	2013	2012
	£	£
Due to financial institutions	136,156,416	11,851,169
Due to customers	50,297,390	206,698,151
Third party interest in consolidated funds	20,424	528,760
Other liabilities	14,132,511	1,244,063
	200,606,741	**220,322,143**
Corporation tax (paid) / received	(109,685)	499,219
Net cash (outflow) / inflow from operating activities	**(68,693,329)**	**97,580,182**

Cash flows from investing activities

Purchase of property and equipment	(409,282)	(187,200)
Proceeds of disposal of property and equipment	3,740	–
Purchase of intangible assets	(660,421)	(410,981)
Purchase of investment properties	(3,327,495)	(16,334,859)
Proceeds of disposal of investment property	7,807,718	–
Purchase of investment securities	(197,277,080)	(263,201,343)
Sale of investment securities	167,804,836	235,958,455
Net cash outflow from investing activities	**(26,057,984)**	**(44,175,928)**

Cash flows from financing activities

Expenses of BLME Scheme of Arrangement	(603,103)	–
Subscriptions to consolidated funds	5,014,468	11,051,378
Redemptions from consolidated funds	(2,595,612)	(912,105)
Net cash inflow from financing activities	**1,815,753**	**10,139,273**

Net change in cash and cash equivalents	**(92,935,560)**	**63,543,527**
Cash and cash equivalents at the beginning of the year	159,600,938	97,298,498
Exchange differences in respect of cash and cash equivalents	(1,015,494)	(1,241,087)
Cash and cash equivalents at the end of the year	**65,649,884**	**159,600,938**

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Company statement of cash flows

For the period 24 April 2013 to 31 December 2013

Cash flows from financing activities	2013	2012
	£	£
Proceeds from issue of share capital	50,001	–
Net cash inflow from financing activities	**50,001**	**–**
Net change in cash and cash equivalents	50,001	–
Cash and cash equivalents at the beginning of the period	–	–
Cash and cash equivalents at the end of the period	**50,001**	**–**

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013	Share capital £	Share premium account £	Merger reserve £	Other reserve £	Fair value reserve £	Cash flow hedging reserve £	Share-based payment reserve £	Retained earnings £	Foreign currency translation reserve £	Total £
Balance at 31 December 2012	48,983,423	—	190,999,851	15,226,477	(49,624)	(3,231,046)	1,069,056	(13,287,190)	(61,825)	239,649,122
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**4,314,726**	**—**	**4,314,726**
Other comprehensive income / (expense)										
Foreign currency translation	—	—	—	—	—	98,719	—	—	(4,155)	94,564
Changes in fair value of cash flow hedges	—	—	—	—	—	1,358,872	—	—	—	1,358,872
Recognition of tax asset on cash flow hedge reserve	—	—	—	—	—	(348,121)	—	—	—	(348,121)
Change in fair value of available-for-sale financial assets taken to equity	—	—	—	—	(639,700)	—	—	—	—	(639,700)
Tax on amortisation of reclassified financial assets	—	—	—	—	165,278	—	—	—	—	165,278
Total other comprehensive income	**—**	**—**	**—**	**—**	**(474,422)**	**1,109,470**	**—**	—	**(4,155)**	**630,893**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**(474,422)**	**1,109,470**	**—**	**4,314,726**	**(4,155)**	**4,945,619**
Contributions by and distributions to owners										
Issue of new deferred shares to BLME	175,000,000	—	(175,000,000)	—	—	—	—	—	—	—
Court-approved capital reduction under the Companies Act	(175,000,000)	—	—	—	—	—	—	175,000,000	—	—
Expenses of BLME Scheme of Arrangement	—	—	—	—	—	—	—	(603,103)	—	(603,103)
DABS scheme reclassified to equity-settled	—	—	—	—	—	—	1,988,488	—	—	1,988,488
Share-based payment awards	—	—	—	—	—	—	152,763	—	—	152,763
Purchase of own shares by EBT	—	—	—	—	—	—	—	(3,350,000)	—	(3,350,000)
Total transactions with owners	**—**	**—**	**(175,000,000)**	**—**	**—**	**—**	**2,141,251**	**171,046,897**	**—**	**(1,811,852)**
Balance at 31 December 2013	**48,983,423**	**—**	**15,999,851**	**15,226,477**	**(524,046)**	**(2,121,576)**	**3,210,307**	**162,074,433**	**(65,980)**	**242,782,889**

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity *(continued)*

For the years ended 31 December 2013 and 31 December 2012

Fair value reserve
includes the cumulative net change in fair value of available-for-sale investments until the investment is either derecognised or becomes impaired.

Cash flow hedging reserve
comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments.

Share-based payment reserve
represents the amortised portion of the fair value of equity instruments issued under the BLME share incentive schemes accounted for as equity-settled share-based payments.

Foreign currency translation reserve
comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

The **Merger reserve** and **Other reserve**
arose when the BLME Scheme of Arrangement took effect on 2 October 2013. More information regarding the impact of the BLME Scheme of Arrangement on the Group's capital structure is included in Notes 33 and 34.

Comparatives
The reported balances as at 31 December 2012 have been restated to reflect the retroactive adjustment for the BLME Scheme of Arrangement as if BLME Holdings plc had always been the ultimate controlling party of the BLME Group.

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2012	Share capital £	Share premium account £	Merger reserve £	Other reserve £	Fair value reserve £	Cash flow hedging reserve £	Share-based payment reserve £	Retained losses £	Foreign currency translation reserve £	Total £
Balance at 31 December 2011	48,933,422	206,226,328	—	—	213,567	(4,186,084)	4,403,930	(16,877,944)	(72,757)	238,640,462
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**3,840,755**	**—**	**3,840,755**
Other comprehensive income / (expense)										
Foreign currency translation	—	—	—	—	—	252,175	—	—	10,932	263,107
Changes in fair value of cash flow hedges	—	—	—	—	—	1,032,897	—	—	—	1,032,897
Recognition of tax asset on cash flow hedge reserve	—	—	—	—	—	(330,034)	—	—	—	(330,034)
Change in fair value of available-for-sale financial assets taken to equity	—	—	—	—	(393,849)	—	—	—	—	(393,849)
Transfer to income statement in respect of amortisation of reclassified financial assets	—	—	—	—	74,324	—	—	—	—	74,324
Tax on amortisation of reclassified financial assets	—	—	—	—	56,334	—	—	—	—	56,334
Total other comprehensive income	**—**	**—**	**—**	**—**	**(263,191)**	**955,038**	**—**	—	**10,932**	**702,779**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**(263,191)**	**955,038**	**—**	**3,840,755**	**10,932**	**4,543,534**
Contributions by and distributions to owners										
Share-based payment awards	—	—	—	—	—	—	135,627	—	—	135,627
Settlement of share-based payment awards	—	—	—	—	—	—	(2,288,333)	—	—	(2,288,333)
Transfer to other liabilities	—	—	—	—	—	—	(1,182,168)	—	—	(1,182,168)
Purchase of own shares by EBT	—	—	—	—	—	—	—	(200,000)	—	(200,000)
Total transactions with owners	**—**	**—**	**—**	**—**	**—**	**—**	**(3,334,874)**	**(200,000)**	**—**	**(3,534,874)**
Balance as reported at 31 December 2012	**48,933,422**	**206,226,328**	**—**	**—**	**(49,624)**	**(3,231,046)**	**1,069,056**	**(13,237,189)**	**(61,825)**	**239,649,122**
Impact of BLME Scheme of Arrangement on capital structure	50,001	(206,226,328)	190,999,851	15,226,477	—	—	—	(50,001)	—	—
Restated balance at 31 December 2012	**48,983,423**	—	**190,999,851**	**15,226,477**	**(49,624)**	**(3,231,046)**	**1,069,056**	**(13,287,190)**	**(61,825)**	**239,649,122**

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Company statement of changes in equity

For the period from 24 April 2013 to 31 December 2013

	Share capital £	Merger reserve £	Share-based payment reserve £	Retained earnings £	Total £
Balance on incorporation	—	—	—	—	—
Result for the period	—	—	—	—	—
Other comprehensive income / (expense)	—	—	—	—	—
Total comprehensive income for the period	**—**	**—**	**—**	**—**	**—**
Contributions by and distributions to owners					
Issue of redeemable preference shares to BLME	50,000	—	—	—	50,000
Issue of one A ordinary share to BLME	1	—	—	—	1
Ordinary shares issued to former BLME Shareholders under the BLME Scheme of Arrangement	48,933,422	—	—	—	48,933,422
Merger reserve arising from the BLME Scheme of Arrangement	—	190,999,851	—	—	190,999,851
Capitalisation of Merger reserve by issuing new deferred shares to BLME	175,000,000	(175,000,000)	—	—	—
Cancellation of deferred shares by a Court-approved capital reduction under the Companies Act	(175,000,000)	—	—	175,000,000	—
Liability for settling BLME share-based payment awards assumed by the Company	—	—	3,210,307	—	3,210,307
Total transactions with owners	**48,983,423**	**15,999,851**	**3,210,307**	**175,000,000**	**243,193,581**
Balance at 31 December 2013	**48,983,423**	**15,999,851**	**3,210,307**	**175,000,000**	**243,193,581**

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Company statement of changes in equity *(continued)*

For the period from 24 April 2013 to 31 December 2013

Merger reserve, capital reduction and retained earnings

The Merger reserve was created by the BLME Scheme of Arrangement which took effect on 2 October 2013 and represents the excess of the net asset value of BLME of £239,933,273 (see Note 20) over the £48,933,422 nominal value of the ordinary shares issued to the former shareholders of BLME (see Note 33).

£175,000,000 of this Merger reserve was capitalised through an allotment and issue of 175 million Deferred Shares of £1 each to BLME on 2 October 2013. These deferred shares were subsequently cancelled on 7 October 2013, thus creating a distributable reserve in the books of the Company equal to the nominal value of the Deferred Shares so cancelled.

Share-based payment reserve

The share-based payment reserve represented the amortised portion of the fair value of equity instruments issued under the BLME share incentive schemes and accounted for as equity-settled share-based payments. Pursuant to the BLME Scheme of Arrangement which took effect on 2 October 2013, the obligations under all of the BLME share incentive schemes were assumed by the Company for Nil consideration. This assumption of liability has been treated as an injection of equity and is recognised as a capital contribution in the accounts of BLME.

The notes on pages 62 to 125 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

BLME
BANK ON OUR PRINCIPLES

Notes to the consolidated financial statements

Reporting entity

BLME Holdings plc ("the Company") is a company domiciled in the United Kingdom. The address of the Company's registered office is Sherborne House, 119 Cannon Street, London, EC4N 5AT. The Company's principal activity is to act as a holding company for Bank of London and The Middle East plc ("the Bank" or "BLME"), which is a wholly Sharia'a compliant wholesale bank involved in investment, corporate banking, private client banking and asset management. The consolidated financial statements of the Group for the year ended 31 December 2013 comprise BLME Holdings plc and its subsidiaries (together referenced as "the Group").

The Company was inserted as a holding company of the Bank during 2013 pursuant to a Scheme of Arrangement, which is explained in more detail in the Directors' Report and in Note 33. No business combination has occurred under IFRS 3 because the Company was established to affect a restructuring of the Bank and no independent parties were involved. Therefore acquisition accounting using fair value is not mandatory and these consolidated financial statements represent a continuation of the consolidated financial statements of the Bank.

The following terms are used in the financial statements:

Murabaha

A Murabaha contract is a deferred sale of goods at cost plus an agreed profit mark-up under which one party purchases goods from a supplier and sells the goods to another party at cost price plus an agreed mark-up. The delivery of the goods is immediate, payment is deferred. Murabaha has a variety of applications and is often used as a financing arrangement, for instance for working capital and trade finance.

Commodity Murabaha

A Commodity Murabaha contract (a subset of Murabaha) is often used as a liquidity management tool by financial institutions. The Commodity Murabaha is today the mainstay of the Islamic interbank short term liquidity market. In these transactions the commodity, usually a London Metal Exchange base metal, is sold on a deferred basis with a mark-up. The mark-up is close to conventional money market levels.

Wakala

Wakala means agency and is often used in an arrangement where one party (the principal) places funds with another (the agent). The agent invests funds on the behalf of the principal for an agreed fee or profit share.

Ijara

An Ijara is a contract allowing the granting of the right to use an asset by one party to another which equates to the leasing of an asset in return for rental payments. Ijara is typically used for medium to long term financing of real estate, equipment, machinery, vehicles, vessels or aircraft.

Mudaraba

A Mudaraba is a partnership contract in which a capital owner (Rab al Mal) enters into a contract with a partner (Mudarib) to undertake a specific business or project. The Mudarib provides the labour or expertise to undertake a business or activity. Profits are shared on a pre-agreed ratio but losses are borne by the Rab al Mal unless negligence of the Mudarib is demonstrated.

Musharaka

An agreement under which the Islamic bank provides funds which are mingled with the funds of the business enterprise and others. All providers of capital are entitled to participate in the management but not necessarily required to do so. The profit is distributed among the partners in predetermined ratios, while the loss is borne by each partner in proportion to his/her contribution.

Sukuk

Sukuk (usually referred to as Islamic bonds) are certificates that reflect ownership in an underlying asset. Profits are calculated according to the performance of the underlying asset or project. Sukuk are usually issued by Special Purpose Vehicles ("SPV") which are set up to acquire and to issue financial claims on the assets. Such financial claims represent a proportionate beneficial ownership for a defined period when the risk and the return associated with cash-flows generated by the underlying asset are passed to the Sukuk holders. Sukuk are commonly used as funding and investment tools.

Istisna

An Istisna contract is usually used for construction finance. The asset is not in existence at the start of the contract and is built or manufactured according to detailed specifications defined by the client, and delivered at the agreed date and price. Payment is deferred. Istisna contracts are commonly applied in project finance, construction finance and pre-export finance where the bank acts as an intermediary between the producer and the ultimate client.

Profit rate swaps

A profit rate swap is a contract between two parties where each counterparty agrees to pay either a fixed or floating rate denominated in a particular currency to the other counterparty. The fixed or floating rate is multiplied by a notional amount.

Participation agreement

A participation agreement is an agreement executed between the relevant SPV and the Bank. The main objective of this agreement is to facilitate the required funding to enable the SPV to acquire leased assets or investment property and to convey the beneficial ownership of the leased equipment or investment property to the Bank. Under this agreement the risks and rewards are transferred to the Bank and the SPV is indemnified against actual losses that arise as a result of any lease or investment property transaction it enters into except in cases where it misappropriates any funds.

1. Basis of preparation

a. Presentation of financial statements

The Group and Company have prepared their financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and effective for the Group's reporting for the year ended 31 December 2013. IFRS comprise accounting standards issued by the International Accounting Standards Board ("IASB") and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC") and its predecessor body.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In October 2008, the IASB issued amendments to IAS 39 Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures titled 'Reclassification of Financial Assets'. The amendments to IAS 39 permitted (1) certain reclassifications of non-derivative financial assets (other than those designated under the fair value option) out of financial assets held for trading and (2) also allowed the reclassification of financial assets from the available-for-sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduced additional disclosure requirements if an entity reclassified financial assets in accordance with the amendments to IAS 39.

BLME identified assets, eligible under the amendments, for which at 1 July 2008 it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. In these instances, BLME believes the intrinsic value of the assets exceeds their estimated fair value, which had been significantly adversely impacted by the reduced liquidity in the financial markets; the returns on these assets will be optimised by holding them for the foreseeable future rather than through exit in the short term. The reclassifications align more closely the accounting treatment with the business intent.

Under the terms of the amendments, the reclassifications were made with effect from 1 July 2008 at fair value on that date. All reclassifications were to the IAS 39 category loans and receivables.

The impact of the reclassifications in the year ended 31 December 2013 on operating profit before impairment charges and taxes was £Nil (2012: increase of £142,295). For further information, please refer to Note 4.

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statements of income and other comprehensive income.

The Group has also applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7) issued in March 2009 which requires enhanced disclosure about fair value measurements and liquidity risk in financial instruments. The amendments require that fair value measurement disclosures use a three level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately together with changes in valuation techniques from one period to another. The definition of liquidity risk has been amended and is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3 and Note 37.

b. New standards and interpretations adopted

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013, with no material impact on the Group's measurement or disclosures:

- IFRS 10 Consolidated Financial Statements (2011)*
- IFRS 13 Fair Value Measurement
- Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)
- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)

* The Group has used the '2011' label to clarify the version of IFRS 10 that has been adopted. It has not early adopted Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27) (October 2012).

i. IFRS 10 Consolidated Financial Statements

As a result of IFRS 10 (2011), the Group has changed its accounting policy for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect those returns.

In accordance with the transitional provisions of IFRS 10 (2011), the Group reassessed its control conclusions as of 1 January 2013. As a consequence, the Group has not changed its consolidation conclusions for the other entities disclosed in Note 35 which continue to be consolidated. Accordingly the change did not have a material impact on the Group's financial statements.

ii. IFRS 13 Fair Value Measurement

IFRS 13 defines fair value and describes in a single standard a framework for measuring fair value where its use is already required or permitted by other standards. IFRS 13 also requires enhanced fair value disclosures. The adoption of IFRS 13 had no material impact on the measurement of the Group's assets and liabilities.

iii. Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)

The amendments to IFRS 7 require expanded disclosures about offsetting financial assets and financial liabilities. There were no such items requiring disclosure and accordingly the amendments to IFRS 7 did not have a material impact on the Group's financial statements (see Note 37 (a) (vii)).

iv. Presentation of items of Other Comprehensive Income

As a result of the amendments to IAS 1, the Group has modified the presentation of items of Other Comprehensive Income ("OCI") in its statement of OCI, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

c. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2013, and have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The amendments to IFRS 9 have not been endorsed by the EU and are not available for early adoption. The Group does not plan to adopt any of these standards early, where adopted by the EU and permitted.

i. IFRS 9 (amended) Financial Instruments

IFRS 9 will replace the existing standard on the recognition and measurement of financial instruments and requires all financial assets to be classified and measured on the basis of the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for general hedge accounting. Macro hedging is not included in the IFRS 9 project and will be considered separately. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets.

The mandatory effective date for IFRS 9 is not specified but will be determined when the outstanding phases are finalised. The IASB has tentatively decided that the effective date is 1 January 2018. The Group has started the process of evaluating this standard but is awaiting finalisation of the limited amendments before the evaluation can be completed. The Group does not plan to adopt this standard early.

ii. Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)

The amendments to IAS 32 clarify the offsetting criteria in IAS 32 by explaining when an entity currently has a legally enforceable right to set-off and when gross settlement is equivalent to net settlement. The amendments are effective for annual periods beginning on or after 1 January 2014 and interim periods within those annual periods. Early application is permitted. The Group is still evaluating the potential effect of the adoption of the amendments to IAS 32.

iii. IFRIC 21 Levies

IFRIC 21 defines a levy as an outflow from an entity imposed by a government in accordance with legislation. It confirms that an entity recognises a liability for a levy when – and only when – the triggering event specified in the legislation occurs. IFRIC 21 is not expected to have a material effect on the Group's financial statements.

d. Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company or its subsidiaries have the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control commences until the date control ceases (see Note 35).

ii. Special Purpose Vehicles ("SPV")

An SPV is an entity that is created to accomplish narrow and well-defined objectives such as the execution of a specific financing transaction. The assets and liabilities of SPVs are included in the Group's consolidated financial statements where the substance of the relationship is that the Group controls the SPV (see Note 35).

iii. Employee Benefit Trust ("EBT")

An EBT acts as an agent for the purpose of the employee share-based compensation plans. Accordingly, the EBT is included within the Group's consolidated financial statements.

e. Consolidation of foreign entities

All assets and liabilities of foreign consolidated companies and other entities with a functional currency other than Sterling are translated using the exchange rates in effect at the balance sheet date.

Income and expenses are translated at the average exchange rate for the period. Translation differences arising from the application of this method are classified in equity until the disposal of the investment. Average rates of exchange are used to translate the cash flows of foreign subsidiaries in preparing the consolidated statement of cash flows.

f. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investment property and financial instruments, specifically investment securities and profit rate swaps, which are stated at their fair value. Financial instruments are recognised on a trade date basis.

g. Functional and presentation currency

The financial statements are presented in Sterling, which is also the Company's functional currency. Supplementary information has been provided in Notes 10, 15, 21, 31, 36 and 37 to enhance the understanding of the reader. The method of translation is explained in the foreign currency note.

2. Significant accounting policies

a. Foreign currency

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Foreign currency differences arising on translation are recognised in the income statement.

Non-monetary assets and liabilities, which are measured at historical cost, are translated into the functional currency at the effective historical rate used on the date of initial recognition. Foreign exchange for non-monetary items measured at fair value is determined at the spot rate at the time the fair value is determined. The associated foreign exchange differences for non-monetary assets and liabilities go to the same place that the gains and losses are booked to, i.e. equity or profit and loss.

b. Revenue recognition

i. Murabaha, Wakala, Mudaraba, Sukuk, Ijara, Istisna and Participation Agreement income and expense

Profits and costs are recognised in the income statement throughout the period of the contract using the 'effective profit share' basis. The 'effective profit share rate' is the rate that exactly discounts the estimated future cash payments and receipts through the agreed payment term of the contract to the carrying amount of the financial asset or liability.

The Group has a portfolio of Sukuk which has been classified as loans and receivables since 1 July 2008. The Group also has an available-for-sale Sukuk portfolio. Sukuk reported by the Group as a result of the consolidation of the BLME Sharia'a Umbrella Fund SICAV-SIF have been classified under the fair value option as investment securities at 'fair value through profit and loss'. Any fair value gain or loss is accounted for in the consolidated income statement in the line 'net fair value gains/(losses) on investment securities'. In addition the Group has a small portfolio of Sukuk in a trading book which is also marked to market under the fair value option and accounted for as 'fair value through profit and loss'.

ii. Fees and commission

Fees and commission which are not recognised on an effective yield basis over the life of the financial instruments to which they relate, such as fees for negotiating transactions for third parties, underwriting fees and commission, and non-discretionary asset management fees are recognised in revenue when it is probable that the economic benefit will flow to the Group. This will normally be at the point when the activity to which the fees and commission relate has been completed.

c. Financial assets and financial liabilities

The Group classifies its financial assets in the following categories: 'due from financial institutions'; 'financing arrangements'; and 'investment securities'. Investment securities can be either financial assets at fair value through profit and loss or available-for-sale financial assets. Management determines the classification of financial assets and liabilities at initial recognition.

Financial assets are designated upon initial recognition as fair value through profit and loss, if the financial asset is managed and its performance evaluation is on a fair value basis.

i. Due from financial institutions and financing arrangements

Due from financial institutions and financing arrangements are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available-for-sale. These assets are initially recognised at fair value including direct and incremental transaction costs. These are subsequently measured at amortised cost using the effective profit share basis and any impairment losses are deducted. They are derecognised when the rights to receive cash flows have expired or the Group has transferred all the risks and rewards of ownership.

ii. Investment securities

- Financial instruments at fair value through profit or loss

  Financial assets are classified in this category if they are held for trading, or if they are designated by management under the fair value option. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy.

  Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

- Available-for-sale

  Available-for-sale assets are either debt or equity non-derivative financial assets that are designated as available-for-sale ("AFS") and are not classified into the categories described above. The assets are intended to be held for an indefinite period of time, but may be sold in response to liquidity requirements or changes in profit rates, exchange rates or equity prices. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in the fair value of AFS financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly within a separate component of equity, until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised within equity is transferred to the income statement. For debt instruments, income is determined using the effective profit share rate and recognised in the income statement. Dividends on equity instruments are recognised in the income statement when the Group's right to receive payment is established. The instruments are derecognised when the rights to receive cash flows have expired or the Group has transferred substantially all the risks and rewards of ownership.

iii. Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

iv. Derecognition of financial assets

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or where the Group has transferred its contractual right to receive the cash flows of the financial assets and either:

- substantially all the risks and rewards of ownership have been transferred; or
- substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

Financial liabilities are derecognised when they are extinguished, i.e. when the obligation is discharged or cancelled or expires.

v. Impairment of financial assets

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. A financial asset or a portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or portfolio of financial assets that can be reliably estimated.

Objective evidence that a financial asset or portfolio of financial assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

i. significant financial difficulty of the issuer or obligor
ii. a breach of contract, such as default or delinquency in profit or principal payments
iii. the Group granting to the client, for economic or legal reasons relating to the client's financial difficulty, a concession that the financier would not otherwise consider
iv. it becoming probable that the client will enter bankruptcy or other financial reorganisation
v. the disappearance of an active market for that financial asset because of financial difficulties
vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
   – adverse changes in the payment status of clients in the portfolio; or
   – national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a portfolio of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

- Assets carried at amortised cost

  If there is objective evidence that an impairment loss on loans and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

  The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

- Available-for-sale assets

  The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. In the case of equity investments classified as available-for-sale ("AFS"), a significant or prolonged decline, typically nine months, in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS equity instruments, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that equity instrument previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

  In the case of AFS debt instruments, impairment is assessed against the impairment indicators discussed in detail above. If there is objective evidence that an impairment loss has occurred, the cumulative loss, measured as the difference between the asset's amortised cost and current fair value, less any impairment loss on the debt instrument previously recognised in the income statement, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and

the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

vi. Financial liabilities

Financial liabilities include funds received from financial institutions and customers. These are initially measured at fair value less the transaction costs that are directly attributable to the acquisition of the financial liability. All financial liabilities are subsequently measured at amortised cost using the effective profit share rate payable to the deposit holders. Financial liabilities are derecognised only when the obligations specified in the contract are discharged, cancelled or expired.

vii. Determining fair value

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities and short positions at an ask price. Where no active market exists for the particular asset or liability, the Group uses another valuation technique to arrive at the fair value, including the use of prices obtained in recent arms-length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants (see Note 3b).

viii. Derivatives and hedge accounting

Derivatives are recognised initially, and are subsequently re-measured, at fair value. Fair values of over-the-counter derivatives ("profit rate swaps") are obtained using valuation techniques, including discounted cash flow models.

Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. Derivative assets and liabilities arising from different transactions are only offset if the transactions are with the same counterparty, a legal right of offset exists and the parties intend to settle the cash flows on a net basis.

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments and, if the latter, the nature of the risks being hedged. When derivatives are designated as hedges, BLME classifies them as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ("fair value hedges"); or (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ("cash flow hedges"). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value hedge or cash flow hedge provided certain criteria are met.

- Hedge accounting

  At the inception of a hedging transaction, the Group documents the relationship between the hedging instruments and the hedged items, as well as its risk management objective and its strategy for undertaking the hedge. The Group policy also requires a documented assessment, both at the hedge inception and on an on-going basis, of whether or not the hedging instruments, primarily profit rate swaps, that are used in hedging transactions are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items. Ineffective changes in profit share on designated qualifying hedges are included in 'Other operating income / expenses' as applicable.

- Fair value hedge

  Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged assets, liabilities or group thereof that are attributable to the hedged risk.

  If the hedging relationship no longer meets the criteria for hedge accounting, the cumulative adjustment to the carrying amount of a hedged item for which the effective yield method is used, is amortised to the income statement over the residual period to maturity.

- Cash flow hedge

  The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity within the cash flow hedging reserve. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement under 'Other operating income / expenses' as applicable.

  Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

- Hedge effectiveness testing

  To qualify for hedge accounting, IAS 39 requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective ("prospective effectiveness"), and demonstrate actual effectiveness ("retrospective effectiveness") on an on-going basis. The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed.

  For prospective effectiveness, the hedging instrument must be expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For actual effectiveness to be achieved, the changes in fair value or cash flows must offset each other in the range of 80 per cent to 125 per cent, for the hedge to be deemed effective.

- Sharia'a compliant derivatives (hereafter described as profit rate swaps, "PRSs") that do not qualify for hedge accounting

  All gains and losses from changes in the fair values of PRSs that do not qualify for hedge accounting are recognised immediately in the income statement. These gains and losses are reported in 'Other operating income / expenses' as applicable.

d. Collateral and netting

The Group enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

- Collateral

  The Group obtains collateral in respect of customer advances where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future advances.

- Netting

  Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise and settle an asset and a liability simultaneously.

e. Investment property

Properties held for long term rental yields not occupied by the Group are classified as investment property. This category includes investment properties reported by the Group as a result of the consolidation of the BLME Sharia'a Umbrella Fund SICAV-SIF. More detail is provided in Note 21 and Note 35.

The Group has elected to adopt the fair value model under IAS 40; as such investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are conducted annually by independent external professionally qualified valuation agents.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. Changes in fair value are recorded in the income statement within 'Net fair value gains / (losses) on investment property'.

f. Property and equipment

i. Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

ii. Depreciation

Depreciation is recognised in the income statement on a straight line basis over the estimated useful life of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

- Computer equipment, software and licences – 3 years
- Fixtures and fittings – 4 years
- Office equipment – 3 years
- Motor vehicles – 4 years
- Leasehold improvements - 4 years or over the life of the lease, whichever is shorter

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

g. Intangible assets

Intangible assets consist of computer licences and software development costs. Intangible assets acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure on software assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Amortisation is recognised in the income statement on a straight line basis over the estimated useful life of the software and computer licences, from the date that they are available for use. The estimated useful life of software and computer licences is three years.

h. Impairment of property and equipment and intangible assets

At each balance sheet date, or more frequently where events or changes in circumstances dictate, property, equipment and intangible assets are assessed for indications of impairment. If indications are present, these assets are subject to an impairment review. An impairment loss is recognised if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognised in the income statement.

The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, which is taken as the higher of value in use or fair value less cost to sell. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets

continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

i. Other assets

Other assets include prepayments associated with legal fees incurred in the set-up of trades and amounts owed by HM Revenue and Customs ("HMRC") in respect of Value Added Tax ("VAT").

Additionally, within other assets are returned leased assets which are stated at the lower of cost and net realisable value. When returned leased assets are not readily convertible into cash, the policy is to dispose of such assets at auction. Net realisable value is the estimated selling price observed at recent auctions less any applicable costs.

j. Operating leases

i. Lessor

Assets leased to customers under agreements, which do not transfer substantially all the risks and rewards of ownership, are classified as operating lease assets on the balance sheet. Depreciation is taken on the depreciable amount of these assets on a straight line basis over their estimated useful lives. Leased income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

ii. Lessee

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

k. Finance leases

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Finance charges receivable are recognised on the balance sheet and income is recognised over the period of the lease so as to give a constant rate of return on the net cash investment in the lease, taking into account all receipts associated with the lease.

l. Employee benefits

The Group operates a defined contribution pension scheme for all staff. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity, and where the Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. The Group pays contributions to Standard Life. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Short-term employee benefits such as salaries, paid absences and other benefits are accounted for on an accruals basis over the period for which employees have provided services. Bonuses are recognised to the extent that the Group has a present obligation to its employees that can be measured reliably.

m. Share-based payments

The Group operates equity-settled share-based incentive schemes for employees. The cost of equity-settled share-based payment arrangements is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight line basis over the vesting period. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Market performance conditions are reflected as an adjustment to the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition is satisfied, provided all other conditions are satisfied.

Vesting conditions, other than market performance conditions, are not factored into the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

Where an award has been modified, as a minimum, the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of the extra equity instruments is recognised in addition to the expense of the original grant. The incremental fair value is calculated by comparing the fair value of the modified grant with the fair value of the original grant at the modification date. The incremental fair value of the modified grant is recognised over the remaining vesting period.

n. Own shares

Own shares are held by the EBT and comprise own shares that have not vested unconditionally to employees of the Group. Own shares are recorded at cost and are deducted from Group retained earnings.

o. Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of cost of funds and, where appropriate, the risks specific to the liability.

p. Income tax

Income tax expense comprises current and deferred tax. It is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in OCI.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

q. Cash and cash equivalents

Cash and cash equivalents comprise demand deposits with banks held in non-interest earning accounts.

r. Other receivables

Trade and other receivables are stated at their nominal amount less impairment losses.

s. Segmental information

Segment results that are reported to the Group's Executive Committee (being the chief operating decision maker) include items that are directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly head office and back office expenses, other assets and deferred tax assets.

t. Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary Shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by adjusting the profit or loss that is attributable to ordinary Shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

u. Investment in subsidiary undertaking

The investment in subsidiary undertaking in the Company's financial statements is stated at the IFRS net asset value of the Bank at the effective date of the BLME Scheme of Arrangement (which becomes the effective cost of investment) less impairment. The investment in subsidiary undertaking is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the statement of comprehensive income.

3. Use of critical accounting estimates and judgements in applying accounting policies

a. Key sources of estimation uncertainty

Allowance for credit losses

Assets accounted for at amortised cost are evaluated monthly for impairment on a basis described in Note 2c (v) and Note 37a (v). In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual financing arrangements. This evidence may include observable data indicating that there has been an adverse change in the payment status of counterparties in a portfolio, or national or local economic conditions that correlate with defaults on assets in the portfolio. The specific counterparty component of the total allowance for impairment applies to claims evaluated individually and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the present value of estimated cash flows considered recoverable is approved by the Counterparty Credit Risk Committee.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of claims with similar economic characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters, based on historical experience and current economic conditions.

b. Determining fair values

The Group's accounting policy on fair value measurements is in accordance with IFRS 7 Financial Instruments: Disclosures and IFRS 13 Fair Value Measurement and is discussed in Note 37.

The Group measures fair values using the following fair value hierarchy that reflects the significance of inputs used in making the measurements.

Level 1: Valuation is based upon quoted market price in an active market for an identical instrument. This category comprises Sukuk held at fair value through profit and loss and Sukuk held at fair value designated as available-for-sale.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category comprises profit rate swaps, which are valued using reference to quoted market data such as yield curves, and investments in Sharia'a compliant funds.

Level 3: Valuation techniques using significant unobservable inputs. This category comprises unlisted equity investments valued by reference to third party valuations.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques.

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Group uses widely recognised valuation models in determining the fair value of common and more simple financial instruments, such as profit rate swaps, that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities and simple over the counter derivatives such as profit rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Deferred tax relating to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

4. Amendments to IAS 39 and IFRS 7, 'Reclassification of Financial Assets'

Following the amendments to IAS 39 and IFRS 7, 'Reclassification of Financial Assets', the Group reclassified certain trading assets and financial assets from available-for-sale to loans and receivables. The Group identified assets, eligible under the amendments for which, at 1 July 2008, it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. Under IAS 39, as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date.

The disclosures below detail the impact of the reclassifications to the Group. The following table shows carrying values and fair values of the reclassified assets:

	At 31 December 2013 and 2012		At 31 December 2011		At 31 December 2010		At 31 December 2009		At 1 July 2008
	Carrying value £	Fair value £	Carrying value £	Fair value £	Carrying value £	Fair value £	Carrying value £	Fair value £	Fair value £
US Dollar trading assets: Sukuk at fair value through P&L reclassified to loans and receivables	–	–	12,859,719	12,450,688	15,835,150	15,059,940	14,915,723	12,958,012	11,861,841
US Dollar financial assets: available-for-sale Sukuk reclassified as loans and receivables	–	–	10,901,068	10,249,984	16,370,485	14,357,229	39,170,696	34,776,783	39,925,758
Total financial assets reclassified to loans and receivables	–	–	**23,760,787**	**22,700,672**	**32,205,635**	**29,417,169**	**54,086,419**	**47,734,795**	**51,787,599**

USD/GBP exchange rates were 1.9901 at 1 July 2008, 1.6195 at 31 December 2009, 1.5485 at 31 December 2010, 1.5461 at 31 December 2011, 1.61715 at 31 December 2012 and 1.6538 at 31 December 2013.

The carrying value and the fair value of the reclassified assets have decreased to £Nil over the accounting periods since 1 July 2008. This is mainly due to the maturity of various Sukuk issues but also due to the disposal during 2010 of an impaired Sukuk issued by a Saudi based company and the disposal of one other Sukuk during 2012. In addition the weakening of sterling against the US dollar impacted the downward trend between 1 July 2008 and 31 December 2011.

If the reclassification had not been made, excluding the impact of foreign exchange rates referred to above, the Group income statement for the year to 31 December 2013 would have included unrealised fair value profits on the reclassified trading assets of £Nil (2012: £Nil, 2011: £530,351 profits, 2010: £1,508,231 profits, 2009: £1,210,559 profits and 2008: £2,358,638 profits).

For the year to 31 December 2013, as a result of the reclassification, the Group made an unrealised fair value gain of £Nil (2012: £142,296 gain, 2011: £526,701 gain, 2010: £962,907 gain, 2009: £972,471 gain and 2008: £426,616 gain) excluding the impact of foreign exchange rates referred to above and impairment charges.

For the twelve months to 31 December 2013 Shareholders' equity would have included unrealised fair value net profits on the reclassified AFS financial assets of £Nil (2012: £Nil, 2011: £854,261 profits, 2010: £2,402,096 profits, 2009: £4,355,441 losses and 2008: £3,547,284 losses).

After reclassification, the reclassified financial assets contributed the following amounts to income before taxes for the year to 31 December 2013:

Trading assets Sukuk	2013 (12 months) £	2012 (12 months) £	2011 (12 months) £	2010 (12 months) £	2009 (12 months) £	2008 (6 months) £
Profit share	–	52,101	233,419	489,248	225,691	235,194
Impairment provision for credit losses	–	–	–	–	–	–
Income before taxes on reclassified trading assets Sukuk	–	**52,101**	**233,419**	**489,248**	**225,691**	**235,194**

Available-for-sale Sukuk						
Profit share	–	90,194	293,282	473,659	746,780	47,225
Impairment provision for credit losses	–	–	–	–	(11,322,269)	–
Income before taxes on reclassified financial assets available-for-sale Sukuk	–	**90,194**	**293,282**	**473,659**	**(10,575,489)**	**47,225**

Prior to 1 July 2008 unrealised fair value losses of £1,421,411 on reclassified AFS financial assets that were not impaired were recorded directly in Shareholders' equity. From 1 July 2008 this amount will be released from Shareholders' equity and accreted to the carrying value of the reclassified AFS financial assets on an effective profit basis over the life of the respective financial assets unless they are impaired or sold. The average effective profit rate on the reclassified Sukuk in 2012 was 1.35% (2011: 1.35%, 2010: 1.40%, 2009: 2.33% and 2008: 3.05%).

5. Segmental information

The Group has three operating segments as described below, which are based on the Group's strategic business divisions. The strategic business divisions offer different products and services and are managed separately based on the Group's management and internal reporting structure. The following summary describes the operations of each of the Group's reportable segments:

Corporate Banking

Corporate Banking provides senior debt and occasionally mezzanine financing for UK mid-market companies ranging from FTSE250 companies to family owned businesses. Facilities are provided by our specialist product teams covering: Leasing, Property Finance, Trade Finance, Acquisition Finance, and ABL Finance. Facilities are either separate or offered as one package. We have provided senior financing syndicated facilities and have introduced financing counterparties from the GCC for additional capital.

Wealth Management

Wealth Management comprises the Group's complementary businesses of Private Banking, Islamic Capital Markets and Asset Management which are based together in our West End office. The Private Banking business focuses on providing private banking services, in particular, residential lending for central London property acquisitions, to high net worth individuals. The Asset Management business offers Sharia'a compliant fund management services and funds based on a Luxembourg platform. Islamic Capital Markets organises and participates in syndicated transactions and sells down assets from the Bank's financing portfolios.

Treasury

The Treasury Division funds the Group's financing activities in Corporate Banking and Wealth Management, manages the Group's capital and liquidity and provides innovative Sharia'a compliant hedging, yield and FX structures.

Information regarding the results of the Group's three reportable segments, Corporate Banking, Wealth Management and Treasury is included below. Performance is measured based on net segment contribution as included in the internally generated management information of the Group utilised by the Executive Committee. Segment contribution is stated after charging (or crediting) funding costs between the segments in respect of the segment assets or liabilities which either require or generate funding. There are no other significant transactions between segments.

For the year ended 31 December 2013

	Treasury Division £	Corporate Banking £	Wealth Management £	Unallocated items £	Total £
Net margin from financing and investing activities	4,474,238	14,031,417	3,769,238	–	22,274,893
Operating lease income	1,618,896	25,250,886	–	–	26,869,782
Net fee income	576,200	1,786,999	327,192	50,010	2,740,401
Net fair value losses on investment securities	(460,260)	–	(92,182)	–	(552,442)
Net fair value gains on investment properties	–	–	718,381	–	718,381
Other operating income	845,120	861,156	2,274,005	(17,334)	3,962,947
Total operating income	**7,054,194**	**41,930,458**	**6,996,634**	**32,676**	**56,013,962**
Directly attributable segment expenses	(753,958)	(4,642,722)	(5,147,985)	–	(10,544,665)
Operating lease depreciation	–	(21,315,726)	–	–	(21,315,726)
Net impairment charge on financial assets	–	(2,099,538)	–	–	(2,099,538)
Change in third party interest in consolidated funds	–	–	(383,600)	–	(383,600)
Net segment contribution	**6,300,236**	**13,872,472**	**1,465,049**	**32,676**	**21,670,433**
Common costs not directly attributable to segments					(15,600,648)
Net operating profit before tax					**6,069,785**
Reportable segment assets as at 31 December 2013	**305,708,952**	**683,807,148**	**237,836,517**	**6,360,674**	**1,233,713,291**

The Treasury Division manages the Group's liquidity as a whole and the Group's liabilities are not analysed by operating segment within the internally generated management information.

For the year ended 31 December 2012

	Treasury Division £	Corporate Banking £	Wealth Management £	Unallocated items £	Total £
Net margin from financing and investing activities	6,122,485	7,067,038	3,951,935	–	17,141,458
Operating lease income	1,404,533	25,845,520	–	–	27,250,053
Net fee income	840,285	740,352	114,439	82,348	1,777,424
Net fair value gains on investment securities	831,900	–	2,769,219	–	3,601,119
Net fair value losses on investment properties	–	–	(1,049,455)	–	(1,049,455)
Other operating income	174,843	1,171,711	2,400,082	–	3,746,636
Total operating income	**9,374,046**	**34,824,621**	**8,186,220**	**82,348**	**52,467,235**
Directly attributable segment expenses	(949,344)	(3,063,422)	(6,371,518)	–	(10,384,284)
Operating lease depreciation	–	(21,646,350)	–	–	(21,646,350)
Net impairment charge on financial assets	–	(1,761,293)	–	–	(1,761,293)
Change in third party interest in consolidated funds	–	–	(840,720)	–	(840,720)
Net segment contribution	**8,424,702**	**8,353,556**	**973,982**	**82,348**	**17,834,588**
Common costs not directly attributable to segments					(12,319,430)
Net operating profit before tax					**5,515,158**
Reportable segment assets as at 31 December 2012	**384,132,600**	**419,712,282**	**222,143,646**	**12,969,649**	**1,038,958,177**

Entity wide disclosures

Geographical analysis of non-current assets	31 December 2013 £	31 December 2012 £
Dubai	313,283	111,967
Jersey	–	3,350,000
Luxembourg	25,667,347	21,609,226
United Kingdom	53,591,996	56,349,252
USA	31,217,216	45,630,919
Others	276,965	54,114
Total	**111,066,807**	**127,105,478**

Non-current assets include operating lease assets, investment properties, property and equipment, intangible assets and other assets.

6. Income from financing and investing activities

Income from:

Financial institutions:	2013 £	2012 £
Wakala income	142,293	161,894
Murabaha income	226,804	173,554
Financing arrangements:		
Murabaha income	24,698,371	17,108,662
Mudaraba income	129,677	232,432
Musharaka income	81,895	101,893
Hire Purchase income	788,489	–
Istisna and Ijara income	103,419	138,602
Finance lease income	10,882,320	8,927,383
Sukuk income	5,688,052	3,644,612
Wakala income	466,722	290,305
	43,208,042	**30,779,337**

7. Returns to financial institutions and customers

	2013 £	2012 £
Murabaha	7,172,425	5,289,240
Wakala	931,131	1,241,304
Profit rate swaps	3,185,043	3,115,746
Customer deposits	9,644,550	3,991,589
	20,933,149	**13,637,879**

8. Net fair value (losses) / gains on investment securities

	2013 £	2012 £
Net realised gains on sale of investment securities	775,658	2,541,831
Net unrealised (losses) / gains on investment securities	(1,328,100)	1,059,288
	(552,442)	**3,601,119**

9. Other operating income

	2013 £	2012 £
Gains on foreign exchange transactions	–	285,156
Gains on leased asset sales	861,156	1,078,236
Rental income from investment properties	2,168,935	2,272,978
Other	932,856	110,266
	3,962,947	**3,746,636**

10. Profit rate swaps

The Group uses Sharia'a compliant derivatives, profit rate swaps ("PRSs"), for hedging purposes in the management of its own asset and liability portfolios. This enables the Group to mitigate the market risk associated with re-pricing its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. PRSs may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described under the relevant headings below:

Notional contract amounts of PRSs held for hedging purposes by product type:

Group	2013 Cash flow hedge $	2013 Cash flow hedge £	2013 Fair value hedge $	2013 Fair value hedge £
Profit rate swaps	**121,000,000**	**73,164,833**	**109,000,000**	**65,908,816**

Group	2012 Cash flow hedge $	2012 Cash flow hedge £	2012 Fair value hedge $	2012 Fair value hedge £
Profit rate swaps	**127,000,000**	**78,533,222**	**35,000,000**	**21,643,014**

With regard to PRSs, the notional contract amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Fair value hedges

BLME's fair value hedges consist of PRSs that are used to protect against changes in the fair value of fixed rate financial instruments due to movements in market rates and to accommodate the Group's risk management policy. For effective fair value hedges, all changes in the fair value of the PRSs and in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item is amortised to the income statement on an even yield basis over the remainder of the hedging period.

Effective 1 July 2009, the Bank moved from fair value hedge accounting for the PRSs held as at 1 July 2009 to cash flow hedge accounting to bring consistency to hedge accounting across the Group. Both the Bank and the Group designated liabilities as a hedged item under a macro cash flow hedge. In the last quarter of 2009 the Bank and Group transacted PRSs to hedge fixed rate Sukuk. These PRSs in both the Bank and the Group were accounted for under the fair value hedge accounting rules.

The fair value adjustment to the hedged item as at 1 July 2009 will be amortised to the income statement as part of the recalculated effective interest rate of the hedged item over the hedged item's remaining life.

Fair value of PRSs designated as fair value hedges:

Group	2013 Fair value assets £	2013 Fair value liabilities £	2012 Fair value assets £	2012 Fair value liabilities £
Profit rate swaps	**101,306**	**–**	**–**	**1,057,606**

Gains or losses arising from fair value hedges:

Group	2013 £	2012 £
Net profit rate swap liability as at 1 January	(1,057,606)	(1,375,531)
Gains / (losses):		
Exchange translation	23,438	60,434
On hedging instruments through the profit and loss	(109,651)	18,992
On the hedged items attributable to the hedged risk	1,245,125	238,499
Net profit rate swap asset / (liability) at 31 December	**101,306**	**(1,057,606)**

The gains and losses on ineffective portions of fair value hedges are recognised immediately in 'Other operating income / expense'. During the year to 31 December 2013 a loss of £109,651 (2012: £18,992 gain) was recognised due to hedge ineffectiveness.

Cash flow hedges

The Group's cash flow hedges consist of US dollar denominated PRSs that are used to protect against exposures to variability in future cash flows on selected US dollar liabilities placed by financial institutions. The objective of the hedge relationship is to minimise the volatility of cash flows in respect of US dollar floating rate liabilities due to fluctuations in US dollar market rates. A macro approach is taken in designating the hedge relationship as described in IAS 39 and the hedged item is a portfolio of existing and future highly probable liabilities. Gains and losses on effective cash flow hedges are initially recognised directly in equity, in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows affect the income statement.

Fair value of PRSs designated as cash flow hedges:

Group	2013 Fair value assets £	2013 Fair value liabilities £	2012 Fair value assets £	2012 Fair value liabilities £
Profit rate swaps	**–**	**2,074,209**	**–**	**4,250,439**

Gains or losses arising from cash flow hedges:

Group	2013 £	2012 £
Net profit rate swap liability as at 1 January	(4,250,439)	(5,893,226)
Gains / (losses):		
Exchange translation	94,194	258,920
On hedging instruments through the profit and loss	723,164	350,970
On hedging instruments through reserves	1,358,872	1,032,897
Net profit rate swap liability as at 31 December	**(2,074,209)**	**(4,250,439)**

The gains and losses on ineffective portions of such PRSs are recognised immediately in 'Other operating income / expense'. During the year to 31 December 2013, a gain of £723,164 (2012: £350,970 gain) was recognised due to hedge ineffectiveness.

Contractual principal balances of PRSs designated for cash flow hedging purposes

The schedules of contractual principal balances on which the expected profit cash flows arise as at 31 December 2013 and 31 December 2012 respectively are as follows:

Group	Less than 3 months £	More than 3 months but less than 6 months £	1 year or less but more than 6 months £	2013 Total £
Liabilities	**9,070,021**	**58,048,132**	**6,046,680**	**73,164,833**

Group	Less than 3 months £	More than 3 months but less than 6 months £	1 year or less but more than 6 months £	2012 Total £
Liabilities	**9,275,577**	**63,073,926**	**6,183,719**	**78,533,222**

This table reflects the profit rate re-pricing profile of the underlying hedged items. The Group adopts a macro cash flow hedging strategy to match the existing rollover or forecast liabilities. Therefore the Group does not expect any maturity mismatch between the hedged liabilities and PRSs at maturity.

11. Personnel expenses

	2013 £	2012 £
Wages and salaries	10,395,326	9,519,939
Social security costs	1,321,857	1,228,038
Defined contribution pension scheme costs	916,568	824,204
Sharia'a Supervisory Board fees	52,378	85,544
Recruitment costs	279,063	180,856
Other staff costs	440,046	307,089
	13,405,238	**12,145,670**

The following table summarises the number of employees within the Group:

	2013 Number	2012 Number
Period end	99	86
Average for the period – management	6	6
Average for the period – non-management	90	75

12. Directors' emoluments

	2013 £	2012 £
Directors' emoluments	1,558,023	1,475,131
Pension contributions	59,250	93,000
	1,617,273	**1,568,131**

The aggregate of emoluments of the highest paid director was £572,758 (2012: £537,918), and pension contributions of £Nil (2012: £36,000) were made on his behalf.

13. Other operating expenses

	2013 £	2012 £
Legal and professional fees	3,263,025	1,968,284
Rent and other occupancy costs	1,428,120	1,501,644
Consultancy	1,211,187	1,278,319
Communications and IT costs	645,320	651,998
Advertising and market development	1,365,701	1,477,805
Board and SSB related expenses	522,319	483,397
Loss on foreign exchange transactions and translation	271,992	-
Other operating charges	3,758,508	2,812,937
	12,466,172	**10,174,384**

Included within other operating expenses are fees paid to the Group auditors categorised as follows:

Auditors remuneration	2013 £	2012 £
Audit of financial statements: Year end	225,100	202,300
Audit of financial statements: Interim report	47,000	42,000
Tax services	61,341	75,761
Other services	159,301	116,104
	492,742	**436,165**

14. Share-based payments

During the year £635,262 (2012: £965,281) was charged to the income statement in respect of share-based payment transactions arising under the following employee share schemes in accordance with the Group's reward structures:

	2013 £	2012 £
Approved Share Option Plan ("ASOP")	32,223	34,683
Unapproved Share Option Plan ("USOP")	2,462	1,102
Executive Share Option Scheme ("ESOP")	50,577	99,842
Deferred Annual Bonus Scheme ("DABS")	550,000	829,654
	635,262	**965,281**

As referred to in the Directors' Report and in Note 33, a corporate reorganisation was implemented on 2 October 2013 by means of a Court-approved Scheme of Arrangement under sections 895 to 899 of the UK Companies Act.

All existing options under the Bank of London and The Middle East plc share incentive plans lapsed as a result of the BLME Scheme of Arrangement and replacement options were offered by BLME Holdings plc on substantially the same terms and conditions. The replacement options shall be treated as granted at the same time as the original options and the exercise of the replacement options shall be exercisable in the same manner as the existing options. The issue of these replacement options has been accounted for under IFRS 2 as a modification with no incremental fair value arising that would require amortisation to the income statement over the remaining vesting period.

Calculation of fair values

The fair values of equity-settled share options, measured at the date of grant of the option, are calculated using a Black-Scholes model. The fair value of the options granted during the year, together with the main assumptions used in the Black-Scholes model for the ASOPs, USOPs, DABS and ESOPs awards, is included in the following tables:

	ASOP 2013	ASOP 2012	USOP 2013	USOP 2012	DABS 2013	DABS 2012
Fair value (pence)*	2.12	1.1	N/A	1.1	6.5	N/A
Share price (pence)*	6.5	4.9	N/A	4.9	N/A	N/A
Exercise price (pence)*	6.5	6.5	N/A	6.5	Nil	N/A
Expected volatility (% p.a.)	30.0	29.0	N/A	29.0	N/A	N/A
Option life (years)	6.5	6.5	N/A	6.5	N/A	N/A
Expected dividends (% p.a.)	Nil	Nil	N/A	Nil	Nil	N/A
Risk free interest rate (%)	1.2	1.2	N/A	1.2	N/A	N/A

	ESOP Tranche 1 2013	ESOP Tranche 2 2013	ESOP Tranche 3 2013	ESOP Tranche 4 2013	ESOP 2012
Fair value (pence)*	1.95	2.03	2.08	2.12	N/A
Share price (pence)*	6.5	6.5	6.5	6.5	N/A
Exercise price (pence)*	6.5	6.5	6.5	6.5	N/A
Expected volatility (% p.a.)	32.5	32.0	31.0	30.0	N/A
Option life (years)	5.0	5.5	6.0	6.5	N/A
Expected dividends (% p.a.)	Nil	Nil	Nil	Nil	N/A
Risk free interest rate (%)	0.9	1.0	1.15	1.25	N/A

*The values per share disclosed in the above the tables are based on the ordinary shares of 1 penny each which were in issue at the time of grant. A 25 for 1 share consolidation occurred on 2 October 2013 as part of the implementation of the BLME Scheme of Arrangement referred to in the Directors' Report and in Note 33.

The expected volatility was determined by reference to the historical volatility of the FTSE 350 Banks Index. Awards of DABS are made in the first quarter of the year as part of the annual discretionary bonus process and relate to, and are accrued in, the previous calendar year. No DABS were awarded in 2012 in respect of the 2011 performance year.

The ESOP awards are made in four equal tranches with different vesting periods. The expected option life is dependent on the behaviour of option holders and is incorporated into the model on the basis of best estimate. No ESOP awards were made in 2012.

Approved share options

Approved share options are granted to employees under the ASOP up to a market value limit of £30,000 to each individual on the date of grant. The options may vest after three years and are exercisable up to the tenth anniversary of the date of grant, after which they lapse.

ASOPs	Number of options 2013	Weighted average exercise price (pence) 2013	Number of options 2012	Weighted average exercise price (pence) 2012
Outstanding at 1 January	11,415,381	6.1	10,176,921	6.0
Granted in the year	2,692,305	6.5	2,692,305	6.5
Forfeited in the year	(230,769)	6.5	(1,453,845)	6.2
Outstanding at time of Scheme of Arrangement	**13,876,917**	**6.2**		
Lapse of options over 1p ordinary shares	(13,876,917)			
Replacement awards over 25p ordinary shares	554,989	154.9		
Forfeited in the period after 2 October 2013	(34,763)	158.2		
Outstanding at 31 December	**520,226**	**154.7**	**11,415,381**	**6.1**
Exercisable at 31 December	**209,520**		**2,538,458**	

The weighted average remaining contractual life of the above ASOPs outstanding at the balance sheet date was 7.0 years (2012: 7.6 years). The weighted average exercise price is 154.7 pence (2012: 6.1 pence).

During 2010 options were issued in parallel to the existing approved options which had been granted during 2008 and 2009. These new 'parallel' options were granted to staff over the same number of shares as their existing approved options but with an exercise price of 5 pence per share as against an exercise price of 6.5 pence per share for their existing approved options. The old and new options will operate in parallel, meaning that staff will be able to choose which to exercise. When one option is exercised, the other option will lapse. Therefore, although participating staff now have two approved options, they will only be able to exercise one of them.

Parallel ASOPs	Number of options 2013	Number of options 2012
Outstanding at 1 January	2,384,613	2,692,305
Granted in the year	–	–
Forfeited in the year	–	(307,692)
Outstanding at time of Scheme of Arrangement	**2,384,613**	
Lapse of options over 1p ordinary shares	(2,384,613)	
Replacement awards over 25p ordinary shares	95,367	
Forfeited in the period after 2 October 2013	–	
Outstanding at 31 December	**95,367**	**2,384,613**
Exercisable at 31 December	**95,367**	**Nil**

The weighted average remaining contractual life of the above parallel options outstanding at the balance sheet date was 6.2 years (2012: 7.2 years). The weighted average exercise price is 125 pence (2012: 5 pence). All of these options were exercisable at the balance sheet date (2012: none). The issue of these approved parallel options in 2010 has been accounted for under IFRS 2 as a modification with the incremental fair value being amortised to the income statement over the remaining vesting period.

Unapproved share options

Unapproved share options are granted under the USOP to employees who already have received approved share options up to the market value limit of £30,000. The options may vest after three years and are exercisable up to the tenth anniversary of the date of grant, after which they lapse.

USOPs	Number of options 2013	Number of options 2012
Outstanding at 1 January	615,385	769,231
Granted in the year	–	769,230
Forfeited in the year	–	(923,076)
Outstanding at time of Scheme of Arrangement	**615,385**	
Lapse of options over 1p ordinary shares	(615,385)	
Replacement awards over 25p ordinary shares	24,611	
Forfeited in the period after 2 October 2013	–	
Outstanding at 31 December	**24,611**	**615,385**
Exercisable at 31 December	**Nil**	**Nil**

The weighted average remaining contractual life of the above USOPs outstanding at the balance sheet date was 7.7 years (2012: 8.7 years). The weighted average exercise price is 162.5 pence (2012: 6.5 pence). None of these options were exercisable at the balance sheet date.

Deferred annual bonus scheme

Awards were first made to employees under the DABS in 2008. The Group introduced the scheme to ensure that the long term interests of certain employees were aligned with the interests of Shareholders. Participating in the scheme entitles the employee to receive a matching award at no cost providing certain conditions, including a performance condition, are met. Performance conditions are set and monitored by the Remuneration Committee.

Under the original scheme rules the employee was required to surrender a percentage of their annual discretionary bonus in return for a conditional right to receive shares in the Bank at the vesting date being three years following the award date. During 2010 the existing awards were modified so that they took the form of Nil cost options. The modified awards gave employees options, to acquire the same number of shares as the original award, which can be exercised at any point from the original vesting date until the tenth anniversary of the original award date. No incremental fair value arose as a result of this modification.

During 2012 employees were given the opportunity to have their vested DABS options from earlier years settled in cash. The resultant cash payment of £2,288,333 was accounted for as a deduction against the share-based payment reserve. The DABS scheme was reclassified as a cash-settled share-based payment scheme in 2012 with £1,182,168 being reclassified from the share-based payment reserve to other liabilities. There was no excess payment over the fair value of the award at the settlement date requiring to be recognised as an expense under IFRS 2.

Following the listing of the Company on NASDAQ Dubai in October 2013, the DABS scheme was reclassified back to being an equity-settled share-based payment scheme.

Participating in the scheme entitles the employee to receive a matching award at no cost providing certain conditions, including a performance condition, are met. Performance conditions are set and monitored by the Remuneration Committee.

DABS	Number of Nil cost options 2013	Number of Nil cost options 2012
Outstanding at 1 January	21,592,112	53,392,306
Awarded and deferred	9,000,000	–
Awarded under matched award	–	3,763,905
Forfeited in the year	–	(64,103)
Settled in the year	–	(35,499,996)
Outstanding at time of Scheme of Arrangement	**30,592,112**	
Lapse of options over 1p ordinary shares	(30,592,112)	
Replacement awards over 25p ordinary shares	1,223,660	
Awarded under matched award	41,538	
Forfeited in the period after 2 October 2013	–	
Outstanding at 31 December	**1,265,198**	**21,592,112**
Exercisable at 31 December	**29,538**	**738,467**

The weighted average remaining contractual life of the above Nil cost options outstanding at the balance sheet date was 7.7 years (2012: 8.1 years). The weighted average exercise price was Nil (2012: Nil).

Executive share option scheme

Share options were first granted to senior management under the USOP in 2009. The options granted were split equally into employment options and performance options. Employment options vest upon completion of service periods, performance options vest on meeting or surpassing targets for growth in the Net Asset Value of the Bank. Both categories of options only vest upon BLME being listed on a recognised exchange.

The ESOP awards are made in four equal tranches with different vesting periods. The expected option life is dependent on the behaviour of option holders and is incorporated into the model on the basis of best estimate. No ESOP awards were made in 2012.

ESOPs	Number of options 2013	Number of options 2012
Outstanding at 1 January	67,101,307	83,454,759
Granted in the year	3,153,846	–
Forfeited in the year	–	(16,353,452)
Outstanding at time of Scheme of Arrangement	**70,255,153**	
Lapse of options over 1p ordinary shares	(70,255,153)	
Replacement awards over 25p ordinary shares	2,810,193	
Forfeited in the period after 2 October 2013	(121,250)	
Outstanding at 31 December	**2,688,943**	**67,101,307**
Exercisable at 31 December	**2,473,078**	**Nil**

The options forfeited relate to performance options where the target criteria were not met. The weighted average remaining contractual life of the executive share options outstanding at the balance sheet date was 5.7 years (2012: 6.6 years). The weighted average exercise price is 162.5 pence (2012: 6.5 pence).

Share purchase plan

BLME launched an Executive Share Purchase Plan in December 2007 to enable certain employees to purchase shares in the Bank. The interest free financing, which was provided by Appleby Trust (Jersey) Limited in its capacity as Trustee of the Bank of London and The Middle East EBT ("EBT"), was repaid on 30 April 2013 in consideration for employees transferring their holding of BLME shares to the EBT.

15. Impairment of financial assets and operating leases

Group

Impairments of financial assets:	Individual £	Collective £	2013 Total £
Balance at 1 January 2013	22,158,006	–	22,158,006
Exchange translation and other movements	239,956	–	239,956
Income statement:			
Gross impairment charge for the year	2,164,238	–	2,164,238
Amount recovered during the year	(64,700)	–	(64,700)
Net impairment charge for the year	**2,099,538**	–	**2,099,538**
Amounts written off during the year	(1,864,019)	–	(1,864,019)
Balance as at 31 December 2013	**22,633,481**	–	**22,633,481**
Being impairments against:			
Financing arrangements	22,333,262	–	22,333,262
Finance lease receivables	82,000	–	82,000
Operating lease assets	218,219	–	218,219
	22,633,481	–	**22,633,481**

Group

Impairments of financial assets:	Individual £	Collective £	2012 Total £
Balance at 1 January 2012	20,991,562	460,352	21,451,914
Exchange translation and other movements	(628,743)	(20,225)	(648,968)
Income statement:			
Gross impairment charge for the year	1,795,187	49,434	1,844,621
Amount recovered during the year	(25,278)	(58,050)	(83,328)
Net impairment charge for the year	**1,769,909**	**(8,616)**	**1,761,293**
Amounts written off during the year	25,278	(431,511)	(406,233)
Balance as at 31 December 2012	**22,158,006**	–	**22,158,006**
Being impairments against:			
Financing arrangements	22,091,840	–	22,091,840
Finance lease receivables	–	–	–
Operating lease assets	66,166	–	66,166
	22,158,006	–	**22,158,006**

As at 31 December 2013, individual facilities comprising amounts due to the Group of £40.7 million (2012: £38.0 million) were deemed to be impaired.

As at 31 December 2013, the individual provisions are £4.8 million ($8.0 million) against the transportation sector (2012: £4.9 million / $8.0 million), £2.1 million (€2.5 million) in respect of a European manufacturing business (2012: £2.1 million / €2.5 million), £0.5 million against the UK real

estate sector (2012: £0.5 million), £0.3 million ($0.5 million) against a Sukuk issued by a Bahraini based company (2012: £0.3 million / $0.5 million), £14.6 million (€17.5 million) against a Turkish manufacturing business (2012: £14.2 million / €17.5 million), £0.2 million ($0.4 million) of provisions against US manufacturing businesses (2012: £0.1 million / $0.1 million) and a £0.1 million provision against a business within the UK construction sector (2012: £Nil).

The collective provision brought forward from 2011 of £0.5 million ($0.7 million) related to a US finance lease portfolio in the transportation sector.

16. Taxation

Group

	2013 £	2012 £
UK Corporation Tax – current tax for the year	(106,143)	(123,771)
Overseas tax for the year	109,685	803
Deferred tax for the year	1,751,517	1,797,371
Tax charge in income statement	**1,755,059**	**1,674,403**

The tax charge for the year is higher than the standard rate of corporation tax which is explained as follows:

Group

Reconciliation of effective tax rate	2013 £	2012 £
Profit on ordinary activities	6,069,785	5,515,158
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23.25% (2012: 24.5%)	1,411,225	1,351,214
Expenses not deductible for tax purposes	175,075	22,370
Overseas taxes, net of overseas tax relief	94,555	–
Tax exempt income	(142,104)	(166,533)
Share-based payment transactions	(8,710)	63,047
Effect of change in tax rates	257,966	354,236
Prior year adjustment to deferred tax	(32,948)	50,069
Tax charge in income statement	**1,755,059**	**1,674,403**

The Chancellor's Autumn Statement announcement on 5 December 2012 included a proposal to reduce the main UK Corporation Tax rate from 23% to 21% with effect from 1 April 2014. The Finance Bill 2013 published on 28 March 2013 included a proposal to reduce further the main UK Corporation Tax rate from 21% to 20% with effect from 1 April 2015. Both of these proposed changes were substantially enacted on 2 July 2013. Accordingly the deferred tax assets recognised below have been calculated using a corporation tax rate of 20% (31 December 2012: 23%).

Tax recognised in other comprehensive income

Group	2013 £	2012 £
Cash flow hedging reserve	(348,121)	(330,034)
Fair value reserve	165,278	56,334
	(182,843)	**(273,700)**

Deferred tax

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. It is estimated that the tax losses carried forward will be utilised by the end of the year ended 31 December 2016.

Movements in deferred tax balances

Group – 2013	Balance at 1 January £	Recognised in profit or loss £	Recognised in OCI £	Balance at 31 December £
Property, equipment and software	450,535	(288,116)	–	162,419
Tax losses carried forward	2,881,140	(1,569,705)	–	1,311,435
Cash flow hedges	143,077	–	(76,700)	66,377
Share-based payment transactions	217,108	107,444	–	324,552
Other expenses	1,140	(1,140)	–	–
Tax assets	**3,693,000**	**(1,751,517)**	**(76,700)**	**1,864,783**

Group – 2012	Balance at 1 January £	Recognised in profit or loss £	Recognised in OCI £	Balance at 31 December £
Property, equipment and software	242,416	208,119	–	450,535
Tax losses carried forward	4,453,427	(1,572,287)	–	2,881,140
Cash flow hedges	293,006	–	(149,929)	143,077
Share-based payment transactions	651,451	(434,343)	–	217,108
Other expenses	–	1,140	–	1,140
Tax assets	**5,640,300**	**(1,797,371)**	**(149,929)**	**3,693,000**

17. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the number of basic weighted average ordinary shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the dilutive effects of all dilutive share options and awards.

Earnings per share	2013 pence	2012 pence
Basic	2.23	1.97
Diluted	2.22	1.96

Profit attributable to ordinary shareholders	2013 £	2012 £
Profit attributable to shareholders (basic)	4,314,726	3,840,755
Profit attributable to shareholders (diluted)	4,314,726	3,840,755

Weighted average number of ordinary shares	2013 Number	2012 Number
Number of ordinary shares of 25p in issue	195,733,691	195,733,691
Share held in Treasury by the EBT	(2,676,921)	(615,385)
Weighted average number of shares (basic) at 31 December	193,056,770	195,118,306
Effect of dilutive share options in issue	1,312,129	911,539
Weighted average number of shares (diluted) at 31 December	194,368,899	196,029,845

18. Profit attributable to equity Shareholders of the Company

BLME Holdings plc is a non-trading parent company therefore none of the consolidated profit for the financial year (2012: Not applicable) has been dealt with in the accounts of the Company.

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account of the parent has not been presented.

19. Due from financial institutions

Group	0 - 3 months £	4 – 12 months £	1 – 5 years £	2013 Total £
Murabaha	100,530,531	2,841,940	–	103,372,471
Wakala	28,024,913	–	1,993,142	30,018,055
	128,555,444	**2,841,940**	**1,993,142**	**133,390,526**

Group	0 - 3 months £	4 – 12 months £	1 – 5 years £	2012 Total £
Murabaha	90,841,495	1,855,115	–	92,696,610
Wakala	36,740,022	–	2,977,114	39,717,136
	127,581,517	**1,855,115**	**2,977,114**	**132,413,746**

20. Investment securities

Group			2013
	Listed £	Unlisted £	Total £
Fair value through profit and loss			
Sukuk	35,131,936	411,804	35,543,740
Available-for-sale			
Equity	297,758	2,663,688	2,961,446
Sukuk	89,508,821	–	89,508,821
	124,938,515	**3,075,492**	**128,014,007**

Group			2012
	Listed £	Unlisted £	Total £
Fair value through profit and loss			
Sukuk	40,518,391	–	40,518,391
Available-for-sale			
Equity	191,031	2,213,104	2,404,135
Sukuk	61,918,227	–	61,918,227
	102,627,649	**2,213,104**	**104,840,753**

Company			2013
	Listed £	Unlisted £	Total £
Investment in subsidiary			
Bank of London and The Middle East plc	–	243,143,580	243,143,580

Company			2012
	Listed £	Unlisted £	Total £
Investment in subsidiary	–	–	–

As explained in the Directors' report and in Note 33, the Company was inserted as a holding company of the Bank during 2013 pursuant to a scheme of arrangement. No business combination occurred under IFRS 3 because the Company was established to affect a restructuring of the Bank and no independent parties were involved. Therefore acquisition accounting using fair value was not mandatory and the Company's investment in the Bank has been recognised at the IFRS net asset value of the Bank at the effective date of the BLME Scheme of Arrangement (which becomes the effective cost of investment).

Pursuant to the scheme and as explained in Note 14, all existing options under the Bank's share incentive plans lapsed and replacement options were offered on substantially the same terms and conditions. Furthermore, the Bank was relieved of its obligations under the share incentive plans and those responsibilities were assumed by the Company for no consideration. As this transaction is a non-monetary transaction for no consideration with a parent company, it is in effect additional investment in the Bank by the Company.

Company

	2013 £	2012 £
Investment in subsidiary		
IFRS net asset value of the Bank at the time of the BLME Scheme of Arrangement	239,933,273	–
Assumption of share incentive scheme liabilities by the Company	3,210,307	–
Closing balance at 31 December	**243,143,580**	**–**

21. Investment properties

Group

	2013 £	2012 £
Opening valuation	27,816,788	12,858,712
Net exchange differences	285,054	(327,328)
Purchases at cost	3,327,495	16,334,859
Disposals	(7,807,718)	–
Movements in fair value*	718,381	(1,049,455)
Closing valuation	**24,340,000**	**27,816,788**

*this item has been included in 'net fair value gains / (losses) on investment properties' in the income statement.

The Group accounts for its investment properties under IAS 40 Investment Property using a fair value model. The investment properties are valued by independent external professionally qualified valuation agents based on current prices in an active market and are classified as Level 2 for the purposes of IFRS 7 but have not been included in Note 37.

The purchases at cost relate to the Group's investment in the BLME Light Industrial Building Fund compartment of the BLME Sharia'a Umbrella Fund SICAV SIF which is consolidated into the Group's results as disclosed in Note 35. One commercial property was purchased by the Fund during the year (2012: four), an office unit in West Bromwich in the West Midlands, UK (£3.1 million). The acquisition cost of this property was £210,045 (2012: £1,003,860).

During the year, the Group disposed of its leasehold interest in a US commercial real estate property in Bettendorf, Iowa, USA. This investment property was valued at 31 December 2012 by CB Richard Ellis at $11.8million. This property was held through the SPVs 'TP Funding Company LLC' and 'Medical Property Investments LLC' as disclosed in Note 35.

The income statement includes rental income from the investment properties of £2,168,935 (2012: £2,272,978) in the line 'Other operating income' and direct operating expenses of £888,942 (2012: £728,577) including repairs and maintenance in the line 'Other operating expenses'.

22. Financing arrangements

Group

	Less than 1 year £	1 - 5 years £	Over 5 years £	2013 Total £
Murabaha	362,191,496	170,821,353	20,922	533,033,771
Mudaraba	225	3,344,337	–	3,344,562
Musharaka	165	3,219,778	–	3,219,943
Hire Purchase	239,350	34,287,237	–	34,526,587
Istisna and Ijara	222	–	8,867,051	8,867,273
Sukuk	17,784,325	6,367,724	–	24,152,049
Wakala	9,760,330	–	–	9,760,330
	389,976,113	**218,040,429**	**8,887,973**	**616,904,515**
Provision for impairment				(22,333,262)
				594,571,253

Group

	Less than 1 year £	1 - 5 years £	Over 5 years £	2012 Total £
Murabaha	197,004,139	137,100,930	20,922	334,125,991
Mudaraba	251	–	3,605,003	3,605,254
Musharaka	217	3,900,756	–	3,900,973
Istisna and Ijara	280	–	9,539,133	9,539,413
Sukuk	1,289,045	22,628,248	3,091,859	27,009,152
Wakala	–	3,290,305	–	3,290,305
	198,293,932	**166,920,239**	**16,256,917**	**381,471,088**
Provision for impairment				(22,091,840)
				359,379,248

These tables represent contractual maturities.

23. Finance leases

Group

Gross investment in finance lease receivables	2013 £	2012 £
Within one year	74,069,870	65,962,946
One to five years	140,913,418	102,654,369
Over five years	5,642,641	–
	220,625,929	**168,617,315**
Unearned future income on finance leases	(21,387,898)	(16,692,301)
Provision for impairment	(82,000)	–
Net investment in finance leases	**199,156,031**	**151,925,014**

The net investment in finance leases comprises:

	2013 £	2012 £
Within one year	65,081,945	60,684,864
One to five years	128,772,484	91,240,150
Over five years	5,301,602	–
	199,156,031	**151,925,014**

These tables represent contractual maturities. The Group's investment in finance leases covers a wide range of equipment types, including transport, construction, mining and heavy machinery equipment.

24. Property and equipment

Group

Cost	Computer Equipment £	Office Equipment £	Fixtures & Fittings £	Motor Vehicles £	Total £
At 1 January 2012	441,630	104,233	1,756,379	–	2,302,242
Additions	100,051	–	87,149	–	187,200
At 31 December 2012	**541,681**	**104,233**	**1,843,528**	**–**	**2,489,442**
At 1 January 2013	541,681	104,233	1,843,528	–	2,489,442
Additions	98,776	6,247	283,021	21,238	409,282
Disposals	(82,157)	–	(21,990)	–	(104,147)
At 31 December 2013	**558,300**	**110,480**	**2,104,559**	**21,238**	**2,794,577**
Depreciation					
At 1 January 2012	374,542	100,567	1,374,787	–	1,849,896
Charge for the year	54,430	2,779	175,984	–	233,193
At 31 December 2012	**428,972**	**103,346**	**1,550,771**	–	**2,083,089**
At 1 January 2013	428,972	103,346	1,550,771	–	2,083,089
Charge for the year	75,488	1,659	64,982	2,744	144,873
Disposals	(82,157)	–	(918)	–	(83,075)
At 31 December 2013	**422,303**	**105,005**	**1,614,835**	**2,744**	**2,144,887**
Net Book Value					
At 1 January 2012	67,088	3,666	381,592	–	452,346
At 31 December 2012	112,709	887	292,757	–	406,353
At 31 December 2013	**135,997**	**5,475**	**489,724**	**18,494**	**649,690**

25. Operating lease assets

Group

	At 31 December 2012 £	Additions 2013 £	Disposals 2013 £	Depreciation 2013 £	Translation differences 2013 £	At 31 December 2013 £
Gross carrying amount	138,500,556	25,951,878	(29,606,229)	–	(1,557,139)	133,289,066
Less depreciation	(53,503,957)	–	17,409,494	(21,315,726)	1,341,471	(56,068,718)
	84,996,599	**25,951,878**	**(12,196,735)**	**(21,315,726)**	**(215,668)**	**77,220,348**
Provision for impairment						(218,219)
						77,002,129

Group

	At 31 December 2011 £	Additions 2012 £	Disposals 2012 £	Depreciation 2012 £	Translation differences 2012 £	At 31 December 2012 £
Gross carrying amount	135,380,751	22,981,691	(16,457,775)	-	(3,404,111)	138,500,556
Less depreciation	(42,097,986)	-	8,663,116	(21,646,350)	1,577,263	(53,503,957)
	93,282,765	**22,981,691**	**(7,794,659)**	**(21,646,350)**	**(1,826,848)**	**84,996,599**
Provision for impairment						(66,166)
						84,930,433

Rental receipts under operating leases	2013	2012*
Future rentals are as follows:	£	£
Less than one year	21,687,693	24,231,420
Between one and five years	24,817,343	35,033,046
More than five years	–	–
	46,505,036	**59,264,466**

* Certain prior period numbers have been reclassified to be consistent with current period presentation.

The Group's investment in operating leases covers a wide range of equipment types, including transport, construction, mining and heavy machinery equipment.

26. Intangible assets

Group

Cost	2013 £	2012 £
Opening balance	2,773,213	2,362,232
Acquisitions	660,422	410,981
Closing balance	**3,433,635**	**2,773,213**
Depreciation and impairment losses		
Opening balance	2,038,681	1,888,214
Charge for the year	129,030	150,467
Closing balance	**2,167,711**	**2,038,681**
Net Book Value	**1,265,924**	**734,532**

Intangible assets consist of the cost of computer licences and software development.

27. Other assets

Group

	2013 £	2012 £
VAT recoverable	–	2,645,489
Accrued income	144,940	123,983
Collateral deposits*	697,337	802,844
Prepayments	1,480,426	2,136,048
Operating lease accrued income	228,280	274,832
Other receivables	5,258,081	7,234,176
	7,809,064	**13,217,372**

* The Group has pledged cash collateral deposits of £697,337 (2012: £802,844) as security against rental payments on its premises.

28. Due to financial institutions

Group

	2013 £	2012 £
Reverse Murabaha	561,526,668	420,569,754
Wakala	86,890,956	91,543,507
	648,417,624	**512,113,261**

29. Due to customers

Group

	2013 £	2012 £
Security deposits	5,838,255	3,652,379
Customer deposits	302,641,246	254,094,919
	308,479,501	**257,747,298**

30. Other liabilities

Group

	2013 £	2012 £
Trade payables	520,277	1,382,964
VAT payable	654,382	–
Deferred income	5,834,491	3,512,564
Social security and income tax	299,130	278,659
Accruals	5,091,995	5,759,654
Other creditors	5,708,853	1,971,586
	18,109,128	**12,905,427**

31. Commitments under operating leases

There is a commitment at the year-end under a non-cancellable operating lease for the Group's premises at Sherborne House, 119 Cannon Street, London, EC4N 5AT for a ten year period from 20 April 2007 to 19 April 2017, at an annual rental of £324,564, with an initial rent free period.

Sherborne House

Future minimum rentals are as follows:	2013 £	2012 £
Lease expiring between one and five years	1,054,833	1,379,397
	1,054,833	**1,379,397**

During the year £275,880 (2012: £275,880) was recognised as an expense in the income statement in respect of this operating lease.

There is a commitment at the year-end under a non-cancellable operating lease for the Group's Wealth Management Division's premises at 12 Manchester Square, London W1U 3PP for a twenty year period (with a ten year break clause) from 23 June 2008 to 22 June 2028, at an annual rental of £452,945 with an initial rent free period.

Manchester Square

Future minimum rentals are as follows:	2013 £	2012 £
Lease expiring in more than five years	6,529,957	6,982,902
	6,529,957	**6,982,902**

During the year £444,084 (2012: £444,084) was recognised as an expense in the income statement in respect of this operating lease.

There is a commitment at the year-end under a non-cancellable operating lease for the Group's representative office in Dubai for a three year period from 1 November 2012 to 31 October 2015, at an annual rental of AED 646,520, which was equivalent to £106,438 at the balance sheet date (2012: £108,844), with an initial rent free period.

Dubai Office

Future minimum rentals are as follows:	2013 £	2012 £
Lease expiring in less than five years	198,620	308,392
	198,620	**308,392**

During the year £93,792 (2012: £7,705) was recognised as an expense in the income statement in respect of this operating lease.

32. Contingent liabilities

During the year BLME Holdco Limited, a subsidiary of the Bank of London and The Middle East plc, charged its holding of 100 ordinary shares of £1 each in BLME (UK) GP Limited, its 100% subsidiary, to LIBF Funding PCC transacting in respect of its cell LIBF Funding Cell One PC in relation to a financing agreement on behalf of BLME Light Industrial Building L.P., a partnership entity within the BLME Sharia'a Umbrella Fund SICAV SIF.

33. Share capital and share premium

Group **Allotted, called up and fully paid**	No. of Shares	Share capital £	Share premium £
At 31 December 2011	4,893,342,281	48,933,422	206,226,328
Shares issued during 2012	–	–	–
At 31 December 2012 – as reported	**4,893,342,281**	**48,933,422**	**206,226,328**
Impact of BLME Scheme of Arrangement	50,001	50,001	(206,226,328)
At 31 December 2012 – restated	**4,893,392,282**	**48,983,423**	–

Allotted, called up and fully paid			
At 31 December 2012	4,893,392,282	48,983,423	–
Ordinary shares of 1p each cancelled on 2 October 2013	(4,893,342,281)	(48,933,422)	–
Ordinary shares of 25p each issued on 2 October 2013	195,733,691	48,933,422	–
At 31 December 2013	**195,783,692**	**48,983,423**	**–**

Company	Ordinary shares of 25p each £	Deferred shares of £1 each £	A Ordinary shares of £1 each £	Redeemable Preference shares of £1 each £	Total issued share capital £
Allotted, called up and fully paid					
On incorporation	–	–	1	50,000	50,001
195,733,691 shares issued on 2 October 2013	48,933,422	–	–	–	48,933,422
175,000,000 shares issued on 2 October 2013	–	175,000,000	–	–	175,000,000
175,000,000 shares cancelled on 7 October 2013	–	(175,000,000)	–	–	(175,000,000)
At 31 December 2013	**48,933,422**	**–**	**1**	**50,000**	**48,983,423**

Upon its incorporation on 24 April 2013, the issued share capital of the Company was as follows:

a. 50,000 Redeemable Preference Shares; and
b. 1 ordinary share of £1.00.

These shares were issued to BLME on 24 April 2013 as the sole shareholder in consideration for an undertaking to pay cash. By an ordinary resolution passed on 10 May 2013, the issued ordinary share of £1.00 in the capital of the Company was re-designated as an A Ordinary Share. On 20 June 2013 the ordinary share capital and preference share capital of the Company was paid-in in full by BLME for cash consideration totalling £50,001.

As part of the preparation of the BLME Group for Admission to the Official List of Securities of Dubai Financial Services Authority and Admission to Trading on NASDAQ Dubai, a corporate reorganisation was implemented by means of a Court-approved scheme of arrangement under sections 895 to 899 of the UK Companies Act. Pursuant to the Scheme of Arrangement, BLME's Shareholders exchanged their ordinary shares in Bank of London and The Middle East plc for a beneficial interest in the ordinary shares of BLME Holdings plc.

The effects of the implementation of the BLME Scheme of Arrangement were as follows:

i. instead of having its issued share capital owned by BLME's Shareholders, Bank of London and The Middle East plc is now a wholly-owned subsidiary of BLME Holdings plc
ii. instead of owning a given number of Bank of London and The Middle East plc shares, each BLME Shareholder now beneficially owns approximately one BLME Holdings plc share for every 25 Bank of London and The Middle East plc shares that it held prior to the BLME Scheme of Arrangement becoming effective
iii. BLME Holdings plc became the new holding company of the BLME Group

Pursuant to the BLME Scheme of Arrangement, the issued share capital of Bank of London and The Middle East plc was reduced by cancelling and extinguishing the ordinary shares of Bank of London and The Middle East plc in issue immediately prior to the BLME Scheme of Arrangement becoming effective (the "Scheme shares"), following which the credit arising in the books of Bank of London and The Middle East plc as a result of the cancellation was applied in paying up in full new ordinary shares of Bank of London and The Middle East plc, such that the aggregate nominal value of such new ordinary shares equalled the aggregate nominal value of the Scheme shares cancelled. The Bank of London and The Middle East plc new ordinary shares were issued to BLME Holdings plc which, as a result, became the holding company of Bank of London and The Middle East plc and the BLME Group.

In consideration for the cancellation of the Scheme shares, the BLME Shareholders were entitled to a beneficial interest in one BLME Holdings plc share for every 25 Scheme shares held. The principal purpose of the consolidation was to enable a price to be established for the BLME Holdings plc shares at Admission which the Directors considered to be at an appropriate level for effective and orderly market dealings in BLME Holdings plc shares to commence on NASDAQ Dubai.

A meeting of the holders of Bank of London and The Middle East plc shares convened by an order of the Court pursuant to section 896 of the UK Companies Act was held on 10 June 2013 at which the BLME Scheme of Arrangement was approved by a majority in number, representing not less than 75 per cent in value of shareholders present and voting, either in person or by proxy.

A general meeting of the Bank of London and The Middle East plc Shareholders, to approve amongst other things:

i. the BLME Scheme of Arrangement
ii. the cancellation of the Scheme shares
iii. the application of the reserve arising as a result of the cancellation of the Scheme shares to paying up the new Bank of London and The Middle East plc shares and the allotment of the new Bank of London and The Middle East plc shares to BLME Holdings plc

was also held on 10 June 2013 and the above proposals were approved as special resolutions by not less than 75 per cent. in value of the votes cast.

The Court hearing at which the BLME Scheme of Arrangement was sanctioned was held on 2 October 2013 and the BLME Scheme of Arrangement became effective on this date.

A Merger reserve was created in the books of the Company upon the BLME Scheme of Arrangement becoming effective on 2 October 2013. The majority of this Merger reserve was capitalised through an allotment and issue of 175 million Deferred Shares of £1 each to BLME which were cancelled on 7 October 2013, thus creating a distributable reserve in the books of the Company equal to the nominal value of the Deferred Shares so cancelled.

The Court hearing confirming the Company Reduction of Capital was held on 7 October 2013 and the Company Reduction of Capital became effective on this date.

34. Merger reserve

Company

	2013 £	2012 £
Merger reserve arising on 2 October 2013	190,999,851	–
Issue of deferred shares to BLME	(175,000,000)	–
Closing balance at 31 December	**15,999,851**	**–**

As referred to in the Directors' Report and also as explained in Note 33 above, a corporate reorganisation of BLME was implemented on 2 October 2013 by means of a Court-approved scheme of arrangement under sections 895 to 899 of the UK Companies Act.

A Merger reserve of £190,999,851 was created in the books of the Company upon the BLME Scheme of Arrangement becoming effective on 2 October 2013. This Merger reserve balance arising represents the excess of the net asset value of BLME of £239,933,273 (see Note 20) over the nominal value of the ordinary shares issued to the former shareholders of BLME of £48,933,422 (see Note 33).

£175,000,000 of this Merger reserve was capitalised through an allotment and issue of 175 million Deferred Shares of £1 each to BLME on 2 October 2013. These deferred shares were subsequently cancelled on 7 October 2013, thus creating a distributable reserve in the books of the Company equal to the nominal value of the Deferred Shares so cancelled.

35. Subsidiaries and other entities

Subsidiary	Country of incorporation	BLME interest in equity capital	Issued equity capital
Directly held:			
Bank of London and The Middle East plc	England & Wales	100%	£48,933,422
Indirectly held:			
BLME Umbrella Fund Management Sarl	Luxembourg	100%	US$ 25,000
BLME Holdco Limited	England & Wales	100%	£102
Bank of London and The Middle East EBT	Jersey	100%	£100
BLME Limited	England & Wales	100%	£2
BLME (UK) GP Limited	England & Wales	100%	£100
BLME Nominees LIBF Limited	England & Wales	100%	£100
BLME Asset Management Limited	England & Wales	100%	£2

In addition, the Group holds the following investments in three different compartments of the BLME Sharia'a Umbrella Fund SICAV SIF:

Compartment	**Holdings:**
BLME US$ Income Fund	1 Management share, 25,741.369 class B shares, 24,995.251 class C shares, 1,234.491 class G shares and 198.766 class M shares (2012: 1 Management share, 47,883.888 class B, Nil class C shares, 1,234.491 class G shares and Nil class M shares)
BLME Global Sukuk Fund*	8,239.545 class A shares (2012: 10,000)
BLME Light Industrial Building Fund	10,027.628 class A shares (2012: 10,027.628)

(*formerly called the BLME US$ High Yield Fund)

These holdings represent a majority interest in all three active compartments of the BLME Sharia'a Umbrella Fund SICAV SIF which are therefore deemed to be controlled by the Group and thus consolidated into the Group's results. The overall holding in the BLME Sharia'a Umbrella Fund SICAV SIF is approximately 77.9% (2012: 81.9%) of the shares issued. The Group recognised an expense of £383,600 (2012: £840,720) in the income statement line 'Change in third party interest in consolidated funds' relating to the minority interest of third party investors in the fund. The minority interest of 22.1% (2012: 18.1%) has been reported in the Group's balance sheet liabilities line 'Third party interest in consolidated funds'.

During the year the Group subscribed $25 million into share class C of the BLME US$ Income Fund compartment financed by redeeming $25 million from share class B of the BLME US$ Income Fund compartment, subscribed €200,000 into share class M of the BLME US$ Income Fund compartment and redeemed $2 million from the BLME Global Sukuk Fund compartment.

There are five entities (2012: five) that do not qualify as subsidiaries under UK law but which are consolidated under IAS 27 (SIC-12) as the substance of the relationship is that the entities are controlled by the Group. These entities are deemed to be controlled by the Group because the relationships between the Group and the SPVs are governed by participation agreements which confer the risk and rewards to the Group and indemnify the SPVs for losses. Therefore this gives rise to benefits and risks that are in substance no different from those that would arise were the entities subsidiaries of the Group.

The five entities are as follows:

- Kalakane Transatlantic Investors II, Inc. (USA) – Operating leases
- BLX13 Inc (USA) – Operating leases and Finance leases
- DMJ 2 LLC (USA) – Operating leases
- TP Funding Company LLC (USA) – Investment property
- Medical Property Investments LLC (USA) – Investment property

Lease assets owned by the SPVs are reported as Group operating lease assets amounting to £27,213,040 (2012: £35,875,223). Finance leases owned by the SPVs amount to £8,837,061 (2012: £13,466,545).

On 30 April 2013 the EBT purchased 51,538,462 ordinary BLME shares of 1 penny each at 6.5 pence per share for a total consideration of £3,350,000 from employees of BLME who had participated in the Executive Share Purchase Plan referred to in Note 14. During 2012 the EBT purchased 3,076,921 of ordinary BLME shares of 1 penny each at 6.5 pence per share for a total consideration of £200,000 from employees who had left the company. The EBT has a cumulative holding of own shares acquired at a total cost of £4,350,000 (2012: £1,000,000) which has been deducted from retained earnings in the Statement of Changes in Equity. During the year the Bank incurred stamp duty costs on behalf of the EBT amounting to £16,750 (2012: £1,000).

36. Related parties

During the year the Group entered into transactions, on an arm's length basis with related counterparties as detailed below.

Group	2013 £	2012 £
Boubyan Bank K.S.C		
Wakala placement	95,200,438	9,162,722
Wakala deposit taking	54,132,119	12,385,653
Foreign exchange transactions	21,432	25,249
The Public Institution for Social Security		
Reverse Murabaha	650,131,618	421,962,540
SGM-Foreign Exchange Limited		
Foreign exchange transactions	–	7,810,137
PDQ-FX Limited		
Foreign exchange transactions	3,209	–

The amounts outstanding with Boubyan Bank K.S.C as at 31 December 2013 were as follows:

	2013 £	2012 £
Cash and balances with banks		
Nostros	1,663,988	149,476
Due from financial institutions		
Wakala placement	8,040,064	2,977,114
Due to financial institutions		
Wakala deposit taking	9,797,978	6,184,385

The maximum amounts outstanding, on and off balance sheet, with Boubyan Bank K.S.C during the year ended 31 December 2013 were £12,924,801 and £Nil respectively (2012: £12,385,653 and £Nil).

On 22 September 2010 the Group entered into a 5 year marketing and advisory services agreement with Boubyan Bank K.S.C. The Group will be paying KWD 450,000, which was equivalent to £964,426 at the balance sheet date (2012: £989,230), annually in arrears for the services with the first payment made on 30 September 2011. In return Boubyan Bank has committed to a comprehensive range of marketing and advisory initiatives. The cost of these services is being recognised in the income statement over the period of the agreement and is included in the line 'Other operating expenses'.

On 4 April 2011 the Group was appointed by Boubyan Bank as agent under a 2 year facility agency agreement with Boubyan Bank K.S.C in relation to a master murabaha facility agreement between Boubyan Bank K.S.C and a client of Boubyan Bank K.S.C for the purpose of the acquisition and development of a property in London. For this service, the Group will receive a facility agency fee of £124,000 during the first year of the agreement and £62,000 in the second year of the agreement. The fee will be payable in four equal quarterly instalments each year. On 25 June 2013 the facility agency agreement with Boubyan Bank K.S.C was amended so that the Group will also receive an extension facility agency fee of £124,000 in four equal quarterly instalments commencing with effect from 4 April 2013.

As at 31 December 2013, Boubyan Bank K.S.C held voting rights over 25.62% (2012: 21.78%) of the Company's shares. A Non-executive Director who joined the Board on 25 September 2009 was the Chairman of Boubyan Bank K.S.C from 2009 until March 2012. A Non-executive Director who joined the Board on 6 December 2012 is the current Chief Executive Officer and Vice-Chairman of Boubyan Bank K.S.C.

The amounts outstanding with The Public Institution for Social Security (of Kuwait) as at 31 December 2013 were as follows:

Included within:	2013 £	2012 £
Reverse Murabaha	526,858,596	408,750,232

The maximum amounts outstanding, on and off balance sheet, with The Public Institution for Social Security during the year ended 31 December 2013 were £545,602,006 and £Nil respectively (2012: £408,750,232 and £Nil).

As at 31 December 2013, The Public Institution for Social Security held 7.67% (2012: 7.67%) of the Company's shares. The Group's Vice Chairman holds the position of Deputy Director General for Investment of The Public Institution for Social Security.

The maximum outstanding amount with SGM-Foreign Exchange Limited during the year ended 31 December 2013 was £Nil (2012: £4,463,891). As at 31 December 2013 the Group had no outstanding foreign currency forward contracts with SGM-Foreign Exchange Limited (2012: none). SGM-Foreign Exchange Limited has pledged cash collateral deposits with BLME of £Nil (2012: £50,000) as security against foreign currency forward contracts. The Company's Chief Executive Officer holds a majority interest in SGM-Foreign Exchange Limited.

The maximum outstanding amount with PDQ-FX Limited during the year ended 31 December 2013 was £1,288 (2012: £Nil). As at 31 December 2013 the Group had no outstanding foreign currency forward contracts with PDQ-FX Limited (2012: none). The Company's Chief Executive Officer holds a 50% interest in PDQ-FX Limited.

Key management of the Group are the three Executive Directors. The compensation of key management personnel is as follows:

	2013 £	2012 £
Key management emoluments*	1,597,519	1,855,897
Bank contributions to pension plans	59,250	93,000
	1,656,769	**1,948,897**

*Key management emoluments includes share-based payments of £377,900 (2012: £697,979).

During 2013 one of the Executive Directors purchased some items of office furniture from the Group for a total consideration of £3,050 (2012: £Nil). During 2012 one of the Executive Directors entered spot foreign exchange transactions with the Group totalling £19,355 (2013: £Nil). As at 31 December 2012 one Non-executive Director had a balance of £25,000 in a BLME Premier Deposit Account which matured during the year. These transactions arose from the ordinary course of business and were conducted on the same terms as for comparable transactions with third-party counterparties.

37. Financial risk management

The Group has exposure to the following risk categories arising from the use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing these risks, and the management of capital.

Risk management framework

The Group operates an integrated risk framework which defines the basic components for the identification, assessment, measurement, management, monitoring and reporting of risks. Responsibilities are organised in accordance with the "3 lines of defence" where:

1. Line management, (including Executives and Board members), is responsible for ensuring that a risk and control environment is established as part of the day to day operations (1st line of defence).
2. Oversight functions such as Risk Management and Compliance are responsible for designing policies, setting direction, ensuring compliance and providing oversight for board and audit committee members (2nd line of defence).
3. The 3rd line of defence, assurance is provided by the independent Internal and External Audit functions.

The management of risk in the Group is founded on defining the risk appetite for each class of risk in line with business strategy. Governance structures are put in place to oversee the strategic priorities and to manage the defined risk appetite for each class of risk. For each risk category a range of risk management techniques and limits under an independent control framework are established. This is supported by a stress testing program that defines a Stress Test Guidance Parameter for each main risk type. These are expressed as percentages of capital resources to align risk taking with the business model. Regular stress testing seeks to ensure that risks remain within the Group's stated risk appetite and capital allocation. These processes take place within an approved Risk framework ensuring that:

- Systems and controls are in place to manage the day-to-day business. These are performed with segregation of duties, reporting and escalation procedures.
- Committee and Governance structures exist to oversee the effective operation of the internal control framework and to seek to ensure that the management of risk conforms to regulatory guidelines and the particular risk appetite of the business, as determined by the Board. This is re-enforced by the independent advisory and monitoring functions of Risk Management and Compliance.
- An additional layer of independent risk assurance is provided by the internal and external auditing processes, and by the programme of regular independent review that the Board Risk Committee and the Audit Committee undertake on behalf of the Board.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions, products and services offered.

The principal risks faced by the Group are described below, together with details of how these risks are managed (which have not changed significantly during the year). Quantitative information indicates the amounts of such risks at the reporting date. The amounts at the reporting date are indicative of the amounts of such risks which have been experienced throughout the period.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty is not able to repay capital and/or profit, or otherwise meet its contractual obligations under credit facilities or in respect of other agreements. This risk is managed in accordance with the Group's Credit Risk Management Policy. The Group has a quality checking process in place covering all its customers and counterparties whereby it assigns an in-house rating and maximum tenor. External rating agency ratings are used where available. Ratings are subject to regular review and constrain the amount of credit that can be made available to the risk counterparty.

i. Management of credit risk

The Group manages credit risk by the use of Target Market Criteria within the Group's Credit Risk Management Policy. These sector and business based expressions of credit risk appetite provide guidance on the acceptable level of credit exposure by counterparty rating, country and sector, including the adequacy of collateral. Credit risks are independently monitored on a daily basis and regularly re-assessed for creditworthiness. The management and overview of credit exposures seeks to ensure that credit capacities are diversified across the Group's businesses to facilitate allocation of risk capital and to mitigate against concentrations of risk by customer, country, sector and rating.

Through the Risk Committee the Board of Directors has delegated responsibility for the management of credit risk to the Counterparty Credit Risk Committee ("CCRC"). A separate Credit Risk Department, accountable to the CCRC, is responsible for oversight of the Group's credit risk, including:

- Formulating credit policies in consultation with other business units, covering credit assessments, collateral requirements, risk reporting, legal requirements and compliance with regulatory and statutory requirements.
- Establishing authorisation limits and structures for the approval and renewal of credit exposure limits.
- Reviewing and assessing credit risk prior to agreements being entered into with customers.
- Establishing limits for counterparties and reviewing these limits.
- On-going assessment of exposure and implementation of procedures to reduce this exposure.
- Providing advice, guidance and specialist skills to all business areas throughout the Group in the management of credit risk.

Adherence to country and counterparty limits is monitored on an on-going basis by the Group's Credit Risk Department, with a detailed review of all limits being undertaken at least annually. Senior management receives regular reports on the utilisation of these limits.

The Group also employs a credit grading system, to facilitate monitoring of the quality of the overall portfolio and individual segments thereof, including movements in the portfolio over time.

ii. Exposure

The tables below present the Group's maximum exposure to credit risk on balance sheet financial instruments as at 31 December 2013, before taking account of any collateral held or other credit enhancements. The amounts at the reporting date are indicative of the amounts at risk throughout the period.

Group	2013 £	2012 £
Cash and balances with banks	65,649,884	159,600,938
Due from financial institutions		
Murabaha	103,372,471	92,696,610
Wakala	30,018,055	39,717,136
Investment securities	128,014,007	104,840,753
Financing arrangements	594,571,253	359,379,248
Finance lease receivables	199,156,031	151,925,014
Total credit exposure	**1,120,781,701**	**908,159,699**

There were 43 off balance sheet letters of guarantee outstanding at 31 December 2013 (2012: 31) with a total exposure of £18,425,420 (2012: £13,546,175).

iii. Exposure by Country

The Group assets were dispersed across the following countries:

Group

GCC countries	2013 £	2012 £
Bahrain	19,750,317	20,842,022
Kuwait	50,670,939	29,378,578
Qatar	35,176,002	52,618,716
Saudi Arabia	82,801,814	44,091,224
United Arab Emirates	44,852,721	69,903,453
EEA countries		
France	25,341,972	12,826,177
Italy	–	1,855,115
Luxembourg	4,210,473	4,081,282
United Kingdom	748,446,443	576,049,466
Other countries		
Bermuda	5,418,884	6,980,687
British Virgin Islands	1,873,721	–
China	–	7,993,210
Djibouti	3,219,946	3,900,973
Hong Kong	200,000	200,000
Indonesia	356,905	9,522,097
Malaysia	8,254,673	3,092,997
Singapore	–	201,345
South Korea	8,728,430	12,534,501
Switzerland	12,443,443	14,718,099
Turkey	21,213,510	15,273,884
USA	47,821,508	22,095,873
Total credit exposure	**1,120,781,701**	**908,159,699**

The Group has very limited direct credit exposure to institutions and governments of the European Union ("EU") outside the United Kingdom ("UK"). The non-UK EU component above represents less than 3% (2012: 1%) of the Group's total credit exposure. The Group had no direct exposure to either the governments of, or institutions or corporates in Greece, Portugal, Ireland, Spain or Cyprus.

iv. Exposure by economic sector

The Group's assets were dispersed across the following economic sectors:

Group	2013 £	2012 £
Financial services		
GCC financial institutions	157,743,994	132,848,785
UK financial institutions	108,447,205	189,135,315
European financial institutions	28,711,647	17,939,803
Other financial institutions	27,374,034	24,874,664
Mining and quarrying	885,844	13,996,003
Manufacturing	18,754,527	7,439,809
Real estate	324,066,771	229,870,368
Transportation and storage	146,164,092	111,469,152
Government	23,786,058	45,798,174
Wholesale / Retail	91,292,731	59,171,072
Oil and Gas	16,930,410	10,993,810
Commodities	58,867,235	21,357,109
Energy	30,717,833	4,523,404
Construction	32,648,344	–
Telecoms	14,721,747	–
Others	39,669,229	38,742,231
Total credit exposure	**1,120,781,701**	**908,159,699**

v. Credit risk quality

The Group's credit quality and direct investments are managed by the CCRC and the Investment Committee respectively, under the oversight of the Executive Committee. Credit quality is assessed using techniques that include information from the major External Credit Assessment Institutions ("ECAI") as well as BLME internal ratings. The latter are mapped to the ratings of the ECAI. The table below shows the breakdown of credit quality as at 31 December 2013. Of the total portfolio 33% (2012: 47%) was directly rated by at least one of the ECAI, with 67% (2012: 53%) mapped using internal ratings.

There are many counterparties with whom the Group transacts that are not rated by the major ECAI. For such counterparties the Group determines underlying counterparty credit quality by use of its internal credit rating procedures. These procedures assess in combination, the financial and managerial strength, business model robustness, collateral value and availability and the sector and geography of the counterparty concerned. Following this assessment an internal BLME rating is allocated. BLME's internal ratings range from "aa" considered very strong to "b" considered relatively weak.

Group

At 31 December 2013	ECAI ratings		BLME Internal Rating		Unrated	Total
	Investment Grade £	Sub-Investment Grade £	Investment Grade £	Sub-Investment Grade £	Unlisted Equity Investments £	Total £
Cash and balances with banks	65,649,884	–	–	–	–	65,649,884
Due from financial institutions	111,345,318	–	7,081,436	14,963,772	–	133,390,526
Investment securities	119,719,187	3,996,733	709,470	627,174	2,961,443	128,014,007
Financing arrangements	31,191,062	–	266,854,968	296,525,223	–	594,571,253
Finance lease receivables	22,965,192	16,930,410	110,936,417	48,324,012	–	199,156,031
Total credit exposure	**350,870,643**	**20,927,143**	**385,582,291**	**360,440,181**	**2,961,443**	**1,120,781,701**

Group

At 31 December 2012	ECAI ratings		BLME Internal Rating		Unrated	Total
	Investment Grade £	Sub-Investment Grade £	Investment Grade £	Sub-Investment Grade £	Unlisted Equity Investments £	Total £
Cash and balances with banks	159,600,938	–	–	–	–	159,600,938
Due from financial institutions	104,640,815	–	–	27,772,931	–	132,413,746
Investment securities	87,444,809	12,606,340	2,076,283	500,217	2,213,104	104,840,753
Financing arrangements	27,816,498	12,214,793	189,850,275	129,497,682	–	359,379,248
Finance lease receivables	23,778,945	–	60,263,127	67,882,942	–	151,925,014
Total credit exposure	**403,282,005**	**24,821,133**	**252,189,685**	**225,653,772**	**2,213,104**	**908,159,699**

The Group cash balances, due from financial institutions and investment securities were neither past due nor impaired as at 31 December 2013 and as at 31 December 2012.

Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	2013 £	2012 £	2013 £	2012 £
Neither past due nor impaired	562,499,879	343,675,757	197,182,299	151,925,014
Past due but not impaired	16,577,100	24,528	1,671,145	–
Gross exposure associated with impairment provision	37,827,536	37,770,803	384,587	–
Less: allowance for impairments	(22,333,262)	(22,091,840)	(82,000)	–
Total	**594,571,253**	**359,379,248**	**199,156,031**	**151,925,014**

Past due but not impaired	£	£	£	£
Past due up to 30 days	10,536,096	–	1,671,145	–
Past due 30 to 60 days	6,022,476	–	–	–
Past due 60 to 90 days	–	–	–	–
Past due over 90 days	18,528	24,528	–	–
Total	**16,577,100**	**24,528**	**1,671,145**	**–**

The past due but not impaired balances as at 31 December 2013 include £16,363,882 relating to four real estate transactions where the facility balances are lower than the collateral values. An analysis of impairments is provided in Note 15 'Impairment of financial assets and operating leases'.

Based on the credit exposures existing as at 31 December 2013 there had been one instance (2012: none):

- where the Group waived material financial covenants or agreed to temporary relaxation of repayment terms which were subsequently cured and / or
- where the Group agreed to provide temporary facilities beyond the terms upon which the facilities were intended to operate.

The single instance relates to a multi-asset class, asset backed facility, for which the restructuring of loan repayment terms was required to be undertaken during the year.

- Allowance for impairment

  The Group has established a policy to monitor impairment events that could lead to losses in its asset portfolio. This policy covers specific loss events for individual significant exposures as well as for events that relate to collective losses on groups of homogenous assets that have yet to be identified and assessed individually for impairment.

  The Group writes off a balance (and any related allowances for impairment) when the Credit Risk Department determines that the balance is uncollectible. This determination would be reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that the counterparty can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

vi. Collateral

Within its financing activities, which spans working capital finance provision to term real estate financing, the Group seeks to ensure that, where appropriate, at the inception of a transaction it has sufficient collateral coverage in place to assist with the avoidance of stress should the customer concerned fail to honour its obligations when due. The Group monitors the market value of its collateral on an on-going basis which, dependent upon the collateral type, can vary from monthly to at least once a year. As at 31 December 2013, collateral represented 63% (2012: 52%) of the Group's total credit exposure.

Financial assets and non-financial assets obtained by the Group by taking possession of collateral held as security against financing arrangements and finance leases and held at the year-end are shown below:

Assets obtained by taking possession of collateral	2013 £	2012 £
Plant and equipment	–	65,422
Real estate	6,345,825	6,345,825
Total	**6,345,825**	**6,411,247**

The real estate collateral held at the balance sheet date relates to a re-possession in the second half of 2012. Negotiations with third parties have been more protracted than anticipated but the Bank believes the collateral will be realised at a value that will provide an exit without the need for further impairment charges.

Group	2013 Exposure £	2013 Collateral £	2012 Exposure £	2012 Collateral £
Cash and balances with banks	65,649,884	–	159,600,938	–
Due from financial institutions	133,390,526	–	132,413,746	–
Investment securities	128,014,007	–	104,840,753	–
Financing arrangements	594,571,253	514,079,805	359,379,248	322,807,168
Finance lease receivables	199,156,031	189,875,676	151,925,014	151,925,014
Total credit exposure / collateral	**1,120,781,701**	**703,955,481**	**908,159,699**	**474,732,182**

Analysis of collateral	2013 £	2012 £
Plant and equipment	261,340,679	172,452,346
Property	317,292,676	229,214,095
Raw materials/ finished stock	113,234,907	58,978,191
Financial guarantee	12,087,219	14,087,550
Total collateral	**703,955,481**	**474,732,182**

Collateral is disclosed at the lower of 100% of the exposure or management estimation of the value of the collateral based on prevailing valuations.

vii. Offsetting financial assets and liabilities

Whilst the Bank has entered into master agreements with counterparties that allow the Bank to obtain collateral which, if an event of default occurs, permits settlement of all outstanding transactions with each counterparty on a net basis; no such commercial arrangements have been transacted and accordingly there are no offsetting financial assets and liabilities which require disclosure under the amendments to IFRS 7.

viii. Fair value of financial assets and liabilities

The following table summarises the carrying amounts and estimated fair values of financial assets and liabilities.

Group	Note	2013 Carrying value £	2013 Fair value £	2012 Carrying value £	2012 Fair value £
Due from financial institutions	i	133,390,526	*	132,416,746	*
Investment securities	ii	128,014,007	128,014,007	104,840,753	104,840,753
Financing arrangements	iii	594,571,253	*	359,379,248	*
Finance lease receivables	iv	199,156,031	*	151,925,014	*
Due to financial institutions	iv	648,417,624	*	512,113,261	*
Profit rate swaps liability	v	1,972,903	1,972,903	5,308,045	5,308,045
Due to customers	iv	308,479,501	*	257,747,298	*

* the carrying amount of these financial assets and financial liabilities are representative of their fair values.

Notes

i. *Apart from a £8,040,064 (2012: £2,977,114) Wakala placement with Boubyan Bank K.S.C, which is disclosed in further detail in Note 36, these assets represent short term liquidity with an average residual life of 1 week for the Group and a maximum individual residual maturity of 8 months for the Group. The assets are placed with banks with an average credit rating of A- for the Group. On this basis, carrying value reflects fair value.*

ii. *Fair value represents independent external valuation or last trade.*

iii. *Fair value reflects screen based quotes where appropriate and available or replacement value based on current profit rates with reference to residual maturity from balance sheet date.*

iv. *Fair value represents present replacement value based on current profit rates with reference to residual maturity from balance sheet date.*

v. *Fair value represents replacement value based on current profit rates with reference to residual maturity from balance sheet date.*

Valuation of Financial Instruments

The Group measures fair values using the fair value hierarchy that reflects the significance of inputs used in making the measurements.

Level 1: Valuation is based upon quoted market prices in an active market for an identical instrument. This category comprises Sukuk held at fair value through profit and loss and Sukuk held at fair value designated as available-for-sale.

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category comprises profit rate swaps and investments in Sharia'a compliant funds.

Level 3: Valuation techniques using significant unobservable inputs. This category comprises unlisted equity investments valued by reference to third party valuations.

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using valuation techniques based on observable and unobservable inputs.

The table below analyses financial instruments measured at fair value at the end of the reporting period, by the fair value hierarchy.

Group	2013 Level 1 £	2013 Level 2 £	2013 Level 3 £	2013 Total £
Investment securities	124,938,515	411,804	2,663,688	128,014,007
Profit rate swaps liability	–	1,972,903	–	1,972,903

Group	2012 Level 1 £	2012 Level 2 £	2012 Level 3 £	2012 Total £
Investment securities	102,627,649	–	2,213,104	104,840,753
Profit rate swaps liability	–	5,308,045	–	5,308,045

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

Group

Investment securities	2013 £	2012 £
Balance at 1 January	2,213,104	2,096,533
Total gains / (losses) recognised in:		
– profit or loss	(11,011)	(19,250)
– other comprehensive income	(34,189)	(15,000)
Purchases	695,785	150,821
Sales	(200,001)	–
Balance at 31 December	**2,663,688**	**2,213,104**

ix. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2013.

Group

Assets	2013 Fair value through profit and loss £	2013 Designated at fair value through profit and loss upon initial recognition £	2013 Available-for-sale £	2013 Financial assets at amortised cost £	2013 Total £
Cash and balances with banks	–	–	–	65,649,884	65,649,884
Due from financial institutions	–	–	–	133,390,526	133,390,526
Investment securities:					
Sukuk	35,543,742	–	89,508,822	–	125,052,564
Equity	–	–	2,961,443	–	2,961,443
Financing arrangements	–	–	–	594,571,253	594,571,253
Finance lease receivables	–	–	–	199,156,031	199,156,031
Total assets	**35,543,742**	**–**	**92,470,265**	**992,767,694**	**1,120,781,701**

Group

Liabilities	2013 Profit Rate Swaps designated as fair value hedging instruments £	2013 Profit Rate Swaps designated as cash flow hedging instruments £	2013 Financial liabilities at amortised cost £	2013 Total £
Due to financial institutions	–	–	648,417,624	648,417,624
Due to customers	–	–	308,529,502	308,529,502
Profit rate swaps	(101,306)	2,074,209	–	1,972,903
Total liabilities	**(101,306)**	**2,074,209**	**956,947,126**	**958,920,029**

Group Assets	2012 Fair value through profit and loss £	2012 Designated at fair value through profit and loss upon initial recognition £	2012 Available-for-sale £	2012 Financial assets at amortised cost £	2012 Total £
Cash and balances with banks	–	–	–	159,600,938	159,600,938
Due from financial institutions	–	–	–	132,413,746	132,413,746
Investment securities:					
Sukuk	40,518,391		61,918,227	–	102,436,618
Equity	–	–	2,404,135	–	2,404,135
Financing arrangements	–	–	–	359,379,248	359,379,248
Finance lease receivables	–	–	–	151,925,014	151,925,014
Total assets	**40,518,391**	**–**	**64,322,362**	**803,318,946**	**908,159,699**

Group Liabilities	2012 Profit Rate Swaps designated as fair value hedging instruments £	2012 Profit Rate Swaps designated as cash flow hedging instruments £	2012 Financial liabilities at amortised cost £	2012 Total £
Due to financial institutions	–	–	512,113,261	512,113,261
Due to customers	–	–	257,747,298	257,747,298
Profit rate swaps	1,057,607	4,250,438	–	5,308,045
Total liabilities	**1,057,607**	**4,250,438**	**769,860,559**	**775,168,604**

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, arising from the differing maturity profile of its assets and liabilities. This risk is managed by ensuring that the Group has sufficient liquidity to meet its liabilities when due.

The Treasury Division is responsible for monitoring the liquidity profile of financial assets and liabilities, including projected cash flows from current and future business. This area maintains a portfolio of short-term money market assets and marketable securities and seeks to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis in accordance with guidelines issued by Asset and Liability Committee (“ALCO”) and approved by the Board Risk Committee. Overall, the management of liquidity risk is conducted in accordance with the Group’s Liquidity Risk Management Policy and its annual Individual Liquidity Adequacy Assessment (“ILAA”), as required by the Prudential Regulatory Authority (the “PRA”). Included in the ILAA is BLME’s Contingency Funding Plan that details actions during a liquidity stress.

Over and above regulatory liquidity, ALCO establishes its own liquidity performance measures and prudential guidelines. These include a series of early warning triggers and management data on liability stability (i.e. the likelihood of deposits being withdrawn), liability diversification and reserve liquidity. As at 31 December 2013, the Group had acquired £936,979,030 (2012: £748,199,428) of term deposits and held £19,408,770 (2012: £25,720,107) of secondary market assets.

Residual contractual maturities of financial liabilities

Group	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	2013 Total £
Due to financial institutions	163,710,310	88,549,529	388,560,685	8,500,000	–	649,320,524
Due to customers	36,488,978	14,256,588	87,924,825	188,728,986	–	327,399,377
Profit rate swaps	159,819	182,834	905,387	724,863	–	1,972,903
	200,359,107	**102,988,951**	**477,390,897**	**197,953,849**	**–**	**978,692,804**

Group	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	2012 Total £
Due to financial institutions	147,263,962	96,297,596	266,133,799	4,817,493	–	514,512,850
Due to customers	19,622,424	4,822,356	52,066,728	205,287,616	–	281,799,124
Profit rate swaps	144,269	214,461	605,111	4,344,204	–	5,308,045
	167,030,655	**101,334,413**	**318,805,638**	**214,449,313**	**–**	**801,620,019**

The table above shows the contractual, undiscounted cash flows of the Group's financial liabilities.

c. Market risks

Market risk is the risk that changes in market prices will affect the Group's income. It covers profit rate risk, credit spread risk and foreign exchange risk. The credit spread risk only pertains to the part that is not related to the issuer's / obligor's credit standing as that part is already covered in credit risk. In accordance with the Group's Market Risk Management Policy, ALCO is responsible for reviewing all classes of market price risk and positions, sanctioning dealing limits and approving BLME's stress testing program in accordance with BLME's Stress Testing and Scenario Analysis Policy.

The principal exposure to market risk relates to asset and liability market rate re-price risk within the accrual based Banking Book. These risks are governed by mismatch limits expressed as the present value sensitivity of a 1 basis point change in profit rates. The main stress tests relate to asset and liability re-price, credit spread and FX risks.

i. Profit rate risk

This risk arises from the effects of changes in profit rates on the re-pricing of assets and liabilities, and covers both fixed and variable profit rates. The Group manages such risks through the use of time based limits that measure the profit rate sensitivity to changes in profit rates.

As at 31 December 2013, the Group's net profit rate sensitivity to profit and loss on its fixed and variable rate assets as measured by the discounted value of a one basis point change in market rates, was £2,686 (2012: £7,543). The impact of an increase / decrease of 100 basis points in profit rates at the statement of financial position date, subject to a minimum rate of 0%, would be to increase / decrease profit and loss by £1,109,000 / £564,000 (2012: decrease / increase by £1,072,000 / £173,000) and to decrease / increase equity by £269,000 / £648,000 (2012: decrease / increase by £754,000 / £146,000).

ii. Credit spread risk

BLME operates a Sukuk Trading Book, within which the portfolio size and individual issuer risks are limited to modest proportions since BLME does not have a material appetite for Trading Risk. The value of this Trading Book as at 31 December 2013 was £2,965,090 (2012: £9,327,943). The impact of an increase or decrease of 10 per cent in Sukuk trading prices at the statement of financial position date would be to increase or decrease equity and profit or loss by £292,968 (2012: £920,691).

iii. Foreign exchange risk

Foreign exchange risk is the risk that the value in a non-Sterling asset or liability position will fluctuate due to changes in currency rates. The Bank does not take significant foreign exchange positions and the majority of risk relates to earnings on US Dollar assets and US Dollar liabilities whose maturities are broadly matched. The Board has established position and stop loss limits to ensure that positions and revaluation results are subject to independent daily monitoring and reporting to senior management.

A 10% strengthening or weakening of the net foreign currency positions against Sterling at the statement of financial position date would result in an FX revaluation gain or loss of £103,906 (2012: £76,460). The foreign exchange result for the year to 31 December 2013 was a net loss of £271,992 (2012: £285,156 gain).

d. Operational risk

Operational risk is the risk of loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks.

The overall operational risk framework is set by the Board and documented within the Group's Operational Risk Policy. The framework operates in line with the three lines of defence model. The Group has undertaken staff training and implemented procedures for operational loss and event forms to be raised where such risks occur. These are evaluated by Risk Management, and sanctioned in accordance with an approval matrix that takes account of the severity of the loss.

During the year ended 31 December 2013 the Group has undertaken a detailed risk assessment by business area as a means of identifying the main operational risks and quantifying the effectiveness of risk mitigants and controls. In addition, it continued to test and refine its Business Continuity Plan including both its businesses and premises in the City of London and the West End of London.

e. Capital adequacy

At 31 December 2013 and throughout the year BLME complied with the capital requirements that were in force as set out by the PRA and its predecessor body, the Financial Services Authority.

The regulatory capital position of BLME as at 31 December 2013 was as follows:

Tier 1 capital	2013 £ (unaudited)	2012 £ (unaudited)
Ordinary share capital	48,933,422	48,933,422
Share premium	205,623,225	206,226,328
Share-based payment reserve	–	1,069,056
Retained losses	(12,292,463)	(13,237,189)
Total Tier 1 capital	**242,264,184**	**242,991,617**
Deductions from Tier 1 capital:		
Intangible assets	(1,265,924)	(734,532)
Total Tier 1 capital after deductions	**240,998,260**	**242,257,085**
Tier 2 capital		
Collective allowances for impairment	–	–
Total Tier 2 capital	**–**	**–**
Total Tier 1 and Tier 2 capital	**240,998,260**	**242,257,085**
Deductions from Tier 1 and Tier 2 capital:		
Investment in BLME Sharia'a Umbrella Fund SICAV SIF	(49,097,652)	(51,033,665)
Investment in group companies	(65,218)	(15,559)
Total regulatory capital	**191,835,390**	**191,207,861**

The amounts of regulatory capital shown above differ from the equity balances shown in BLME's statement of financial position in light of adjustments in respect of certain reserves, which are not eligible under the PRA's capital adequacy rules.

Under the capital adequacy rules applicable from 1 January 2008, BLME adopted the Standardised Approach to Credit Risk and the Basic Indicator Approach to Operational Risk. Counterparty Credit Risk ("CCR") is measured using the CCR mark-to-market method, and Market Risk is determined using the standard Position Risk Requirement ("PRR") rules.

BLME's overall minimum capital resource requirement under Pillar 1 is calculated by adding the credit risk charge to that required for Operational Risk, for Market Risk and for CCR.

The following table shows both BLME's overall minimum capital requirement and capital adequacy position under Pillar 1 at 31 December 2013.

Pillar 1 capital requirements	2013 £ (unaudited)	2012 £ (unaudited)
Credit Risk	79,262,000	60,100,000
Market risk – foreign currency PRR	134,000	5,000
Counterparty risk capital component	246,000	225,000
Operational risk	7,337,000	6,655,000
Total Pillar 1 capital requirement	**86,979,000**	**66,985,000**
Total regulatory capital in place	**191,835,390**	**191,207,861**
Excess of capital in place over minimum requirement under Pillar 1	**104,856,390**	**124,222,861**

BLME undertakes regular internal assessments of the amount of capital which it requires to support its activities. This assessment process is called the Internal Capital Adequacy Assessment Process ("ICAAP"). The ICAAP identifies a number of other risks faced by BLME which do not explicitly attract a capital requirement under the Pillar 1 rules. BLME allocates additional capital for these Pillar 2 risks (the "Pillar 2 capital requirement"). The total capital requirement of BLME is determined as the sum of the Pillar 1 and the Pillar 2 capital requirements.

The PRA reviews BLME's ICAAP assessment of its Pillar 2 capital requirement as part of the Individual Capital Guidance ("ICG") process. BLME manages its capital in accordance with its Pillar 2 capital requirement and was in compliance throughout the year.

BLME has put in place processes to monitor and manage capital adequacy which includes reporting regulatory capital headroom against the Pillar 2 capital requirement to executive management on a daily basis. Further information regarding BLME's approach to risk management and its capital adequacy are contained in the unaudited disclosures made under the requirements of Basel II Pillar 3 (the "Pillar 3 disclosures") which can be found in the Investor Relations section of the BLME website www.blme.com.

BLME will continue prudently to employ our capital and maintain robust capital adequacy and liquidity ratios. BLME was compliant with the leverage ratio, which measures tier 1 capital to balance sheet exposures, at 31 December 2013 and has incorporated this measure in the capital planning process. The ratio will be reported to the PRA in 2014 and becomes effective in 2018.

Notes

Notes

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