Annual Report & Accounts – Revised 2014

BLME
BANK ON OUR PRINCIPLES

Annual Report & Accounts – Revised 2014

For the year ended 31 December 2014

As explained in note 1 to the financial statements, these financial statements are revised financial statements which reflect a further loan impairment of £7,157,566 (net of tax, £5,701,264) on a credit exposure that, after careful consideration, the directors have concluded should be reflected in the 2014 financial statements, bringing the total (pre-tax) impairment on that exposure to £8,243,566. The figures and commentary in this annual report have been revised accordingly.

BLME
BANK ON OUR PRINCIPLES

"The Group is well positioned for 2015 with a robust capital base, healthy liquidity and a strong new business pipeline.

The Bank will continue to build upon, and develop new strategic business relationships whilst maintaining the momentum in our key target markets."

Adel Abdul Wahab Al-Majed
Chairman

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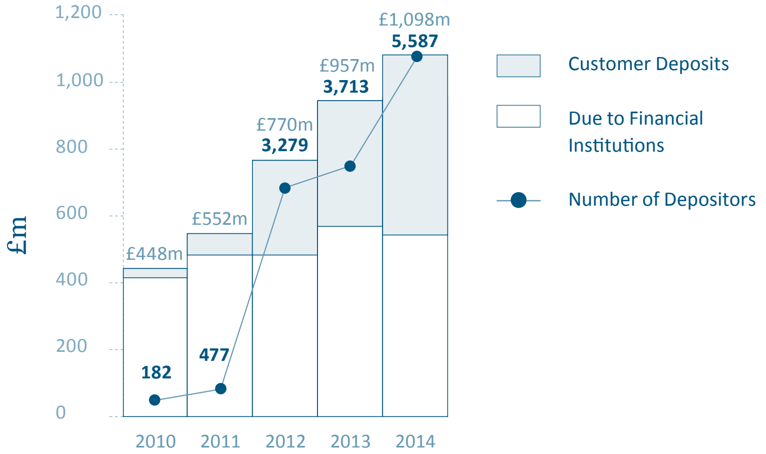
Key Achievements...

Appointed Co-lead Manager on the Islamic Development Bank Sukuk in March 2014 and September 2014

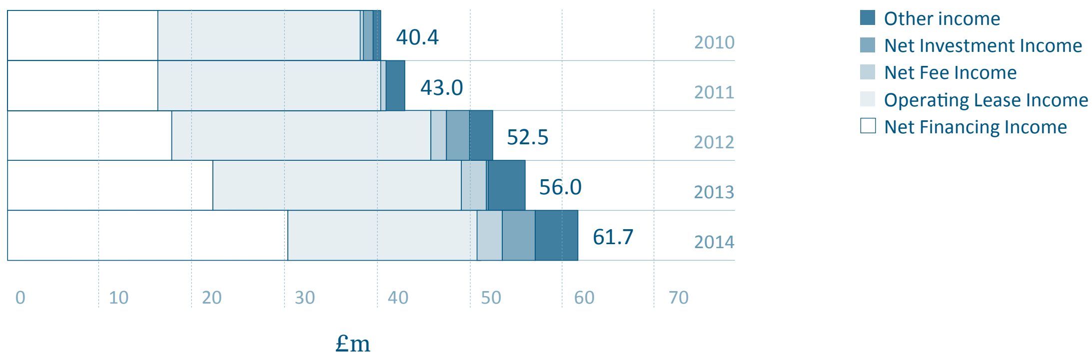
50% increase in the number of depositors

Total Deposits



Consolidated Total Operating Income (£m)

£61.7m



Awarded best Islamic bank in the UK for the seventh consecutive year, by Islamic Finance News

2014 Group Highlights for BLME Holdings plc

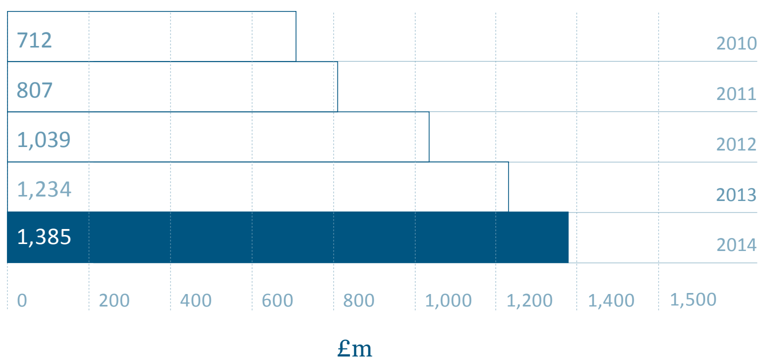
Key Financial Achievements...

54.1% increase in Operating Profit before Impairment Charges

12.3% increase in Balance Sheet Total Assets

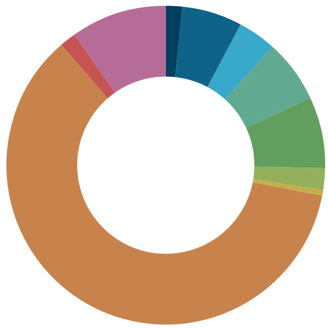
Total Assets (£m)

£1,385m



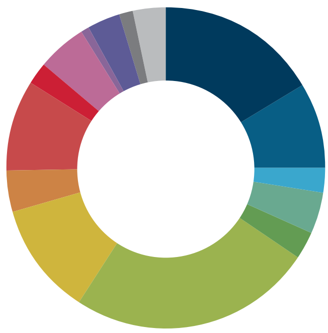
Exposure by Country as at 31 December 2014

Bahrain	1.91%
Kuwait	6.08%
Qatar	3.92%
Saudi Arabia	6.34%
United Arab Emirates	7.21%
France	2.08%
Luxembourg	0.67%
United Kingdom	60.52%
USA	1.57%
Other Countries	9.70%



Exposure by Sector as at 31 December 2014

GCC financial institutions	16.53%
UK financial institutions	8.70%
European financial institutions	2.40%
Other financial institutions	4.21%
Manufacturing	2.61%
Real estate	24.95%
Transportation and storage	11.41%
Government	4.08%
Wholesale / Retail	9.21%
Oil and Gas	2.28%
Commodities	4.89%
Energy	0.90%
Construction	3.30%
Telecoms	1.34%
Others	3.19%



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" 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 the strong underlying business performance and growth of the BLME Group in the year to 31 December 2014 where Operating Profit before Impairment Charges for the Group increased by 54% to £12.6 million. The Group has also seen an increase in Net Fee Income of 40% and the Balance Sheet has grown by 13% to £1.39 billion. Whilst I am encouraged by this progress, I am nevertheless disappointed by the deterioration in a large credit exposure that required BLME to take a full impairment charge of £8.2 million (net £6.6 million after tax) which contributed to an overall Operating Profit before Tax of £1.0 million compared to £6.1 million in 2013.

As stated on page 1 and explained more fully in Note 1 Basis of Preparation, after careful consideration the Board has taken the opportunity under section 454 of the Companies Act 2006 to issue this revised set of financial statements. The decision to restate was taken in the interest of good corporate governance in order to provide clarity for Shareholders due to information which came to light about an existing impaired credit exposure after approval of the original set of financial statements on 27 February 2015.

BLME's Corporate Banking division has continued to grow and establish itself as one of the leading providers of finance for the UK mid-market including those UK companies that have links to the GCC. BLME is one of the few mid-market banks in the UK that provides a broad range of products and services. Corporate Banking, in line with the Bank's strategic objective to build key partnerships with market leading organisations, has established a strategic partnership with Marubeni Corporation to provide lease financing to the customers of their wholly owned UK subsidiary.

Wealth Management's performance has continued to improve with the Dubai Representative Office supporting an increase in investments in our funds from a more diverse group of investors. I am pleased that BLME Asset Management's service and offering has been recognised by Global Investor with their 2014 Sukuk Manager of the Year award and by Islamic Finance News with Best Islamic Asset Manager in Europe. The Board has determined that growing the Asset Management business remains a key strategic priority that will enhance and diversify the Bank's sources of fee income and contribute to further increases in return on capital employed.

The Board remains committed to maintaining high standards of corporate governance and considers this to be a vital part of its ongoing responsibilities as a listed bank. In August, I was delighted to announce that Michael Williams had been appointed as the Senior Independent Non-Executive Director and to chair the Nominations Committee which is formed entirely of independent Non-Executive Directors. In line with best market practice, in 2014, the Bank commissioned an independent review of the effectiveness of the Board and its committee structures. The report provided helpful guidance on several measures that the Board has adopted in keeping with anticipated regulatory change and the development of BLME's businesses.

The Group is well positioned for 2015 with a robust capital base, healthy liquidity and a strong new business pipeline. The Bank will continue to build upon, and develop new strategic business relationships whilst maintaining the momentum in our key target markets.

I would like to thank the staff at BLME, whose hard work and commitment to the Bank is important to the Bank's further success and future growth. BLME's Sharia'a Supervisory Board has mine and the Board's gratitude for their invaluable guidance. Lastly I would like to express the Bank's appreciation for the ongoing loyalty and support from Shareholders.

Adel Abdul Wahab Al-Majed
Chairman
12 May 2015

Chief Executive Officer's statement

Business summary and results

In the year to 31 December 2014 the Group reported an Operating Profit before Tax of £1.0 million. The Group Balance Sheet total assets grew by 12% in the year, with the smaller increase in Corporate Banking assets of 2% reflecting the mature nature of the Leasing and Property Finance businesses. It is pleasing to note that the increase in Total Operating Income of 10% has significantly exceeded the increase in Total Operating Expenses of 3% thus delivering growth of 54% in Operating Profit before Impairment Charges. The Bank has continued its downward trend in the Cost Income ratio as the business growth continues. At the same time the Bank has continued to improve its operational infrastructure and invest in personnel, product development and implementing new software.

During the year Total Operating Income increased from £56.0 million in 2013 to £61.7 million, with net fee income increasing by 40% to £3.8 million. The Balance Sheet total assets increased from £1.23 billion to £1.39 billion. These results demonstrate that in a competitive market environment BLME can significantly expand and increase underlying profitability whilst containing expenses and developing the Bank's infrastructure. Impaired loans, as a percentage of total loans and operating lease assets, increased from 4.0% to 4.9%. The total impairment charge for the year of £11.6 million includes a provision of £8.2 million against a UK retail park exposure where a major national retail chain decided not to progress as the anchor tenant for the second development phase. It also included a £2.6 million increase in provisioning against the shipping sector due to the continued depressed state of global charter rates.

The 15% growth in deposits over the period leaves the Bank well positioned to support asset growth in the financing businesses 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.

Risk Management

Market participants continue to contend with a changing regulatory landscape which has required increased levels of liquidity and capital adequacy buffers in preparation for the full implementation of Basel III. In this more demanding environment I welcome the progress made by BLME as it continues to strengthen its Risk Management department and enhances the risk management processes, procedures and infrastructure.

BLME's risk management framework seeks to mitigate credit, liquidity, market and operational risk and maintain a level of internal capital appropriate to its business profile and risk appetite. Liquidity risk is managed by maintaining a healthy term funding profile together with holding a buffer of highly liquid assets. During 2014, the Bank conducted a rigorous review and update of its Internal Capital Adequacy Assessment Process ("ICAAP") and Internal Liquidity Adequacy Assessment ("ILAA") as part of the Board's assessment and articulation of the Bank's Risk Appetite in conjunction with the discussion and approval of the Business Strategy.

BLME has, over the course of 2014, instigated a rolling programme of portfolio reviews for all of its business financing units, which are overseen by the Counterparty Credit Risk Committee ("CCRC") and the Board's Risk Committee. This programme is designed to ensure that there are no systemic weaknesses in the BLME lending portfolio and that the Bank can identify undue concentration risks. As at 31 December 2014, BLME management is confident that concentration risk within the lending portfolios has been appropriately addressed and managed.

With its strong capital base, the Bank is well positioned to deliver its strategy whilst being cognisant of the higher capital ratios required of banks in the future. BLME is maintaining the diversity and maturity of its funding sources and has achieved the planned 50% increase in the number of depositors in 2014, mainly from the continued success of the Bank's Premier Deposit Account.

Corporate Banking

With the exception of £10.7 million of impairment provisions recognised against credit exposures written prior to the onset of the global financial crisis during the second half of 2008, Corporate Banking Division had a good year with segment contribution increasing by 15% from £13.9 million in 2013 to £16.0 million.

This performance resulted from strong revenue growth across all five business units: Leasing, Property Finance, Trade Finance, ABL Finance and Acquisition Finance. Total Corporate Banking assets grew more slowly this year to £699 million at 31 December 2014, the portfolio having experienced some early repayments. Other Operating Income, which is up by 50% from £4.0 million to £6.0 million, included £2.9 million of gains on leased asset sales.

Corporate Banking have established two important strategic relationships in 2014 notably a strategic leasing partnership with Marubeni Corporation and also the provision of wholesale finance to Renaissance Asset Finance, a new provider of Sharia'a finance to the UK SME sector. These relationships will diversify BLME's exposure profile as well as reducing the average size of credit exposures.

Wealth Management

Wealth Management comprises Private Banking, Asset Management and Islamic Capital Markets ("ICM"). The Wealth Management Division saw asset growth of 9% underpinned by strong growth in ICM. Private Banking's expertise is in providing finance to customers seeking to acquire high-end UK residential property, in addition to introducing property investment opportunities.

The Asset Management business continues to demonstrate strong investment performance in its fixed income funds. The US$ Income Fund celebrated its fifth anniversary and was again ranked in the top percentile in a peer group of 647 funds as measured by Lipper Hindsight, the Thomson Reuters fund ranking service. In addition, the Light Industrial Building Fund, which invests in a niche sector of UK real estate, delivered solid returns as the fund's assets benefited from the recovery in the UK economy. BLME is committed to growing the Asset Management business and in 2015 will be investing in and focusing the distribution team in the Dubai office.

The ICM department performed strongly in 2014 with asset growth and participation in several high profile syndicated deals. ICM develops and provides cross-border Islamic finance solutions. As well as strengthening the Bank's product distribution into the GCC, ICM also introduces GCC financial institutions to financing opportunities in the UK.

BLME's representative office in Dubai has provided a presence in the Gulf for the Bank to develop and build BLME's business network in the region and promote Wealth Management products and services to a wider audience. The success of our presence in Dubai was evidenced by our appointment once again as co-lead manager for Islamic Development Bank's issues of US$1.5 billion tranches of five-year Sukuk in March 2014 and also in September 2014.

Treasury

During 2014 the Treasury Division continued to diversify BLME's liability base through new relationships with financial institutions and via our successful fixed term deposit product, the Premier Deposit Account. The total value of Premier Deposit Accounts has grown from £270 million to £427 million in 2014. In addition, the number of depositors increased by 50% from 3,713 to 5,587 over the same 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.

The Treasury Division's segmental contribution has declined, partly due to challenging market conditions owing to the prolonged low rate environment combined with falling inflation and commodity prices, but also because Treasury has built up excess liquidity over and above the levels required to meet UK regulatory requirements. This surplus liquidity has arisen due to the planned growth in Premier Deposit Accounts in anticipation of further growth in Corporate Banking and Private Banking assets.

Given the degree of liquidity BLME sources from the GCC, the Board has considered the impact of the recent global fall in oil prices on current surplus liquidity in the Gulf and has concluded that it will not have a significant impact on our current institutional deposit base. The Group has minimal credit exposure to the oil and gas sector which represents approximately 2% of the total balance sheet assets. This financing relates wholly to lower risk service related facilities rather than exploration facilities.

Our staff and expertise

BLME has continued to gain recognition for its expertise in Islamic finance and its commitment to broader industry development. In 2014, for the seventh 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 and continues both to broaden its product offering and to bring its distinctive range of financial solutions to clients in both the UK and the GCC.

As a leading provider of Islamic financial services, the Bank remains committed to investing in the skills and knowledge of our staff. BLME promotes the Islamic Finance Qualification and ensures that staff access Chartered Institute for Securities and Investment training so that they remain compliant with both Islamic banking principles and the rapid changes in UK and global banking regulation.

Islamic Finance Industry

Importantly for the industry, during 2014 there have been some landmark new Sukuk issues, with sovereign issuers such as the UK, Hong Kong and Luxembourg entering the Sukuk market for the first time along with other new issuers such as Goldman Sachs. The Sukuk industry is diversifying and becoming more global, with US$21.9 billion of international Sukuk issued in 2014 (excluding maturities of less than one year) compared to US$18.7 billion in 2013 according to Islamic Finance Information Service. The recovery in Sukuk volumes in 2014 has increased the profile of Islamic finance and brought it to a wider audience which is positive for the international aspects of the BLME business strategy.

Outlook for the future

BLME has much to be proud of, and our business is well positioned for the future as we continue to develop a long-term sustainable business. As the UK economy continues to recover we expect to see a further improvement in the overall performance of the Bank. The BLME strategy of building our Corporate Banking and Wealth Management businesses as the cornerstones of a modern merchant banking group, which was re-affirmed by the Board in December 2014, is appropriate for today's market conditions. I am confident that the positive growth of our business operations will deliver commensurate returns for shareholders.

Humphrey Percy
Chief Executive Officer
12 May 2015

£1.0m

Operating Profit before Tax for the Group

40%

Increase in Net Fee Income

To

£1,098m

From

£957m

The value of Total Deposits has grown by 15%

54.1% increase

The Group has increased its Operating Profit before Impairment Charges by 54.1% in 2014

To

£12.6m

The Board and Executive Management

Adel Abdul Wahab Al-Majed – *Chairman*

Adel is the Non-executive Chairman of the Board of BLME Holdings plc. 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.

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

Sheikh Abdullah is the Non-executive Vice Chairman of the Board of BLME Holdings plc. He is the Deputy Director General for Investment at Kuwait's Public Institution for Social Security ("PIFSS"), Chairman of Housing Finance Company and Vice Chairman of Ahli United Bank of Kuwait. Previously he was a Board Member of the Ahli Bank of Kuwait, Global Investment House, and the Chairman of Kuwait Financing Service Co. He started his career at PIFSS and then became a Vice President at Wafra Investment Advisory Group in New York where he was involved in direct equity, real estate and equity portfolios.

EXECUTIVE DIRECTORS

Humphrey Percy – *Chief Executive Officer*

Humphrey is Chief Executive Officer of BLME Holdings plc having joined BLME plc as Chief Executive Officer in August 2006. Following Authorisation in July 2007, Humphrey led the implementation of the business plan that he and the original Management Team drew up for BLME following incorporation. Humphrey is also on the Board of BLME Umbrella Fund Management S.à r.l. and MKL Construction Equipment Finance limited.

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 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.

He is a Chartered Fellow of the Chartered Institute for Securities & Investment (CISI) and holds several other financial memberships as well as being on the Advisory Board of the London Capital Club.

Richard Williams – *Chief Financial Officer*

Richard is Chief Financial Officer of BLME Holdings plc having joined BLME plc as Finance Director 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.

NON–EXECUTIVE DIRECTORS

Neil Holden *(Independent)*

Neil is Chairman of the Remuneration Committee of BLME Holdings plc. He is a mathematician and chartered accountant with more than 30 years of experience in 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, Integrated Financial Arrangements Plc and Saffron Building Society.

Frank Vermeulen *(Independent)*

Frank is Chairman of the Audit Committee of BLME Holdings plc. He has a master's degree in Dutch law and has 35 years of experience in finance. For most of the first 20 years 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 to the Board of 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 *(Senior Independent Director)*

Michael Williams is Chairman of the Nominations Committee and of the Risk Committee of BLME Holdings plc. 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 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 professional financial services network offering in-house and web-based financial advice. Prior to this he was Chief Executive Officer of the International Bank of Qatar in Doha before which he was in Dubai as the Chief Executive Officer of the National Bank of Fujairah, 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.

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 an Executive Director – Head of Investment Sector. 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

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 2014 the Group continued to build on its established Corporate Banking businesses and develop its Wealth Management offering including Asset Management, Islamic Capital Markets and Private Client Services. The Treasury business continued to grow and diversify the depositor base for the Bank.

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.

Key performance indicators	2014	2013
Pre-tax return on equity	0.4%	2.5%
Net operating profit before taxation	£1.0m	£6.1m
Balance Sheet total assets	£1.39bn	£1.23bn
Cost income ratio (adjusted for operating lease depreciation)	72.3%	76.5%
Net fee income / operating profit before impairment charges	30.5%	33.5%

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.

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 capital and maintain appropriate capital adequacy and liquidity ratios. BLME was compliant with the leverage ratio, which measures tier 1 capital to balance sheet exposures, at 31 December 2014 and has incorporated this measure in the capital planning process. The ratio has been reported to the PRA throughout 2014 and becomes effective in 2018.

A description of the principal risks and uncertainties facing the business is detailed in Note 36 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 25.

By order of the Board

Richard Williams
Chief Financial Officer
12 May 2015

To

£1.39bn

The Balance Sheet increased by 12.3%

From

£1.23bn

Directors' report

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

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 in 2013 which is explained in more detail in Note 32.

BLME is an independent, wholly Sharia'a compliant wholesale bank authorised by the UK's Prudential Regulation Authority (the "PRA") and regulated by the Financial Conduct Authority ("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 2014 are shown on pages 47 to 136. The consolidated Group profit for the year after taxation amounts to £973,341 (2013: £4,314,726). The loss for the Company for the year after taxation amounts to £761 (2013: nil). The Directors do not recommend the payment of a dividend (2013: £nil).

Directors and Directors' interests

The Directors who held office during the year were as follows:

Name and Committee Chairmanships	Date of Appointment	Date of Resignation	Committee Memberships (as at 31 December 2014)
Adel Abdul Wahab Al-Majed *Chairman of the Board*	26 April 2013		
Yacob Yousef Al-Muzaini (Independent) *Chairman of the Board* *Chairman of the Nominations Committee*	26 April 2013	31 March 2014	
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah *Vice Chairman of the Board*	26 April 2013		Audit Risk Remuneration
Humphrey Percy	24 April 2013		Executive
Richard Williams	24 April 2013		Executive
Nigel Denison	24 April 2013	5 June 2014	Executive
Neil Holden (Independent) *Chairman of the Remuneration Committee*	26 April 2013		Nominations Audit Risk Remuneration
Frank Vermeulen (Independent) *Chairman of the Audit Committee*	26 April 2013		Nominations Audit Risk
Michael Williams (Senior Independent Director) *Chairman of the Nominations Committee* *Chairman of the Risk Committee*	26 April 2013		Nominations Risk Remuneration
Zeyad Al-Mukhaizeem	7 February 2014		Audit Remuneration

There were some significant changes to the Board in 2014. Yacob Yousef Al-Muzaini and Nigel Denison stepped down from the Board on 31 March 2014 and 5 June 2014 respectively. The Board would like to take this opportunity to thank them both for their significant contribution in establishing BLME and wish them the very best for the future. Adel Abdul Wahab Al-Majed took over responsibility as Chairman of the Company with effect from 31 March 2014 and Michael Williams was appointed Senior Independent Non-executive Director on 26 August 2014.

All of the current Directors were re-elected at the Company's first Annual General Meeting on 5 June 2014. They must offer themselves for re-election by the Shareholders at least every three years. 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 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 2014 had the following beneficial interests in the ordinary shares of the Company at the end of the year.

Name	Class of share	Number of shares held at the end of the year
Adel Abdul Wahab Al-Majed	Ordinary 25p	Nil
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah	Ordinary 25p	80,000
Humphrey Percy	Ordinary 25p	346,000
Richard Williams	Ordinary 25p	195,958
Neil Holden	Ordinary 25p	30,000
Frank Vermeulen	Ordinary 25p	10,522
Michael Williams	Ordinary 25p	Nil
Zeyad Al-Mukhaizeem	Ordinary 25p	Nil

On 1st December 2014, Richard Williams exercised 55,958 of vested options under the Deferred Annual Bonus Scheme which has been reflected in the above holding at the end of the year.

Chairman's other significant commitments

Director	Company	Appointment	Date of Appointment	Date of Resignation
Adel Abdul Wahab Al-Majed	Boubyan Bank K.S.C.	Chairman	5 March 2012	26 March 2013
(Chairman 31 March 2014 to present)		Chief Executive Officer and Vice Chairman	27 March 2013	

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

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

A full description of how the Group manages these risks is provided in Note 36.

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 contributions

The Group made no political contributions during the year (2013: £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 2015 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

A resolution concerning the re-appointment of KPMG LLP as auditors and authorising the Directors to set their remuneration will be proposed at the Annual General Meeting.

By order of the Board

Peter Bulkeley
Company Secretary
12 May 2015

To

£61.7m

During the year there was a 10.2% increase in Total Consolidated Operating Income from £56 million in 2014 to £61.7 million.

From

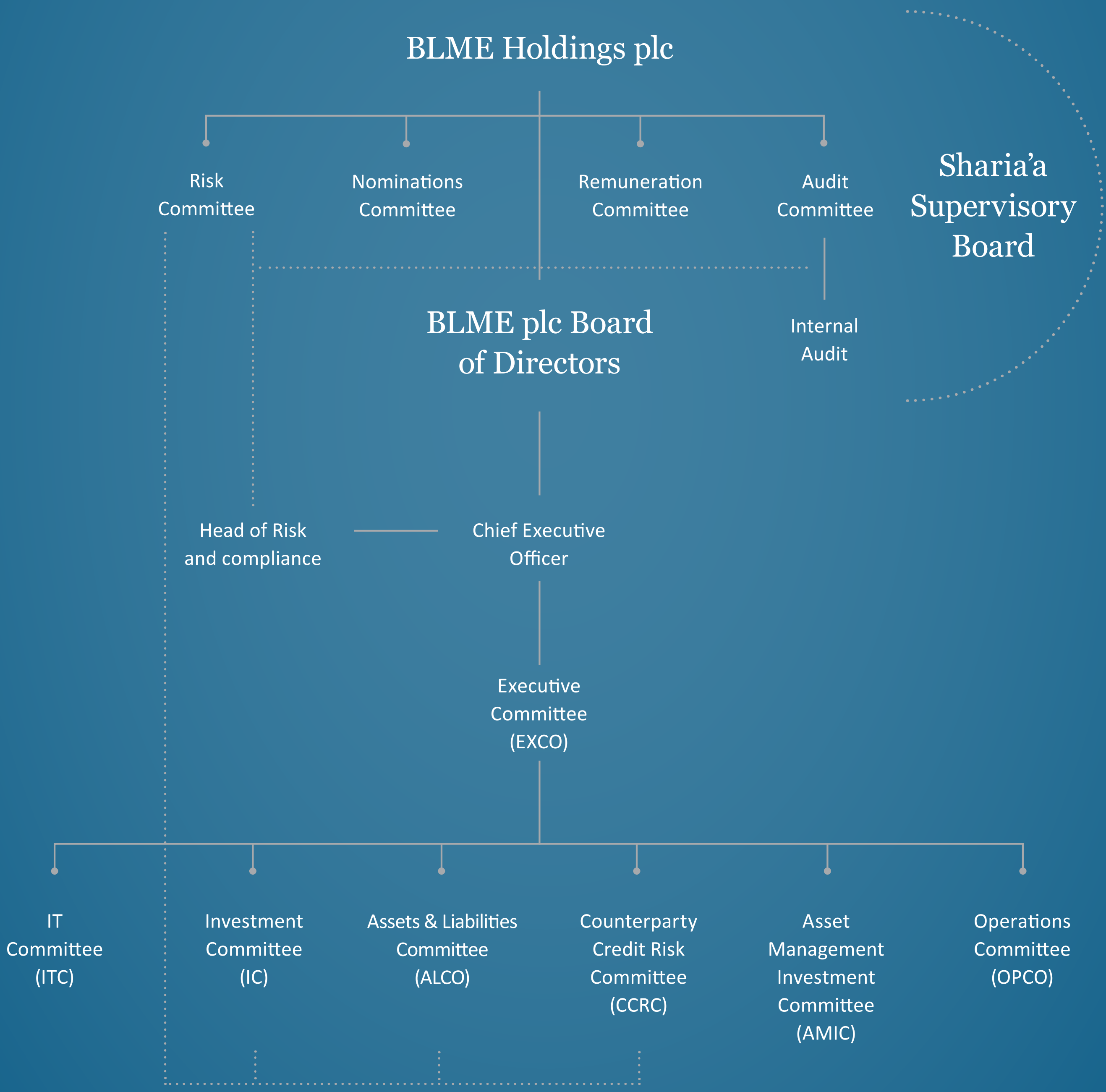
£56m

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 for the first eight months of the year in relation to point 33 of the Markets Rules App4 Corporate Governance Best Practice Standards which requires the identification of a senior independent Director. The Board appointed Michael Williams as the senior independent Director to the Board of the Company with effect from 26 August 2014.

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. Risk appetite adherence is monitored through a formalised process of risk identification, control assessment and performance monitoring. 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



Note: The Group operates with a dual board structure with mirror image Audit, Nominations, Remuneration and Risk Committees for both BLME Holdings plc and Bank of London and The Middle East plc.

The Board of Directors

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

As at 31 December 2014 the Board of Directors comprised two Executive Directors:

- **Humphrey Percy**
  Chief Executive Officer
- **Richard Williams**
  Chief Financial Officer

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

- **Adel Abdul Wahab Al-Majed**
  Non-executive Chairman
- **Sheikh Abdullah Jaber Al-Ahmed Al-Sabah**
  Vice Chairman of the Board
- **Neil Holden**
  Chairman of Remuneration Committee (Independent)
- **Frank Vermeulen**
  Chairman of Audit Committee (Independent)
- **Michael Williams**
  Senior Independent Director and Chairman of Nominations Committee and Risk Committee
- **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. All of the current Directors were re-elected at the Company's first Annual General Meeting which was held on 5 June 2014. Following that inaugural 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 company strategy, setting the risk 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.

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, Zeyad Al-Mukhaizeem 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 the 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 Group's auditors. The external auditor, KPMG, provide non-audit services in addition to the provision of audit services. In the year ending 31 December 2014, non-audit services provided by KPMG comprised advice with regard to taxation and other miscellaneous services. Further details regarding the fees paid to KPMG for these services is included in Note 12 on page 88.

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

More information regarding the Group's Audit Committee is included in the Audit Committee report on pages 38 to 39.

Board Risk Committee

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

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 Financial Conduct Authority (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 and regulatory limits.

Board Remuneration Committee

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

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.

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 Michael Williams and comprises Neil Holden 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.

Board and committees meetings attendance record 2014

	Board			Nominations Committee *		Audit Committee		Risk Committee		Remuneration Committee	
	Regular attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend
Executive Directors											
Humphrey Percy	4	6	10								
Richard Williams	4	6	10								
Nigel Denison	1	2	3								
Non-Executive Directors											
Adel Abdul Wahab Al-Majed	4	5	10								
Yacob Yousef Al-Muzaini	–	1	1	2	2						
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah	3	6	10	2	3	7	8	–	1	4	5
Michael Williams	4	5	10	3	3	7	8	1	1	4	5
Frank Vermeulen	4	5	10	5	5	7	8	1	1		
Neil Holden	4	4	10	3	3	7	8	1	1	5	5
Zeyad Al-Mukhaizeem	4	5	10			7	8			5	5

**The composition of the Nominations Committee was changed during the year.*

Of the 10 board meetings held during the year, four were regular meetings and six were ad hoc meetings. Of the ad hoc meetings, two were held to approve the Interim and Annual Reports, one was held to approve the appointment of the Senior Independent Director, two were held to approve the AGM resolutions and notice of AGM and one to consent to short notice of the BLME AGM. All serving directors were invited to these ad hoc meetings and provided with board papers, but were not always able to attend at short notice.

The Executive Directors regularly attend the Audit Committee and Risk Committee meetings as Guests. Whilst the Risk Committee of the Company only met once during 2014, the Risk Committee of the Bank met on five occasions during the year.

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, Adel Abdul Wahab Al-Majed, 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 assists the Chief Executive Officer in managing the business.

c. The Company Secretary, Peter Bulkeley, 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 year ended 31 December 2014, three of the Directors were Executive directors; three 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 Company Secretary is responsible for ensuring the Directors receive accurate, timely and clear information, which is provided by operational management and enhanced or clarified where necessary.

Board Effectiveness Review

An external review of the Board was undertaken in 2014 by a specialist consultancy firm with no other connections with the Group. This independent review consisted of a review of board papers; confidential interviews with all Directors, along with selected executives and advisors who have significant interaction with the Board and its Committees; and observation of a Board meeting. The review outcomes were discussed fully with the Chairman and subsequently with the Board, with all Directors receiving a copy of the full report. The Board considered the findings and suggestions for improvement, and agreed an appropriate action plan for improvements. The Board considers the review to have been rigorous and fully independent. The main aspects included in the agreed action plan are the appointment of the Senior Independent Director as Chairman of the Board Nominations Committee, inviting more members of senior management to attend Board meetings, improved consultation over agenda content including the development of a detailed "forward agenda", enhancing the level of debate in achieving a consensus around strategy and developing a more structured and detailed approach to Director succession planning.

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 all Shareholders from any oppressive or abusive action by other 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 (https://www.blme.com/investor-relations/)

The BLME Group Investor Relations team members are:

- **Richard Williams**
  Chief Financial Officer
- **Waleed Al-Omar**
  Head of Investor Relations
- **Michelle Arnold**
  Head of Marketing and Communications
- **Peter Bulkeley**
  Company Secretary

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.

During 2014, BLME management continued to meet with shareholders and engage with analysts, and participated in three investor Conferences. In March 2014, BLME participated in an EFG Hermes One-On-One conference in Dubai. In September 2014, BLME participated in a similar EFG Hermes conference held in London and in an Arqaam Capital Investor Conference in Dubai.

On 24 July 2014, the Company changed its Registrar, Paying Agent and Tabulation Agent, appointing Link Market Services (EMEA) (DIFC) Limited ("Link") to replace Deutsche Bank AG DIFC. 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 as a custodian 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 2014 to 31 December 2014 and have reviewed the BLME Holdings plc Annual Report and Accounts for the year ended 31 December 2014. 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 the BLME Group during the year 1 January 2014 to 31 December 2014 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 the BLME Group 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 2014 to 31 December 2014 has been derived from Sharia'a compliant sources.

BLME will provide shareholders with a calculation of the zakat payable on their shareholdings but it is the sole responsibility of shareholders to pay the zakat.

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
Chairman, Sharia'a Supervisory Board
12 May 2015

Audit Committee report

Statement from the Chairman of the Board Audit Committee

Dear Shareholder,

It is my pleasure to inform you about the modus operandi and activities of the Audit Committee. A key responsibility of the Committee is to protect the interests of the shareholders by establishing a programme of activities designed to achieve this. These activities include assessing the control framework, the integrity of the financial records and the key judgements used in their preparation. This is achieved by reviewing reports from management, the internal auditor and the external auditor regarding the accounts and the internal control systems implemented throughout the Group, along with specific consideration of the quarterly management statements, the interim report and the annual report and accounts.

To ensure it fulfils its responsibilities under its terms of reference the Committee establishes an annual agenda. This includes reviewing the Internal Audit annual plan, utilising BLME's Operational Risk Register, to ensure it applies appropriate emphasis to the key risk areas. The Committee also monitors and reviews the effectiveness of the Internal Audit function in conducting this plan by reviewing the regular reports and assessing management's responses including their effectiveness in delivering the recommended changes. The Committee also reviews reports received from senior management on key business areas, with particular emphasis on compliance, internal controls and operational risk, and regularly assesses the Group's accounting policies and financial reporting processes including assessing significant judgements and estimates contained within the financial statements.

The Committee has benchmarked its terms of reference against regulations and best practice, for similar businesses, and found that no significant adjustments were required and has established its annual programme of activities to enable it to meet the requirements set out by regulation or in the terms of reference.

The Committee recognises that a culture of integrity, respect and transparency is important and that the Committee must perform a role in ensuring that this is engendered within the Group. There have been no events, coming to the attention of the Committee through its programme of activities, to challenge the Committee's view that the culture within the Group meets the required standard.

AUDIT COMMITTEE MEMBERS

Frank Vermeulen – Chair

Sheikh Abdullah Jaber Al Ahmed Al Sabah

Zeyad Al-Mukhaizeem

Neil Holden

AUDIT COMMITTEE GUESTS

KPMG – (external auditor)

PwC – (internal audit)

Richard Williams – CFO

Stephen Mapes – Head of Risk & Compliance

The Committee also makes recommendations to the Board on the appointment of the external auditors and has unrestricted access to BLME's auditors. The external auditor, KPMG, provide non-audit services in addition to the provision of audit services. In the year ending 31 December 2014, non-audit services provided by KPMG comprised advice with regards to Corporation tax, VAT and other miscellaneous services.

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 periodic rotation of the audit partner. The audit partner will rotate with effect from the end of the 2014 audit process. The Committee is actively overseeing the rotation plan
- obtaining written confirmation from the auditors that, in their professional judgement, they are independent

Frank Vermeulen
Chairman, Board Audit Committee
12 May 2015

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 2014 to provide information regarding the BLME Group's remuneration policy and decisions.

Business performance is analysed in detail in the Chairman's and Chief Executive Officer's statements on pages 8 to 12. 2014 was a significant year for the Group. As a result of a desire to make a step change in the cost/income ratio, a number of staff changes were made in the latter part of 2014. At the same time, in line with the ongoing growth in our Corporate Banking Division and our Asset Management capabilities, a number of key hires have been made.

Remuneration Policy

Our improved operating performance in 2014 has only been possible by retaining key staff. At the same time our ability to deliver against our strategy requires us to attract additional high calibre staff. Our Remuneration Policy is designed to ensure that we are competitive in the market and hence able to attract such high calibre staff. Equally we must continue to retain, develop and motivate our existing staff. The policy is guided by the following principles:

- Remuneration is set at appropriate levels and is benchmarked against the external market place
- A total remuneration philosophy is operated wherein the Bank seeks to balance short term considerations against alignment of interest with shareholders
- Remuneration is designed to promote effective risk management, consistent with the Group's stated risk appetite
- Performance measures and targets are stretching, aligned with shareholder interests and linked to business strategy and objectives
- Compliance with the regulatory environment is mandatory

REMUNERATION COMMITTEE MEMBERS

Neil Holden – Chair

Sheikh Abdullah Jaber Al Ahmed Al Sabah

Zeyad Al-Mukhaizeem

Michael Williams

REMUNERATION COMMITTEE GUESTS

Kepler Associates (advisor)

Richard Williams – CFO

Paul Riordan – HR Director

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

A discretionary bonus forms part of the Group's remuneration package. For senior executives and Code Staff (employees who have been designated as Code Staff in accordance with the PRA / FCA Combined Handbook) a portion of the annual discretionary bonus is deferred (and subject to forfeiture on leaving employment unless classified as a good leaver) over a three year period into the Deferred Annual Bonus Scheme ("DABS") with future pay-outs linked to the share price performance of the Company. The Group also has an Approved Share Option Plan ("ASOP") and an Unapproved Share Option Plan ("USOP") and has Shareholder approval to make awards up to an aggregate maximum of 10% of issued share capital over a 10 year period. Awards equivalent to 1.3% of issued share capital were made in 2014.

During 2014 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 2015. However, the Remuneration Committee reviews its own performance and that of the independent advisors, Kepler Associates, regularly to identify areas for improvement.

Neil Holden

Chairman, Board Remuneration Committee
12 May 2015

2014 REMUNERATION COMMITTEE ACTIVITY

- Approval of updates to the regulatory Remuneration Policy Statement and categorisation of Code Staff
- 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
- Approval of share option awards to senior and key staff
- Approval of an unapproved Save-As-You-Earn scheme

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 89 to 94.

40%

To

£3.8m

Net Fee Income increased by 40% to £3.8 million

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.

Under section 454 of the Companies Act 2006 the directors have the authority to revise the financial statements if they do not comply with the Act. Such revised financial statements must be amended in accordance with the Companies (Revision of Defective Accounts and Reports) Regulations 2008. These require that the revised financial statements show a true and fair view as if they were prepared and approved by the directors as at the date of the original financial statements and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

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 revised financial statements of BLME Holdings plc for the year ended 31 December 2014 set out on pages 47 to 136. 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. These revised financial statements replace the original financial statements approved by the directors on 27 February 2015.

The revised financial statements have been prepared under the Companies (Revision of Defective Accounts and Reports) Regulations 2008 ("the Regulations") and accordingly do not take account of events which have taken place after the date on which the original financial statements were approved.

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 and as required by paragraph 7 of the Regulations. 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 such 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 revised 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 revised 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 and this applies also to an audit of revised financial statements. In addition, the audit of revised financial statements includes the performance of procedures to assess whether the revisions made by the directors are appropriate and have been properly made.

Opinion on financial statements

In our opinion:

- the revised financial statements give a true and fair view, seen as at the date the original financial statements were approved, of the state of the Group's and of the Parent company's affairs as at 31 December 2014 and of the Group's profit for the year then ended;
- the revised Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU seen as at the date the original financial statements were approved;
- the revised 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 seen as at the date the original financial statements were approved; and
- the revised financial statements have been prepared in accordance with the requirements of the Companies Act 2006 as it has effect under the Regulations.

Emphasis of matter – revision of impairment of financial assets

In forming our opinion on the revised financial statements, which is not modified, we have considered the adequacy of the disclosures made in note 1 to these revised financial statements concerning the need to revise the impairment of financial assets. The original financial statements were approved on 27 February 2015 and our previous report was signed on that date. We have not performed a subsequent events review for the period from the date of our previous report to the date of this report.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the revised Strategic Report and the revised Directors' Report for the financial year for which the financial statements are prepared is consistent with the revised 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 revised 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 LLP,
Statutory Auditor,
Chartered Accountants, London
12 May 2015

BLME has seen a 50% increase in the number of depositors in 2014

5,587

Consolidated income statement

For the year 1 January 2014 to 31 December 2014

Income	Note	2014	2013
		£	£
Income from financing and investing activities	5	53,156,590	43,208,042
Returns to financial institutions and customers	6	(24,423,166)	(20,933,149)
Net margin		**28,733,424**	**22,274,893**
Fee and commission income		4,109,102	3,204,510
Fee and commission expense		(265,764)	(464,109)
Net fee income		**3,843,338**	**2,740,401**
Net fair value losses on investment securities	7	(528,911)	(552,442)
Net fair value gains on investment properties	20	2,667,316	718,381
Operating lease income		21,027,359	26,869,782
Other operating income	8	5,957,398	3,962,947
Total operating income		**61,699,924**	**56,013,962**
Expenses			
Personnel expenses	10	(16,643,714)	(13,405,238)
Operating lease depreciation	24	(16,285,563)	(21,315,726)
Other depreciation and amortisation	23, 25	(436,251)	(273,903)
Other operating expenses	12	(14,544,706)	(12,466,172)
Change in third party interest in consolidated funds	34	(1,199,335)	(383,600)
Total operating expenses		**(49,109,569)**	**(47,844,639)**
Operating profit before impairment charges		**12,590,355**	**8,169,323**
Net impairment charge on financial assets	14	(11,601,569)	(2,099,538)
Net operating profit before tax		**988,786**	**6,069,785**
Tax expense	15	(15,445)	(1,755,059)
Profit for the year		**973,341**	**4,314,726**

Earnings per share		Pence	Pence
Basic earnings per share	16	0.50	2.23
Diluted earnings per share	16	0.50	2.22

All of the profit for the financial year and the prior year was derived from continuing activities.
The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year 1 January 2014 to 31 December 2014

Income	2014	2013
	£	£
Profit for the year	**973,341**	**4,314,726**

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	3,050	(4,155)
Foreign currency translation differences for cash flow hedging reserve	(181,530)	98,719
Changes in fair value of cash flow hedges taken to equity	808,167	1,358,872
Change in fair value of available-for-sale financial assets taken to equity	798,043	(639,700)
Income tax on other comprehensive income	(256,399)	(182,843)
Other comprehensive income for the year net of income tax	**1,171,331**	**630,893**
Total comprehensive profit for the year attributable to equity holders of the Parent company	**2,144,672**	**4,945,619**

The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2014

Assets	*Note*	2014	2013
		£	£
Cash and balances with banks		45,993,251	65,649,884
Due from financial institutions	*18*	187,620,279	133,390,526
Due from customers		5,038,233	–
Investment securities	*19*	188,134,024	128,014,007
Financing arrangements	*21*	707,268,707	594,571,253
Finance lease receivables	*22*	160,540,217	199,156,031
Operating lease assets	*24*	52,227,636	77,002,129
Investment properties	*20*	28,580,000	24,340,000
Property and equipment	*23*	355,875	649,690
Intangible assets	*25*	1,633,069	1,265,924
Other assets	*26*	6,025,056	7,809,064
Current tax asset	*15*	500,000	–
Deferred tax assets	*15*	1,595,217	1,864,783
Total assets		**1,385,511,564**	**1,233,713,291**
Liabilities			
Due to financial institutions	*27*	626,867,807	648,417,624
Due to customers	*28*	471,443,676	308,479,501
Profit rate swaps	*9*	2,235,852	1,972,903
Third party interest in consolidated funds	*34*	25,150,755	13,951,246
Other liabilities	*29*	16,048,197	18,109,128
Total liabilities		**1,141,746,287**	**990,930,402**

The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Consolidated statement of financial position *(continued)*

As at 31 December 2014

Equity	*Note*	2014	2013
		£	£
Share capital	*32*	48,933,422	48,983,423
Merger reserve	*33*	15,999,851	15,999,851
Other reserve		15,226,477	15,226,477
Capital redemption reserve		50,001	–
Fair value reserve		150,967	(524,046)
Cash flow hedging reserve		(1,628,308)	(2,121,576)
Share-based payment reserve		1,409,536	3,210,307
Foreign currency translation reserve		(62,930)	(65,980)
Retained earnings		163,686,261	162,074,433
Total equity attributable to equity holders of the Parent company		**243,765,277**	**242,782,889**
Total liabilities and equity		**1,385,511,564**	**1,233,713,291**

These financial statements were approved by the Board of Directors on 12 May 2015 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Chief Financial Officer

The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Company statement of financial position

As at 31 December 2014

Assets	*Note*	2014	2013
		£	£
Cash and balances with banks		–	50,001
Investment in subsidiary	*19*	241,858,703	243,143,580
Total assets		**241,858,703**	**243,193,581**
Liabilities			
Other liabilities		761	–
Total liabilities		**761**	**0**
Equity			
Share capital	*32*	48,933,422	48,983,423
Merger reserve	*33*	15,999,851	15,999,851
Share-based payment reserve		1,409,536	3,210,307
Retained earnings		175,515,133	175,000,000
Total equity attributable to equity holders of the Parent Company		**241,857,942**	**243,193,581**
Total liabilities and equity		**241,858,703**	**243,193,581**

These financial statements were approved by the Board of Directors on 12 May 2015 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 66 to 136 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year 1 January 2014 to 31 December 2014

Cash flows from operating activities	2014	2013
	£	£
Profit for the period	973,341	4,314,726
Adjusted for:		
Exchange differences	28,237	271,992
Fair value gains on investment properties	(2,667,316)	(718,381)
Fair value losses on investment securities	111,473	1,328,100
Loss on disposal of intangible asset	115,101	–
Provision for impairment	11,601,569	2,099,538
Depreciation and amortisation	16,721,814	21,589,629
Loss on disposal of property and equipment	183,846	17,334
Share-based payment awards	54,272	152,763
Accretion of instruments held under financing arrangements	(13,029)	(19,791)
Mark to market movement in profit rate swaps	43,666	(822,579)
Gain on other asset	(745,000)	–
Tax expense	15,445	1,755,059
	26,423,419	**29,968,390**

Net increase in operating assets		
Due from financial institutions	(54,229,753)	(976,780)
Due from customers	(5,038,233)	–
Financing arrangements	(123,412,713)	(236,141,783)
Finance lease receivables	37,156,969	(48,369,824)
Operating lease assets	9,777,723	(13,755,143)
Other assets	1,968,507	84,755
	(133,777,500)	**(299,158,775)**

The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows *(continued)*

For the year 1 January 2014 to 31 December 2014

Net increase in operating liabilities	2014	2013
	£	£
Due to financial institutions	(37,743,536)	136,156,416
Due to customers	162,991,479	50,297,390
Third party interest in consolidated funds	2,549,315	20,424
Cash settlement of share-based payments awards	(841,360)	–
Other liabilities	2,018,753	14,132,511
	128,974,651	**200,606,741**
Corporation tax paid	(502,278)	(109,685)
Net cash inflow from operating activities	**21,118,292**	**(68,693,329)**

Cash flows from investing activities

Purchase of property and equipment	(93,548)	(409,282)
Proceeds from disposal of property and equipment	–	3,740
Purchase of intangible assets	(714,981)	(660,421)
Purchase of investment properties	(4,056,680)	(3,327,495)
Sale of investment properties	2,483,996	7,807,718
Purchase of investment securities	(243,191,998)	(197,277,080)
Sale of investment securities	192,183,755	167,804,836
Net cash outflow from investing activities	**(53,389,456)**	**(26,057,984)**

Cash flows from financing activities

Expenses of BLME Scheme of Arrangement	–	(603,103)
Subscriptions to consolidated funds	13,248,294	5,014,468
Redemptions from consolidated funds	(3,479,025)	(2,595,612)
Net cash inflow from financing activities	**9,769,269**	**1,815,753**

Net change in cash and cash equivalents	(22,501,895)	(92,935,560)
Cash and cash equivalents at the beginning of the year	65,649,884	159,600,938
Exchange differences in respect of cash and cash equivalents	2,845,262	(1,015,494)
Cash and cash equivalents at the end of the year	**45,993,251**	**65,649,884**

The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Company statement of cash flows

For the period 1 January 2014 to 31 December 2014

Net increase in operating liabilities	2014	For the period 24 April to 31 December 2013
	£	£
Other liabilities	970	–
	970	**–**

Cash flows from financing activities

Proceeds from issue of share capital	–	50,001
Redemption of preference shares held by BLME	(50,000)	–
Repurchase of one A ordinary share held by BLME	(1)	–
Dividend paid in respect of redeemable preference shares	(970)	–
Net cash (outflow) / inflow from financing activities	**(50,971)**	**50,001**

Net change in cash and cash equivalents	(50,001)	50,001
Cash and cash equivalents at the beginning of the period	50,001	–
Cash and cash equivalents at the end of the period	**0**	**50,001**

The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2014	Share capital £	Merger reserve £	Other reserve £	Capital redemption reserve £	Fair value reserve £	Cash flow hedging reserve £	Share-based payment reserve £	Retained earnings £	Foreign currency translation reserve £	Total £
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
Profit for the year	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**973,341**	**—**	**973,341**
Other comprehensive income / (expense)										
Foreign currency translation	—	—	—	—	—	(181,530)	—	—	3,050	(178,480)
Changes in fair value of cash flow hedges	—	—	—	—	—	808,167	—	—	—	808,167
Recognition of tax asset on cash flow hedge reserve	—	—	—	—	—	(133,369)	—	—	—	(133,369)
Change in fair value of AFS financial assets	—	—	—	—	798,043	—	—	—	—	798,043
Tax on change in fair value of AFS financial assets	—	—	—	—	(123,030)	—	—	—	—	(123,030)
Total other comprehensive income	**—**	**—**	**—**	**—**	**675,013**	**493,268**	**—**	—	**3,050**	**1,171,331**
Total comprehensive income for the year	**—**	**—**	**—**	**—**	**675,013**	**493,268**	**—**	**973,341**	**3,050**	**2,144,672**
Contributions by and distributions to owners										
Redemption of preference shares held by BLME	(50,000)	—	—	50,000	—	—	—	—	—	—
Repurchase of one A ordinary share held by BLME	(1)	—	—	1	—	—	—	—	—	—
Equity-settled share-based payment awards	—	—	—	—	—	—	54,272	—	—	54,272
Settlement of share-based payment awards by BLME	—	—	—	—	—	—	(687,287)	—	—	(687,287)
Transfer to other liabilities	—	—	—	—	—	—	(651,862)	—	—	(651,862)
Transfer to Retained Earnings	—	—	—	—	—	—	(515,894)	515,894	—	—
Settlement of own shares by BLME Holdings EBT	—	—	—	—	—	—	—	122,593	—	122,593
Total transactions with owners	**(50,001)**	**—**	**—**	**50,001**	**—**	**—**	**(1,800,771)**	**638,487**	**—**	**(1,162,284)**
Balance at 31 December 2014	**48,933,422**	**15,999,851**	**15,226,477**	**50,001**	**150,967**	**(1,628,308)**	**(1,409,536)**	**163,686,261**	**(62,930)**	**243,765,277**

The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity *(continued)*

For the year ended 31 December 2014

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 and the Company's share incentive schemes and accounted for as equity-settled share-based payments. The transfer to other liabilities during 2014 relates to the reclassification of the Deferred Annual Bonus Scheme ("DABS") from equity-settled to cash-settled accounting in June 2014. The transfer to retained earnings represents the recycling of credits previously recognised within the Share Based Payment Reserve in relation to DABS options which have either lapsed or been settled in cash.

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 32 and 33.

The **Capital redemption reserve**

arose on 26 June 2014 following the redemption of the 50,000 preference shares of £1 each and the repurchase of the one A ordinary share of £1.

The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2013	Share capital £	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 AFS financial assets	—	—	—	(639,700)	—	—	—	—	(639,700)
Tax on change in fair value of AFS 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 appoved 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
Equity-settled share-based payments awards	—	—	—	—	—	152,763	—	—	152,763
Purchase of own shares by BLME 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 66 to 136 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity *(continued)*

For the year ended 31 December 2013

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 and 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 32 and 33.

Company statement of changes in equity

For the year ended 31 December 2014

	Share capital £	Merger reserve £	Share-based payment reserve £	Retained earnings £	Total £
Balance at 31 December 2013	48,983,423	15,999,851	3,210,307	175,000,000	243,193,581
Loss for the year	—	—	—	(761)	(761)
Other comprehensive income / (expense)	—	—	—	—	—
Total comprehensive income for the year	**—**	**—**	**—**	**(761)**	**(761)**
Contributions by and distributions to owners					
Settlement of share-based payment awards by BLME	—	—	(1,339,149)	—	(1,339,149)
Transfer to Retained Earnings in relation to DABS	—	—	(515,894)	515,894	—
Redemption of preference shares held by BLME	(50,000)	—	—	—	(50,000)
Repurchase of one A ordinary share held by BLME	(1)	—	—	—	(1)
Equity-settled share-based payment awards	—	—	54,272	—	54,272
Total transactions with owners	**(50,001)**	**—**	**(1,800,771)**	**515,894**	**(1,334,878)**
Balance at 31 December 2014	**48,933,422**	**15,999,851**	**1,409,536**	**175,515,133**	**241,857,942**

The notes on pages 66 to 136 are an integral part of these consolidated financial statements.

Company statement of changes in equity *(continued)*

For the year ended 31 December 2014

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 19) over the £48,933,422 nominal value of the ordinary shares issued to the former shareholders of BLME (see Note 32).

£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 represents the amortised portion of the fair value of equity instruments issued under the BLME and the Company's 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 during 2013 was treated as an injection of equity and recognised as a capital contribution within the accounts of BLME. The settlement of share-based payment awards by BLME includes the reclassification of the Deferred Annual Bonus Scheme ("DABS") from equity-settled to cash-settled accounting in June 2014. The transfer to retained earnings represents the recycling of credits previously recognised within the Share Based Payment Reserve in relation to DABS options which have either lapsed or been settled in cash.

Company statement of changes in equity *(continued)*

For the period 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 66 to 136 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 19) over the £48,933,422 nominal value of the ordinary shares issued to the former shareholders of BLME (see Note 32).

£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 represents 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 66 to 136 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

BLME
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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 an independent 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 2014 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 Note 32. The transaction was outside the scope of IFRS 3 and therefore no business combination occurred.

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 Structured Entities ("SE") 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 SE and the Bank. The main objective of this agreement is to facilitate the required funding to enable the SE 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 SE 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

The financial statements originally approved on 27 February 2015 have been revised, so that these financial statements reflect a loan impairment loss of £7,157,566 (before tax) that occurred prior to the approval of the original financial statements on 27 February 2015 without the knowledge of the directors and that came to the knowledge of the directors following such approval. Having carefully considered the matter, the directors have concluded that this loss should be reflected in the 2014 accounts. The effect of this revision is to reduce consolidated profit for the year (i.e., after tax) and consolidated equity by £5,701,264. Consequential amendments have been made to a number of notes and to the accompanying annual report, including the Strategic and Directors' reports. The Parent company's individual financial statements drawn up on 27 February 2015 are unaffected.

These revised financial statements replace the original financial statements drawn up on 27 February 2015 and are now the statutory financial statements for the year ended 31 December 2014. They have been prepared as at the date on which the original financial statements were approved by the board, 27 February 2015, and not as at the date of the revision, and accordingly they present a true and fair view seen as at 27 February 2015.

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 2014. 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.

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 36.

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 2014, with no material impact on the Group's measurement or disclosures:

- Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)
- Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)
- Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)
- IFRIC 21 Levies

i. 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 were applied retrospectively and did not have a material effect on the Group's financial statements.

ii. Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

The International Accounting Standards Board issued these amendments as a result of IFRS 13. The amendments require disclosures about the recoverable amount of impaired assets, particularly if that amount is based on fair value less costs of disposal. The amendments were applied retrospectively and there was no material impact on the Group's financial statements.

iii. Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)

This narrow-scope amendment was introduced to provide an exception to the requirement for the discontinuation of hedge accounting in IAS 39 and IFRS 9 in circumstances when a hedging instrument is required to be novated to a central counterparty as a result of laws or regulations. The amendments were applied retrospectively and there was no material impact on the Group's financial statements.

iv. 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 did not have a material effect on the Group's financial statements.

c. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are effective for annual periods beginning after 1 January 2014 have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt any of these standards early, where adopted by the EU and early adoption is permitted.

i. IFRS 9 Financial Instruments

IFRS 9 will replace the existing standard on the recognition and measurement of financial instruments (IAS 39) 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. In addition, the standard introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Furthermore, IFRS 9 includes a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project.

The Group has started the process of evaluating the impact of this standard and it is expected that there will be an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month expected credit loss ("ECL") and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39. The mandatory effective date for IFRS 9 is 1 January 2018 and the Group does not plan to adopt this standard early.

ii. IFRS 14 Regulatory Deferral Accounts

IFRS 14 was issued in January 2014 and is effective from 1 January 2016, with earlier application permitted. However, there will be no impact on the Group's financial statements as existing IFRS reporters are not eligible to apply this standard.

iii. IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and sets out the requirements for recognising revenue that apply to all contracts with customers (except for contracts that are within the scope of the accounting standards on leases, insurance contracts and financial instruments). The standard introduces a five-step model to determine when to recognise revenue and at what amount; the model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled.

The mandatory effective date is 1 January 2017 and the Group does not plan to adopt this standard early. IFRS 15 is not expected to have a material effect on the Group's financial statements.

iv. Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)

The amendments to IAS 38 introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. In addition, the amendments to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment.

The mandatory effective date is 1 January 2016 and the Group does not plan to adopt this standard early. These amendments are not expected to have an impact on the Group's financial statements as it has no revenue-based amortisation methods.

d. Basis of consolidation

i. Subsidiaries

Subsidiaries are investees controlled by the Company. The Company 'controls' an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 34).

ii. Structured Entities ("SE")

An SE is an entity that has been designed so that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only, and key activities are directed by contractual agreement. Structured entities often have restricted activities and a narrow and well defined objective (see Note 34).

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 operations

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 9, 20, 30, 35 and 36 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. other comprehensive income or the income statement.

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. When calculating the effective profit rate, BLME estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The Group 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 held in a trading book which is also marked to market 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.

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.

- Available-for-sale

  Available-for-sale assets are either debt or equity non-derivative financial assets that are designated as available-for-sale ("AFS"). 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.

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 and forbearance*

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 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.

The Group writes off a facility or an investment security, either partially or in full, and any related allowance for impairment losses, when management (including the relevant Committees) determines that there is no realistic prospect of recovery.

- Forbearance

  If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows:

– if the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective profit rate of the existing financial asset; or

– if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Further disclosures on forbearance can be found on page 123 in Note 36.

- Assets carried at amortised cost

  If there is objective evidence that an impairment loss on exposures 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 greater than 20% or over nine months, in the fair value of the security below its cost is considered evidence of impairment. 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 on page 72. 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. There was one reversal in 2014 (2013: none).

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. Any gain or loss in fair value relating to the hedged item is recognised in "Net fair value gains / losses on investment securities" whilst any gain or loss in fair value relating to the hedging instrument is recognised in "Other operating income / expenses" as applicable.

  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 under "Other operating income / expenses" as applicable.

- 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; BLME assesses this at inception (prospective effectiveness) and on a monthly basis (retrospective effectiveness). 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 20 and Note 34.

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 properties".

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 – 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 HMRC in respect of 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 by the Bank 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 Other Comprehensive Income ("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 36a (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 13 Fair Value Measurement and is discussed in Note 36.

The Group measures fair values using the following fair value hierarchy that reflects the significance and observability 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 are primarily based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Valuation techniques are also based on unobservable inputs if they do not have a significant impact on the fair value measurement in its entirety. This category comprises profit rate swaps, which are valued using reference to observable 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 other 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 the 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.

4. 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. Our 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 includes the Group's complementary businesses of Private Banking and Asset Management. 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, which also forms part of the Wealth Management Division, 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 in the following two pages. 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 2014

	Treasury Division £	Corporate Banking £	Wealth Management £	Unallocated items £	Total £
Net margin from financing and investing activities	1,847,622	21,868,006	5,017,796	–	28,733,424
Operating lease income	1,624,437	19,402,922	–	–	21,027,359
Net fee income	664,030	2,905,220	262,171	11,917	3,843,338
Net fair value losses on investment securities	(27,899)	–	(501,012)	–	(528,911)
Net fair value gains on investment properties	–	–	2,667,316	–	2,667,316
Other operating income	29,471	3,662,708	2,265,219	–	5,957,398
Total operating income	**4,137,661**	**47,838,856**	**9,711,490**	**11,917**	**61,699,924**
Directly attributable segment expenses	(932,410)	(4,826,910)	(5,354,380)	–	(11,113,700)
Operating lease depreciation	–	(16,285,563)	–	–	(16,285,563)
Net impairment charge on financial assets	–	(10,722,069)	(879,500)	–	(11,601,569)
Change in third party interest in consolidated funds	–	–	(1,199,335)	–	(1,199,335)
Net segment contribution	**3,205,251**	**16,004,314**	**2,278,275**	**11,917**	**21,499,757**
Common costs not directly attributable to segments					(20,510,971)
Net operating profit before tax					**988,786**
Reportable segment assets	**421,172,701**	**699,416,583**	**259,563,567**	**5,358,713**	**1,385,511,564**

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

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	**305,708,952**	**683,807,148**	**237,836,517**	**6,360,674**	**1,233,713,291**

Entity wide disclosures

Geographical analysis of non-current assets	31 December 2014 £	31 December 2013 £
Dubai	237,253	313,283
Luxembourg	29,653,002	25,667,347
United Kingdom	42,682,276	53,591,996
USA	16,244,715	31,217,216
Others	4,390	276,965
Total	**88,821,636**	**111,066,807**

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

5. Income from financing and investing activities

Income from:

Financial institutions:	2014 £	2013 £
Wakala income	202,394	142,293
Murabaha income	335,849	226,804
Financing arrangements:		
Murabaha income	32,685,082	24,698,371
Mudaraba income	108,731	129,677
Musharaka income	59,401	81,895
Hire Purchase income	3,235,474	788,489
Istisna and Ijara income	84,421	103,419
Finance lease income	11,031,069	10,882,320
Sukuk income	5,028,974	5,688,052
Wakala income	385,195	466,722
	53,156,590	**43,208,042**

6. Returns to financial institutions and customers

	2014 £	2013 £
Murabaha	7,713,124	7,172,425
Wakala	942,745	931,131
Profit rate swaps	3,089,500	3,185,043
Customer deposits	12,677,797	9,644,550
	24,423,166	**20,933,149**

7. Net fair value losses on investment securities

	2014 £	2013 £
Net realised (losses) / gains on sale of investment securities	(417,438)	775,658
Net unrealised losses on investment securities	(111,473)	(1,328,100)
	(528,911)	**(552,442)**

8. Other operating income

	2014 £	2013 £
Gains on foreign exchange transactions	2,722	–
Gains on leased asset sales	2,917,709	861,156
Rental income from investment properties	1,931,524	2,168,935
Other	1,105,443	932,856
	5,957,398	**3,962,947**

9. 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.

All PRSs are over-the-counter, none of which are settled through a central counterparty. There are no collateral arrangements.

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

Group	2014 Cash flow hedge $	2014 Cash flow hedge £	2014 Fair value hedge $	2014 Fair value hedge £
Profit rate swaps	**80,000,000**	**51,303,428**	**90,000,000**	**77,716,356**

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**

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. Liabilities were designated as a hedged item under a macro cash flow hedge. In the last quarter of 2009 PRSs were transacted to hedge fixed rate Sukuk. These PRSs 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	2014 Fair value assets £	2014 Fair value liabilities £	2013 Fair value assets £	2013 Fair value liabilities £
Profit rate swaps	**–**	**911,812**	**101,306**	**–**

Gains or losses arising from fair value hedges:

Group	2014 £	2013 £
Net profit rate swap asset / (liability) as at 1 January	101,306	(1,057,606)
Gains / (losses):		
Exchange translation	9,368	23,438
On hedging instruments through the profit and loss	(158,496)	(109,651)
On effective hedges	(863,990)	1,245,125
Net profit rate swap (liability) / asset as at 31 December	**(911,812)**	**101,306**

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 2014 a loss of £158,496 (2013: £109,651 loss) 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 cash outflows. Gains and losses on effective cash flow hedges are initially recognised directly in other comprehensive income and accumulate 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	2014 Fair value assets £	2014 Fair value liabilities £	2013 Fair value assets £	2013 Fair value liabilities £
Profit rate swaps	**–**	**1,324,040**	**–**	**2,074,209**

Gains or losses arising from cash flow hedges:

Group	2014 £	2013 £
Net profit rate swap liability as at 1 January	(2,074,209)	(4,250,439)
Gains / (losses):		
Exchange translation	(125,635)	94,194
On hedging instruments through the income statement	67,637	723,164
On hedging instruments through OCI	808,167	1,358,872
Net profit rate swap liability as at 31 December	**(1,324,040)**	**(2,074,209)**

The gains and losses on ineffective portions of such PRSs are recognised immediately in 'Other operating income / expense'. During the year to 31 December 2014, a gain of £67,637 (2013: £723,164 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 2014 and 31 December 2013 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 £	2014 Total £
Liabilities	**–**	**–**	**51,303,428**	**51,303,428**

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**

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 profit rate swaps at maturity.

10. Personnel expenses

	2014 £	2013 £
Wages and salaries	13,120,430	10,395,326
Social security costs	1,342,768	1,321,857
Defined contribution pension scheme costs	1,021,476	916,568
Sharia'a Supervisory Board fees	57,439	52,378
Recruitment costs	600,371	279,063
Other staff costs	501,230	440,046
	16,643,714	**13,405,238**

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

	2014 Number	2013 Number
Period end	124	99
Average for the period - management	6	6
Average for the period - non-management	110	90

11. Directors' emoluments

	2014 £	2013 £
Directors' emoluments	1,200,589	1,558,023
Pension contributions	17,082	59,250
	1,217,671	**1,617,273**

The aggregate emoluments of the highest paid director was £505,284 (2013: £572,758), and pension contributions of £nil (2013: £nil) were made on his behalf. During the year, compensation for loss of office amounting to £344,225 was expensed in relation to a director who resigned during the year.

12. Other operating expenses

	2014 £	2013 £
Legal and professional fees	3,214,353	3,263,025
Rent and other occupancy costs	1,493,466	1,428,120
Consultancy	1,522,430	1,211,187
Communications and IT costs	1,060,357	645,320
Advertising and market development	2,123,407	1,365,701
Board and SSB related expenses	397,427	522,319
Loss on foreign exchange transactions and translation	28,237	271,992
Other operating charges	4,705,029	3,758,508
	14,544,706	**12,466,172**

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

Auditors remuneration	2014 £	2013 £
Audit of financial statements: Year end	260,000	225,100
Audit of financial statements: Interim report	58,850	47,000
Tax services	26,500	61,341
Other services	105,385	159,301
	450,735	**492,742**

13. Share-based payments

During the year £101,179 (2013: £635,262) 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:

	2014 £	2013 £
Approved Share Option Plan ("ASOP")	17,560	32,223
Unapproved Share Option Plan ("USOP")	10,653	2,462
Executive Share Option Scheme ("ESOP")	26,059	50,577
Deferred Annual Bonus Scheme ("DABS")	46,907	550,000
	101,179	**635,262**

As referred to in Note 32, 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 share option awards, is included in the following tables:

Options issued in 2014	ASOP 2014	USOP Tranche 1 2014	USOP Tranche 2 2014
Fair value (cents) *	5.9	5.9	3.7
Share price (cents) *	67.5	67.5	67.5
Exercise price (cents) *	170.0	170.0	210.0
Expected volatility (% p.a.)	30.0	30.0	30
Option life (years)	6.5	6.5	6.5
Expected dividends (% p.a.)	Nil	Nil	Nil
Risk free interest rate (%)	2.3	2.3	2.3

*The values per share disclosed in the above table are expressed in US Dollars because options were issued to employees with US Dollar strike prices given that the shares are listed on Nasdaq Dubai and traded in US Dollars. This is based on ordinary shares which have a sterling nominal value of 25 pence each (following the 25 for 1 share consolidation which took place on 2 October 2013 as part of the implementation of the BLME Scheme of Arrangement referred to in Note 32). The Black-Scholes fair value of the options has been translated into sterling using the exchange rate ruling at the date of grant, for the purpose of amortising the share-based payment expense.

The expected volatility was determined by reference to the historical volatility of the FTSE 350 Banks Index. No ESOP awards were granted in 2014.

Options issued in 2013	ASOP 2013	DABS 2013	ESOP Tranche 1 2013	ESOP Tranche 2 2013	ESOP Tranche 3 2013	ESOP Tranche 4 2013
Fair value (pence) **	2.12	6.5	1.95	2.03	2.08	2.12
Share price (pence) **	6.5	N/A	6.5	6.5	6.5	6.5
Exercise price (pence) **	6.5	Nil	6.5	6.5	6.5	6.5
Expected volatility (% p.a.)	30.0	N/A	32.5	32.0	31.0	30.0
Option life (years)	6.5	N/A	5.0	5.5	6.0	6.5
Expected dividends (% p.a.)	Nil	Nil	Nil	Nil	Nil	Nil
Risk free interest rate (%)	1.2	N/A	0.9	1.0	1.15	1.25

**The values per share disclosed in the above table are stated in sterling and are based on the ordinary shares of 1 pence nominal value 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 Note 32.

The ESOP awards granted in 2013 were 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

Approved share options

Approved share options are granted to employees under the "BLME Approved Share Option Plan" 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 2014	Weighted average exercise price (pence) 2014	Number of options 2013	Weighted average exercise price (pence) 2013
Outstanding at 1 January	520,226	154.7	11,415,381	6.1
Granted in the year	782,824	99.4	2,692,305	6.5
Forfeited in the year	(89,213)	162.5	(230,769)	6.5
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	**1,213,837**	**118.5**	**520,226**	**154.7**
Exercisable at 31 December	**289,508**		**209,520**	

The weighted average remaining contractual life of the above ASOPs outstanding at the balance sheet date was 8.3 years (2013: 7.0 years). The weighted average exercise price is 118.5 pence (2013: 154.7 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 2014	Number of options 2013
Outstanding at 1 January	95,367	2,384,613
Granted in the year	–	–
Forfeited in the year	(18,459)	–
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
Outstanding at 31 December	**76,908**	**95,367**
Exercisable at 31 December	**76,908**	**95,367**

The weighted average remaining contractual life of the above parallel options outstanding at the balance sheet date was 5.2 years (2013: 6.2 years). The weighted average exercise price is 125 pence (2013: 125 pence). 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 “BLME Unapproved Share Option Plan” 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 2014	Weighted average exercise price (pence) 2014	Number of options 2013	Weighted average exercise price (pence) 2013
Outstanding at 1 January	24,611	162.5	615,385	6.5
Granted in the year	1,819,192	100.5	–	
Forfeited in the year	(3,076)	162.5	–	
Outstanding at time of Scheme of Arrangement			615,385	6.5
Lapse of options over 1p ordinary shares			(615,385)	
Replacement awards over 25p ordinary shares			24,611	162.5
Outstanding at 31 December	**1,840,727**	**101.5**	**24,611**	**162.5**
Exercisable at 31 December	**12,306**		**Nil**	

The weighted average remaining contractual life of the above USOPs outstanding at the balance sheet date was 9.5 years (2013: 7.7 years). The weighted average exercise price is 101.5 pence (2013: 162.5 pence).

Deferred annual bonus scheme

Awards were first made to employees under the "BLME Deferred Annual Bonus Scheme" 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.

During 2014 employees were given the opportunity to have their vested DABS options from earlier years settled in cash. The resultant cash payment of £687,287 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 June 2014 with £651,862 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.

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 2014	Number of nil cost options 2013
Outstanding at 1 January	1,265,198	21,592,112
Awarded and deferred	476,823	9,000,000
Awarded under matched award	108,362	–
Forfeited in the year	–	–
Exercised in the year	(974,773)	–
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
Outstanding at 31 December	**875,610**	**1,265,198**
Exercisable at 31 December	**65,431**	**29,538**

The weighted average remaining contractual life of the above nil cost options outstanding at the balance sheet date was 8.6 years (2013: 7.7 years). The weighted average exercise price was Nil (2013: Nil).

Executive share option scheme

Share options were first granted to senior management under the BLME Unapproved Share Option Plan in 2009. The options granted in 2009 and 2010 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 Group.

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 2014.

ESOPs	Number of options 2014	Number of options 2013
Outstanding at 1 January	2,688,943	67,101,307
Granted in the year	–	3,153,846
Forfeited in the year	–	–
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**	**2,688,943**
Exercisable at 31 December	**2,625,867**	**2,473,078**

The weighted average remaining contractual life of the executive share options outstanding at the balance sheet date was 4.7 years (2013: 5.7 years). The weighted average exercise price is 162.5 pence (2013: 162.5 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 ("the BLME EBT"), was repaid on 30 April 2013 in consideration for employees transferring their holding of BLME shares to the BLME EBT.

14. Impairment of financial assets and operating leases

The table below sets out a reconciliation of changes in impairment provisions against financial assets and operating leases:

Group

Impairments of financial assets:	Individual £	2014 Total £
Balance at 1 January 2014	22,633,481	22,633,481
Exchange translation and other movements	(765,372)	(765,372)
Income statement:		
Gross impairment charge for the year	11,717,626	11,717,626
Amount recovered during the year	(116,057)	(116,057)
Net impairment charge for the year	**11,601,569**	**11,601,569**
Amounts written off during the year	–	–
Balance as at 31 December 2014	**33,469,678**	**33,469,678**
Being impairments against:		
Financing arrangements	33,269,025	33,269,025
Finance lease receivables	–	–
Operating lease assets	200,653	200,653
	33,469,678	**33,469,678**

There were no impairments against Cash and balances with banks, Due from financial institutions, Due from customers, Investment securities or Other assets.

Group

Impairments of financial assets:	Individual £	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**

There were no impairments against Cash and balances with banks, Due from financial institutions, Due from customers, Investment securities or Other assets.

The table below sets out a reconciliation of changes in the carrying amount of impaired financial assets and operating leases:

Group	31 December 2014 £	31 December 2013 £
Opening net carrying balance	17,630,663	15,817,968
Exchange translation and other movements	596,422	(187,770)
Classified as impaired during the year	4,872,819	17,978,593
Transferred to not impaired during the year	–	(6,542,380)
Amounts written off	–	(1,864,019)
Disposals	(302,587)	(7,571,729)
Closing net carrying balance	**22,797,317**	**17,630,663**

The table below sets out an analysis of the gross and net carrying amount of impaired financial assets and operating leases as at 31 December 2014 by statement of financial position line, by country and by economic sector. The impairment against operating leases is related to the future estimated value of the leased item at the end of the lease term i.e. against residual value. As a result, this is a physical asset risk rather than a credit risk. The portfolio is valued regularly by external third parties.

Group

As at 31 December 2014 Analysed by statement of financial position line:	Gross exposure £	Impairment Provision £	Net exposure £
Financing arrangements	54,811,447	(33,269,025)	21,542,422
Finance lease receivables	–	–	–
Operating lease assets	1,455,548	(200,653)	1,254,895
Balance as at 31 December 2014	**56,266,995**	**(33,469,678)**	**22,797,317**
Analysed by country:			
Bahrain	3,206,464	(320,646)	2,885,818
Cayman Islands	11,660,330	(7,767,099)	3,893,231
France	2,774,406	(1,990,793)	783,613
Turkey	13,567,420	(13,567,420)	–
United Kingdom	23,602,827	(9,623,066)	13,979,761
USA	1,455,548	(200,654)	1,254,894
Balance as at 31 December 2014	**56,266,995**	**(33,469,678)**	**22,797,317**
Analysed by economic sector:			
Financial Services			
GCC Financial Institutions	3,206,464	(320,646)	2,885,818
Manufacturing	13,567,420	(13,567,420)	–
Real estate	23,602,827	(9,623,066)	13,979,761
Transportation and storage	13,115,879	(7,967,753)	5,148,126
Waste management	2,774,405	(1,990,793)	783,612
Balance as at 31 December 2014	**56,266,995**	**(33,469,678)**	**22,797,317**

Group As at 31 December 2013	Gross exposure £	Impairment Provision £	Net exposure £
Analysed by statement of financial position line:			
Financing arrangements	37,827,536	(22,333,262)	15,494,274
Finance lease receivables	384,587	(82,000)	302,587
Operating lease assets	2,052,021	(218,219)	1,833,802
Balance as at 31 December 2013	**40,264,144**	**(22,633,481)**	**17,630,663**
Analysed by country:			
Bahrain	3,023,340	(302,334)	2,721,006
Cayman Islands	10,994,399	(4,837,344)	6,157,055
France	2,976,870	(2,136,072)	840,798
Turkey	14,557,512	(14,557,512)	–
United Kingdom	6,660,002	(582,000)	6,078,002
USA	2,052,021	(218,219)	1,833,802
Balance as at 31 December 2013	**40,264,144**	**(22,633,481)**	**17,630,663**
Analysed by economic sector:			
Financial Services			
GCC Financial Institutions	3,023,340	(302,334)	2,721,006
Manufacturing	14,557,512	(14,557,512)	–
Real estate	6,345,825	(500,000)	5,845,825
Transportation and storage	12,976,010	(5,055,563)	7,920,447
Construction	384,587	(82,000)	302,587
Waste management	2,976,870	(2,136,072)	840,798
Balance as at 31 December 2013	**40,264,144**	**(22,633,481)**	**17,630,663**

15. Taxation

Group

	2014 £	2013 £
UK Corporation Tax – current tax for the year	(244,277)	(106,143)
Overseas tax for the year	8,273	109,685
Deferred tax for the year	251,449	1,751,517
Tax charge in income statement	**15,445**	**1,755,059**

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

Group

Reconciliation of effective tax rate	2014 £	2013 £
Profit on ordinary activities	988,786	6,069,785
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.50% (2013: 23.25%)	212,589	1,411,225
Expenses not deductible for tax purposes	60,920	179,469
Overseas taxes	24,025	94,555
Tax exempt income	(38,414)	(142,104)
Share-based payment transactions	107,599	(8,710)
Effect of change in tax rates	(12,689)	257,966
Other adjustments related to leases and intangibles	(184,634)	(4,394)
Gains on other assets	(160,174)	–
Prior year adjustment to deferred tax	6,223	(32,948)
Tax charge in income statement	**15,445**	**1,755,059**

The main UK Corporation Tax rate was reduced from 23% to 21% with effect from 1 April 2014 and a further reduction from 21% to 20% with effect from 1 April 2015 was substantially enacted on 2 July 2013. Accordingly the deferred tax assets recognised below have been calculated using a corporation tax rate of 20% (2013: 20%).

Tax recognised in other comprehensive income

Group	2014 £	2013 £
Cash flow hedging reserve	(133,369)	(348,121)
Fair value reserve	(123,030)	165,278
	(256,399)	**(182,843)**

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 2017.

Movements in deferred tax balances

Group – 2014	Balance at 1 January £	Recognised in profit or loss £	Recognised in OCI £	Balance at 31 December £
Property, equipment and software	162,419	191,489	–	353,908
Tax losses carried forward	1,311,435	(146,290)	–	1,165,145
Cash flow hedges	66,377	–	(17,960)	48,417
Share-based payment transactions	324,552	(296,805)	–	27,747
Tax assets	**1,864,783**	**(251,606)**	**(17,960)**	**1,595,217**

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**

16. 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	2014 pence	2013 pence
Basic	0.50	2.23
Diluted	0.50	2.22

Profit attributable to ordinary shareholders	2014 £	2013 £
Profit attributable to shareholders (basic)	973,341	4,314,726
Profit attributable to shareholders (diluted)	973,341	4,314,726

Weighted average number of ordinary shares	2014 Number	2013 Number
Number of ordinary shares of 25p in issue	195,733,691	195,733,691
Share held in Treasury by the BLME Holdings EBT	(2,601,477)	(2,676,921)
Weighted average number of shares (basic) at 31 December	193,132,214	193,056,770
Effect of dilutive share options in issue	875,610	1,312,129
Weighted average number of shares (diluted) at 31 December	194,007,824	194,368,899

17. Profit attributable to equity Shareholders of the Company

£761 of the consolidated profit for the financial year (2013: none) 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.

18. Due from financial institutions

Group	0 – 3 months £	4 – 12 months £	1 – 5 years £	2014 Total £
Murabaha	82,500,823	1,090,197	–	83,591,020
Wakala	98,698,750	5,330,509	–	104,029,259
	181,199,573	**6,420,706**	**–**	**187,620,279**

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**

19. Investment securities

Group			2014
	Listed £	Unlisted £	Total £
Fair value through profit and loss			
Sukuk	46,022,659	1,579,628	47,602,287
Available-for-sale			
Equity	345,291	3,338,645	3,683,936
Sukuk	136,847,801	–	136,847,801
	183,215,751	**4,918,273**	**188,134,024**

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**

Company			2014
	Listed £	Unlisted £	Total £
Investment in subsidiary			
Bank of London and The Middle East plc	–	241,858,703	241,858,703

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

As explained in Note 32, the Company was inserted as a holding company of the Bank during 2013 pursuant to a Scheme of Arrangement. The transaction was outside the scope of IFRS 3 and therefore no business combination occurred. As a result, acquisition accounting using fair value was not mandatory and the Company's investment in the Bank was recognised at the IFRS net asset value of the Bank at the effective date of the BLME Scheme of Arrangement (which became the effective cost of investment).

Pursuant to the scheme and as explained in Note 13, 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 was a non-monetary transaction for no consideration with a parent company, it was in effect additional investment in the Bank by the Company.

Company

	2014 £	2013 £
Investment in subsidiary		
Opening balance	243,143,580	–
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
Settlement of share-based payment awards by BLME	(1,339,149)	–
Equity-settled share-based payment awards	54,272	–
Closing balance at 31 December	**241,858,703**	**243,143,580**

The settlement of share-based payment awards by BLME includes the reclassification of the Deferred Annual Bonus Scheme ("DABS") from equity-settled to cash-settled accounting in June 2014.

20. Investment properties

Group

	2014 £	2013 £
Valuation at 1 January	24,340,000	27,816,788
Net exchange differences	–	285,054
Purchases at cost	4,056,680	3,327,495
Disposals	(2,483,996)	(7,807,718)
Movements in fair value*	2,667,316	718,381
Valuation at 31 December	**28,580,000**	**24,340,000**

*this item has been included in "net fair value gains on investment properties" in the income statement. No items have been included in other comprehensive income.

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 IFRS 13.

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 34. Three UK based commercial properties were purchased by the Fund for £3.8 million during the year (2013: one for £3.1 million), comprising industrial and office units in Atherstone, Sheffield and Westerham. The acquisition costs associated with these purchases were £281,680 (2013: £210,045).

In 2013, the Group disposed of its leasehold interest in a US commercial real estate property in Bettendorf, Iowa, USA. This property was held through the SEs 'TP Funding Company LLC' and 'Medical Property Investments LLC' (see Note 34).

The income statement includes rental income from the investment properties of £1,931,524 (2013: £2,168,935) in the line "Other operating income" and direct operating expenses of £800,044 (2013: £888,942) including repairs and maintenance in the line "Other operating expenses".

21. Financing arrangements

Group

	Less than 1 year £	1 - 5 years £	Over 5 years £	2014 Total £
Murabaha	467,636,582	157,900,482	20,922	625,557,986
Mudaraba	216	3,297,662	–	3,297,878
Musharaka	135	2,654,633	–	2,654,768
Hire Purchase	4,746,613	83,915,706	–	88,662,319
Istisna and Ijara	447	–	8,897,546	8,897,993
Sukuk	2,211,015	9,255,773	–	11,466,788
	474,595,008	**257,024,256**	**8,918,468**	**740,537,732**
Provision for impairment				(33,269,025)
				707,268,707

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

22. Finance leases

Group

Gross investment in finance lease receivables	2014 £	2013 £
Less than one year	76,448,372	74,069,870
One to five years	98,154,576	140,913,418
Over five years	400,596	5,642,641
	175,003,544	**220,625,929**
Unearned future income on finance leases	(14,463,327)	(21,387,898)
Provision for impairment	–	(82,000)
Net investment in finance leases	**160,540,217**	**199,156,031**

The net investment in finance leases comprises:

Less than one year	69,257,064	65,081,945
One to five years	90,887,705	128,772,484
Over five years	395,448	5,301,602
	160,540,217	**199,156,031**

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.

23. Property and equipment

Group

Cost	Computer Equipment £	Office Equipment £	Fixtures & Fittings £	Motor Vehicles £	Total £
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**
At 1 January 2014	558,300	110,480	2,104,559	21,238	2,794,577
Additions	72,179	–	21,369	–	93,548
Disposals	(198,640)	(32,470)	(229,762)	–	(460,872)
At 31 December 2014	**431,839**	**78,010**	**1,896,166**	**21,238**	**2,427,253**

Depreciation

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**
At 1 January 2014	422,303	105,005	1,614,835	2,744	2,144,887
Charge for the year	88,452	1,932	107,818	5,220	203,422
Disposals	(142,481)	(28,927)	(105,523)	–	(276,931)
At 31 December 2014	**368,274**	**78,010**	**1,617,130**	**7,964**	**2,071,378**

Net Book Value

At 1 January 2013	112,709	887	292,757	–	406,353
At 31 December 2013	135,997	5,475	489,724	18,494	649,690
At 31 December 2014	**63,565**	–	**279,036**	**13,274**	**355,875**

24. Operating lease assets

Group

	At 31 December 2013 £	Additions 2014 £	Disposals 2014 £	Depreciation 2014 £	Translation differences 2014 £	At 31 December 2014 £
Gross carrying amount	133,289,066	6,438,375	(46,976,684)	–	3,728,156	96,478,913
Less depreciation	(56,068,718)	(2,341,011)	33,101,597	(16,285,563)	(2,456,929)	(44,050,624)
	77,220,348	**4,097,364**	**(13,875,087)**	**(16,285,563)**	**1,271,227**	**52,428,289**
Provision for impairment						(200,653)
						52,227,636

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

Rental receipts under operating leases	2014	2013 £
Future rentals are as follows:	£	
Less than one year	12,220,210	21,687,693
Between one and five years	13,486,373	24,817,343
	25,706,583	**46,505,036**

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

25. Intangible assets

Group

Cost	2014 £	2013 £
Opening balance	3,433,635	2,773,213
Acquisitions	714,980	660,422
Disposals	(213,318)	–
Closing balance	**3,935,297**	**3,433,635**

Depreciation and impairment losses		
Opening balance	2,167,711	2,038,681
Charge for the year	232,734	129,030
Disposals	(98,217)	–
Closing balance	**2,302,228**	**2,167,711**
Net Book Value	**1,633,069**	**1,265,924**

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

26. Other assets

Group

	2014 £	2013 £
Accrued income	204,830	144,940
Collateral deposits*	685,870	697,337
Prepayments	2,203,170	1,480,426
Operating lease accrued income	–	228,280
Other receivables and assets	2,931,186	5,258,081
	6,025,056	**7,809,064**

*The Group has pledged cash collateral deposits of £685,870 (2013: £697,337) as security against rental payments on its premises.

27. Due to financial institutions

Group

	2014 £	2013 £
Reverse Murabaha	548,296,464	561,526,668
Wakala	78,571,343	86,890,956
	626,867,807	**648,417,624**

28. Due to customers

Group

	2014 £	2013 £
Security deposits	13,999,884	5,838,255
Customer deposits	457,443,792	302,641,246
	471,443,676	**308,479,501**

29. Other liabilities

Group

	2014 £	2013 £
Trade payables	220,913	520,277
VAT payable	1,510,129	654,382
Deferred income	4,261,610	5,834,491
Social security and income tax	318,351	299,130
Accruals	7,199,112	5,091,995
Other creditors	2,538,082	5,708,853
	16,048,197	**18,109,128**

30. Commitments under operating leases

There is a commitment at the year-end under a non-cancellable operating lease for the Group's premises at 1st Floor, 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:	2014 £	2013 £
Lease expiring between one and five years	757,316	1,054,833
	757,316	**1,054,833**

During the year £275,880 (2013: £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:	2014 £	2013 £
Lease expiring between one and five years	1,585,308	–
Lease expiring in more than five years	–	6,529,957
	1,585,308	**6,529,957**

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 658,065, which was equivalent to £114,896 at the balance sheet date (2013: AED 646,520 / £106,438), with an initial rent free period.

Dubai Office

Future minimum rentals are as follows:	2014 £	2013 £
Lease expiring in less than five years	95,747	198,620
	95,747	**198,620**

During the year £134,138 (2013: £93,792) was recognised as an expense in the income statement in respect of this operating lease.

31. Contingent liabilities

In 2013, 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.

32. Share capital and share premium

Group **Allotted, called up and fully paid**	Number 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**	**–**
Redemption of preference shares held by BLME	(50,000)	(50,000)	–
Repurchase of one A ordinary share held by BLME	(1)	(1)	–
At 31 December 2014	**195,733,691**	**48,933,422**	**–**

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**
Redemption of preference shares held by BLME	–	–	–	(50,000)	(50,000)
Repurchase of one A ordinary share held by BLME	–	–	(1)	–	(1)
At 31 December 2014	**48,933,422**	–	–	–	**48,933,422**

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.

In 2013, 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 that date.

33. Merger reserve

Company

	2014 £	2013 £
Opening balance at 1 January	**15,999,851**	**0**
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**	**15,999,851**

As referred to in Note 32 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 19) over the nominal value of the ordinary shares issued to the former shareholders of BLME of £48,933,422 (see Note 32).

£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.

34. Subsidiaries and other entities

Subsidiaries (not structured entities)	Place of business & 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
BLME Holdings 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
MKL Construction Equipment Finance Limited	England & Wales	60%	£1,000
Renaissance Trade Finance Limited	England & Wales	100%	£2
Renaissance Property Finance Limited	England & Wales	100%	£2

As the Group owns the majority of the equity capital of the above entities, it is exposed, and has rights, to variable returns from its involvement with the investees and has the ability to affect those returns through its power over the investees. Consequently, the results of the subsidiaries above have been consolidated in these financial statements.

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

Compartment (not structured entities)	Share Class	Holdings 2014	Holdings 2013
BLME US$ Income Fund	Management	1	1
	B	25,741.369	25,741.369
	C	24,995.251	24,995.251
	G	1,234.491	1,234.491
	M	198.766	198.766
BLME Global Sukuk Fund	A	8,239.545	8,239.545
BLME Light Industrial Building Fund	A	10,027.628	10,027.628

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 67.9% (2013: 77.9%) of the shares issued. The Group recognised an expense of £1,199,335 (2013: £383,600) 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 32.1% (2013: 22.1%) has been reported in the Group's balance sheet liabilities line "Third party interest in consolidated funds".

There are five active entities (2013: five) that do not qualify as subsidiaries under UK law but which are consolidated under IFRS 10 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 SEs are governed by participation agreements which allow the Group to exercise power over the SEs in addition to being exposed to, and having rights over, the variable returns from its involvement with the SEs. Furthermore, the Group has the ability to use its power to affect its returns from its involvement in the SEs.

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 SEs are reported as Group operating lease assets amounting to £15,840,044 (2013: £27,213,040). Finance leases owned by the SEs amount to £nil (2013: £8,837,061).

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 13. The EBT has a cumulative holding of own shares acquired at a total cost of £4,227,405 (2013: £4,350,000) 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 £nil (2013: £16,750).

Significant restrictions

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of Bank of London and The Middle East plc's assets and liabilities are £1,391 million and £1,142 million respectively (2013: £1,234 million and £991 million respectively).

Interests in unconsolidated structured entities

The Group has a 40% participation in a syndicated loan made to a Cayman Islands structured entity to which the Group has an exposure of $18.1 million / £11.6 million (2013: $18.1 million / £10.9 million). The SE is financed by a syndicate of financial institutions. The carrying amount of this participation is $6.1 million / £3.9 million (2013: $10.1 million / £6.2 million), which is included within "Financing arrangements". The carrying amount represents the maximum exposure to loss arising from the Group's interest in this unconsolidated structured entity. No income was received during the year from the entity (2013: nil) nor are there any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the Group's interest in this unconsolidated structured entity (2013: none).

Contractual arrangements and financial support

The Group does not have any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated or unconsolidated structured entity (2013: none).

The Group did not provide financial support to any of its consolidated or unconsolidated structured entities during 2014 (2013: nil) and does not have any current intentions to provide such support (2013: none).

35. Related parties

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

	2014 £	2013 £
Boubyan Bank K.S.C		
Wakala placement	70,446,073	95,200,438
Wakala deposit taking	26,640,010	54,132,119
Foreign exchange transactions	654,015	21,432
The Public Institution for Social Security		
Reverse Murabaha	530,667,354	650,131,618
PDQFX Limited		
Foreign exchange transactions	–	3,209

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

	2014 £	2013 £
Cash and balances with banks		
Nostros	2,190,671	1,663,988
Due from financial institutions		
Wakala placement	7,382,806	8,040,064
Due to financial institutions		
Wakala deposit taking	7,150,666	9,797,978

The maximum amounts outstanding with Boubyan Bank K.S.C during the year ended 31 December 2014 were:

- On balance sheet £11,257,092 (2013: £12,924,801)
- Off balance sheet £nil (2013: nil)

On 22 September 2010 the Group entered into a five year marketing and advisory services agreement with Boubyan Bank K.S.C to pay KWD 450,000 per annum, which was equivalent to £985,126 at the balance sheet date (2013: £964,426). In return Boubyan Bank committed to providing a comprehensive range of marketing and advisory initiatives. As at 31 December 2014, the aggregate cost of these services had been fully recognised in the income statement through the "Other operating expenses" line.

On 4 April 2011 the Group was appointed by Boubyan Bank as agent under a two 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 received 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 was 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 also received an extension facility agency fee of £124,000 in four equal quarterly instalments commencing with effect from 4 April 2013.

As at 31 December 2014, Boubyan Bank K.S.C held 25.62% (2013: 25.62%) of the Company's shares. A Non-Executive Director who joined the Board on 25 September 2009, and resigned from the Board on 7 June 2013, was also 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, and was appointed Chairman on 31 March 2014, 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 were as follows:

Included within:	2014 £	2013 £
Reverse Murabaha	534,808,431	526,858,596

The maximum amounts outstanding with The Public Institution for Social Security during the year ended 31 December 2014 were:

- On balance sheet £534,808,431 (2013: £545,602,006)
- Off balance sheet £nil (2013: nil)

As at 31 December 2014, The Public Institution for Social Security held 7.67% (2013: 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 PDQFX Limited during the year ended 31 December 2014 was £nil (2013: £1,288). There were no outstanding foreign currency forward contracts with PDQFX Limited as at 31 December 2014 (2013: none). The Company's Chief Executive Officer holds a 50% interest in PDQFX Limited (2013: 50%)

The key management of the Group are the Executive Directors. The compensation of key management personnel for the year was as follows:

	2014 £	2013 £
Key management emoluments*	958,462	1,597,519
Bank contributions to pension plans	17,082	59,250
	975,544	**1,656,769**

*Key management emoluments includes share-based payments of £32,731 (2013: £377,900).

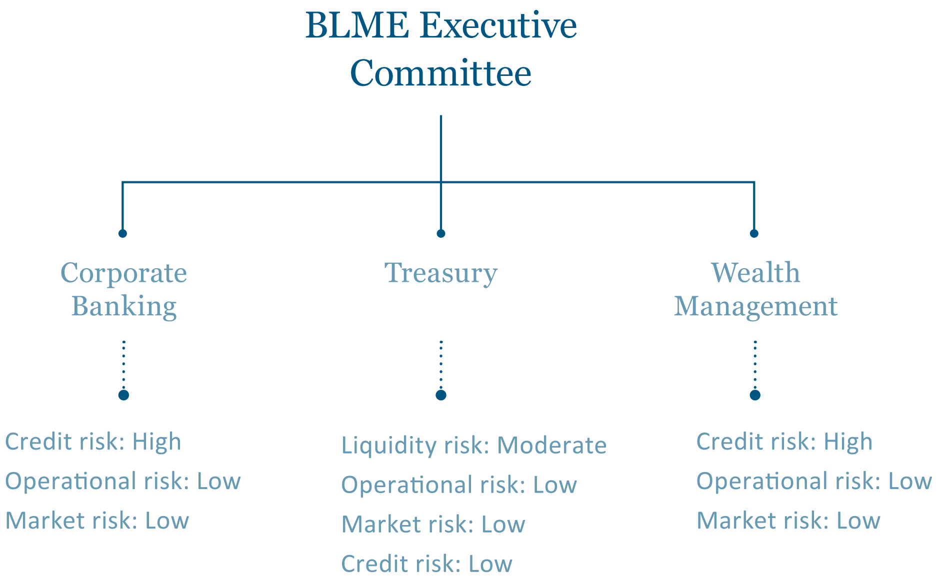
During the year ended 31 December 2013 an Executive Director purchased some items of office furniture from the Group for a total consideration of £3,050. This transaction arose from the ordinary course of business and was conducted on the same terms as for comparable transactions with third-party counterparties. No such transactions were entered into during the year ended 2014.

36. 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

The chart below provides a link between the Group's business units and the principal risks that they are exposed to. The significance of risk is assessed within the context of the Group as a whole and is measured based on allocation of the regulatory capital within the Group.



The following 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. Assurance is provided by the independent Internal Audit function (3rd line of defence)

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 programme that defines a Stress Test Guidance Parameter for each main risk type. 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 auditing process, 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 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 2014, 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	2014 £	2013 £
Cash and balances with banks	45,993,251	65,649,884
Due from financial institutions		
Murabaha	86,861,614	103,372,471
Wakala	100,758,665	30,018,055
Due from customers	5,038,233	–
Investment securities	188,134,024	128,014,007
Financing arrangements	707,268,707	594,571,253
Finance lease receivables	160,540,217	199,156,031
Total credit exposure	**1,294,594,711**	**1,120,781,701**

The Group had 80 off balance sheet letters of guarantee outstanding at 31 December 2014 (2013: 43) with a total exposure of £28,358,534 (2013: £18,425,420). These letters of guarantee mainly relate to short dated Trade Finance and ABL Finance facilities with a maturity of less than six months.

iii. Exposure by Country

The Group assets were dispersed across the following countries:

Group

	2014	2013
GCC countries	£	£
Bahrain	24,691,203	19,750,317
Kuwait	78,721,124	50,670,939
Qatar	50,725,602	35,176,002
Saudi Arabia	82,068,019	82,801,814
United Arab Emirates	93,290,723	44,852,721
EEA countries		
France	26,976,175	25,341,972
Luxembourg	8,714,696	4,210,473
Norway	5,401,182	–
United Kingdom	783,522,125	748,446,443
Other countries		
Bermuda	4,187,795	5,418,884
British Virgin Islands	19,506,432	1,873,721
Djibouti	2,654,768	3,219,946
Hong Kong	23,507,716	200,000
Indonesia	1,578,656	356,905
Malaysia	32,465,890	8,254,673
Pakistan	318,542	–
Singapore	3,206,518	–
South Africa	486,898	–
South Korea	6,599,181	8,728,430
Switzerland	4,810,148	12,443,443
Turkey	20,790,076	21,213,510
USA	20,371,242	47,821,508
Total credit exposure	**1,294,594,711**	**1,120,781,701**

The Group had no direct exposure to either the governments of, or institutions or corporates in Greece, Russia, Ukraine, Syria or Iraq.

iv. Exposure by economic sector

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

Group	2014 £	2013 £
Financial services		
GCC financial institutions	213,983,858	157,743,994
UK financial institutions	112,579,748	108,447,205
European financial institutions	31,007,501	28,711,647
Other financial institutions	54,518,517	27,374,034
Mining and quarrying	–	885,844
Manufacturing	33,752,726	18,754,527
Real estate	323,021,414	324,066,771
Transportation and storage	147,729,223	146,164,092
Government	52,774,125	23,786,058
Wholesale / Retail	119,267,717	91,292,731
Oil and Gas	29,548,487	16,930,410
Commodities	63,367,577	58,867,235
Energy	11,638,378	30,717,833
Construction	42,764,956	32,648,344
Telecoms	17,403,240	14,721,747
Others	41,237,244	39,669,229
Total credit exposure	**1,294,594,711**	**1,120,781,701**

v. Credit risk quality

The Group's credit quality and direct investments are managed by the Counterparty Credit Risk Committee 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 for customers who are not externally rated. The latter are mapped to the ratings of the ECAI. The table below shows the breakdown of credit quality as at 31 December 2014. Of the total portfolio 31% (2013: 33%) was directly rated by at least one of the ECAI, with 69% (2013: 67%) 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 2014**	**ECAI ratings**		**BLME Internal Rating**		**Unrated**	**Total**
	Investment Grade £	Sub-Investment Grade £	Investment Grade £	Sub-Investment Grade £	Unlisted Equity Investments £	£
Cash and balances with banks	45,993,251	–	–	–	–	45,993,251
Due from financial institutions	143,023,283	3,206,518	19,244,136	22,146,342	–	187,620,279
Due from customers	–	–	5,038,233	–	–	5,038,233
Investment securities	153,077,894	8,792,006	21,890,258	1,264,392	3,109,474	188,134,024
Financing arrangements	18,722,582	13,767,302	226,324,054	448,454,769	–	707,268,707
Finance lease receivables	15,887,623	–	97,202,277	47,450,317	–	160,540,217
Total credit exposure	**376,704,633**	**25,765,826**	**369,698,958**	**519,315,820**	**3,109,474**	**1,294,594,711**

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 £	£
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**

The Group's cash balances, due from financial institutions balances and investment securities were neither past due nor impaired as at 31 December 2014 and as at 31 December 2013.

Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	2014 £	2013 £	2014 £	2013 £
Neither past due nor impaired	668,124,386	562,499,879	160,342,952	197,182,299
Past due but not impaired	17,601,899	16,577,100	197,265	1,671,145
Gross exposure associated with impairment provision	54,811,447	37,827,536	–	384,587
Less: allowance for impairments	(33,269,025)	(22,333,262)	–	(82,000)
Total	**707,268,707**	**594,571,253**	**160,540,217**	**199,156,031**
Past due but not impaired	£	£	£	£
Past due up to 30 days	17,601,899	10,536,096	197,265	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	–	–
Total	**17,601,899**	**16,577,100**	**197,265**	**1,671,145**

The past due but not impaired balances as at 31 December 2014 include £11,556,776 (2013: £16,363,882) relating to three (2013: four) real estate transactions where the facility balances are lower than the collateral values. The Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. An analysis of impairments is provided in Note 14 “Impairment of financial assets”.

Forbearance

BLME offers forbearance programmes to assist customers in financial difficulty through modification of terms or agreements to accept less than contractual amounts due where financial distress could otherwise prevent satisfactory repayment. Such agreements may be initiated by the customer, but may be initiated by BLME or a third party.

Forbearance is considered to occur when, BLME, for reasons pertaining to the actual, imminent or perceived financial stress of a customer, allows, grants, or restructures facilities on terms that are outside of its current lending appetite when considered against the credit risk of the customer. To note, while guidance is provided by the Target Market Criteria (“TMC”), this does not necessarily mean that any granting of facilities that fall outside of TMC constitutes forbearance.

Forbearance would typically be evident where the concession(s) agreed impact the ability to repay debt or avoid recognising a default with a lack of appropriate commercial balance and risk mitigation/ structural enhancement of benefit to the Bank in return for that concession.

A concession refers to either of the following actions:

- A modification of the previous terms and conditions of a contract, that the debtor is considered unable to comply with, due to its financial difficulties (“troubled debt”) in order to allow for sufficient debt serviceability that would not have been granted had the debtor not been in financial difficulty
- A total or partial refinancing of a troubled debt contract that would not have been granted had the debtor not been in financial difficulty

Evidence of a concession includes:

- A difference in favour of the debtor between the modified and the previous terms of the contract
- Cases where a modified contract includes more favourable terms than other debtors with a similar risk profile could have obtained from the Bank

The revised terms usually include a reduction of current contractual profit rate or other fees, amending the terms of exposure covenants, extending the maturity and/or changing the timing of profit rate payments. All exposures are subject to the forbearance policy. The Credit Department, Counterparty Credit Risk Committee and Audit Committee all review reports on forbearance activities.

Agreement to forbearance does not necessarily result in an impairment of that facility. All loan impairments will be individually assessed by the Credit Department and Counterparty Credit Risk Committee, assisted by advice from the Credit, Asset Recovery Unit and Finance departments.

The forbearance classification and reporting thereof shall be discontinued when all of the following conditions are met:

1. The contract is considered as performing after an analysis of the financial condition of the debtor showed it no longer met the conditions to be considered as non-performing
2. A minimum 2 year probation period has passed from the date the forborne exposure was considered as performing
3. Regular payments of more than an insignificant aggregate amount of principal and profit have been made during at least half of the probation period
4. None of the exposure to the debtor is more than 30 days past due at the end of the probation period

In the event that not all of the conditions are met, the exposure continues to be reported as forborne until such time as all of the conditions are met. The conditions are assessed on a monthly basis.

Based on the credit exposures existing as at 31 December 2014 there had been two instances (2013: one):

- 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

One instance relates to a multi-asset class, asset backed facility, for which the Group provided a temporary facility during the year to a counterparty that operates in the construction industry. Another instance relates to a property client, for which the Group waived a financial covenant during the year. Both counterparties are based in the United Kingdom. The Group believes that impairment is not appropriate on the basis of the level of security or collateral available.

- 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 2014, collateral represented 56% (2013: 63%) 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	2014 £	2013 £
Real estate	6,345,825	6,345,825
Total	**6,345,825**	**6,345,825**

The real estate collateral balances reported above relate to a property under the appointment of an LPA receiver. 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	2014 Exposure £	2014 Collateral £	2013 Exposure £	2013 Collateral £
Cash and balances with banks	45,993,251	–	65,649,884	–
Due from financial institutions	187,620,279	–	133,390,526	–
Due from customers	5,038,233	–	–	–
Investment securities	188,134,024	–	128,014,007	–
Financing arrangements	707,268,707	579,826,380	594,571,253	501,992,586
Finance lease receivables	160,540,217	138,426,343	199,156,031	189,875,676
Total credit exposure	**1,294,594,711**	**718,252,723**	**1,120,781,701**	**691,868,262**

Analysis of collateral	2014 £	2013 £
Plant and equipment	304,793,859	261,340,679
Property	280,114,781	317,292,676
Raw materials/ finished stock	133,344,083	113,234,907
Total credit exposure	**718,252,723**	**691,868,262**

In addition, the Group holds financial guarantees of £16.2 million (2013: £12.1 million) against financing arrangements.

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

As at 31 December 2014, 89% of the Group's property lending exposure had a loan-to-value ratio equal to or less than 70% (2013: 79%).

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	2014 Carrying value £	2014 Fair value £	2013 Carrying value £	2013 Fair value £
Due from financial institutions	i	187,620,279	*	133,390,526	*
Due from customers	i	5,038,233	*	–	–
Investment securities	ii	188,134,024	188,134,024	128,014,007	128,014,007
Financing arrangements	iii	707,268,707	*	594,571,253	*
Finance lease receivables	iv	160,540,217	*	199,156,031	*
Due to financial institutions	iv	626,867,807	*	648,417,624	*
Profit rate swaps liability	iv	2,235,852	2,235,852	1,972,903	1,972,903
Due to customers	iv	471,443,676	*	308,479,501	*

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

Notes

i. Apart from a £7,382,806 (2013: £8,040,064) Wakala placement with Boubyan Bank K.S.C, which is disclosed in further detail in Note 35, these assets represent short term liquidity with an average residual life of 3 weeks for the Group and a maximum individual residual maturity of 10 months for the Group. The assets are placed with banks with an average credit rating of BBB 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 from third party pricing providers where appropriate and available or values based on current profit rates with reference to residual maturity from balance sheet date.

iv. Fair value is based on current profit rates with reference to residual maturity from balance sheet date.

Valuation of Financial Instruments

The Group's fair value measurement techniques can be found in Note 3b.

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

Group	2014 Level 1 £	2014 Level 2 £	2014 Level 3 £	2014 Total £
Investment securities	183,215,751	1,579,520	3,338,753	188,134,024
Investment properties	–	28,580,000	–	28,580,000
Profit rate swaps liability	–	2,235,852	–	2,235,852

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
Investment properties	–	24,340,000	–	24,340,000
Profit rate swaps liability	–	1,972,903	–	1,972,903

During the year, there were no transfers between Level 1 and Level 2 fair value measurements (2013: none) and no transfers into or out of Level 3 fair value measurements (2013: none). Transfers between levels would occur at the date of the event or change in circumstances that caused the transfer.

The investment properties are valued by an independent professional firm of qualified surveyors in accordance with the RICS Valuation – Professional Standards, incorporating the International Valuation Standards, Global and UK edition (March 2012) – 'the Red Book'. The properties are all held for investment purposes and have been valued on the basis of Market Value, defined within the Red Book as:

"The estimated amount for which an asset or liability should exchange on the date of valuation between a willing buyer and willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion."

Market value is determined by applying the income approach based on the rent passing, the estimated rental value of the property, the lease term, expected vacancy rates and the market yield, and is estimated by the external valuer based on comparable transactions and industry data. The inputs into the valuation models have been derived from observable market data and therefore management has been able to conclude on the appropriateness of categorising investment properties as level 2. More information regarding the Group's investment properties is included in Note 20.

The level 3 investment securities are valued by an independent professional firm of corporate finance and capital markets advisors who use a market approach to value the portfolio. Market value is determined by using prices and other relevant information generated by market transactions involving the individual security and/or identical or comparable securities.

There have been no changes to the methodologies used in valuing the level 2 and 3 assets (2013: none).

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	2014 £	2013 £
Balance at 1 January	2,663,688	2,213,104
Total gains / (losses) recognised in:		
– profit or loss*	(194,462)	(11,011)
– other comprehensive income**	88,714	(34,189)
Purchases	780,705	695,785
Sales	–	(200,001)
Balance at 31 December	**3,338,645**	**2,663,688**

* this amount is included in “net fair value losses on investment securities” in the income statement

** this amount is included in “changes in fair value of available-for-sale financial assets taken to equity” in the statement of comprehensive income

Of the £194,462 recognised in the income statement (2013: £11,011), £22,171 (2013: £12,094) is attributable to the change in unrealised gains or losses relating to those assets held at the balance sheet date.

The reconciliation for investment properties is included in Note 20.

ix. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2014.

Group Assets	2014 Fair value through profit and loss £	2014 Designated at fair value through profit and loss upon initial recognition £	2014 Available-for-sale £	2014 Financial assets at amortised cost £	2014 Total £
Cash and balances with banks	–	–	–	45,993,251	45,993,251
Due from financial institutions	–	–	–	187,620,279	187,620,279
Due from customers	–	–	–	5,038,233	5,038,233
Investment securities:					
Sukuk	47,602,287	–	136,847,801	–	184,450,088
Equity	–	–	3,683,936	–	3,683,936
Financing arrangements	–	–	–	707,268,707	707,268,707
Finance lease receivables	–	–	–	160,540,217	160,540,217
Other assets (excluding prepayments)	745,000	–	–	3,076,886	3,821,886
Total assets	**48,347,287**	**–**	**140,531,737**	**1,109,537,573**	**1,298,416,597**

Group Liabilities	2014 Profit Rate Swaps designated as fair value hedging instruments £	2014 Profit Rate Swaps designated as cash flow hedging instruments £	2014 Financial liabilities at amortised cost £	2014 Total £
Due to financial institutions	–	–	626,867,807	626,867,807
Due to customers	–	–	471,443,676	471,443,676
Profit rate swaps	911,812	1,324,040	–	2,235,852
Total liabilities	**911,812**	**1,324,040**	**1,098,311,483**	**1,100,547,335**

Group	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
Assets	£	£	£	£	£
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
Other assets (excluding prepayments)	–	–	–	6,328,638	–
Total assets	**35,543,742**	**–**	**92,470,265**	**999,096,332**	**1,120,781,701**

Group	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
Liabilities	£	£	£	£
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**

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 Department 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 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, as required by the Prudential Regulatory Authority. 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 2014, the Group had acquired £1,053,482,296 (2013: £936,979,030) of term deposits and held £2,725,495 (2013: £19,408,770) of secondary market assets.

Residual contractual maturities of financial assets

Group	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	2014 Total £
Cash and balances with banks	45,993,251	–	–	–	–	45,993,251
Due from financial institutions	171,538,790	9,684,698	6,442,221	–	–	187,665,709
Due from customers	5,042,014	–	–	–	–	5,042,014
Investment securities	44,155,820	–	9,533,046	137,085,760	–	190,774,626
Financing arrangements	227,683,656	115,928,241	102,163,664	303,755,580	9,818,099	759,349,240
Finance lease receivables	251,214	4,103,831	34,594,229	152,330,629	9,450,589	200,730,492
	494,664,745	**129,716,770**	**152,733,160**	**593,171,969**	**19,268,688**	**1,389,555,332**

Group	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	2013 Total £
Cash and balances with banks	65,649,884	–	–	–	–	65,649,884
Due from financial institutions	122,750,631	5,804,813	2,841,940	1,993,142	–	133,390,526
Investment securities	26,462,184	–	9,343,187	92,208,636	–	128,014,007
Financing arrangements	169,386,497	68,179,421	134,088,220	248,554,592	9,472,269	629,680,999
Finance lease receivables	686,982	3,948,075	7,707,915	188,139,207	20,061,751	220,543,930
	384,936,178	**77,932,309**	**153,981,262**	**530,895,577**	**29,534,020**	**1,177,279,346**

The tables above show the contractual, undiscounted cash flows of the Group's financial assets. The Group is the senior lender in all of its lending exposures, with the exception of one financing arrangement in which it is the mezzanine lender (2013: one). The exposure to this counterparty is £8.4 million (2013: £8.1 million).

None of the Group's assets have been pledged as collateral apart from cash collateral deposits of £685,870 (2013: £697,337) as security against rental payments on the Group's premises. Consequently, all of the Group's assets are unencumbered.

Residual contractual maturities of financial liabilities

Group	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	2014 Total £
Due to financial institutions	35,588,419	100,718,336	484,496,964	12,487,883	633,291,602
Due to customers	44,546,074	21,684,608	142,862,871	295,264,594	504,358,147
Profit rate swaps	208,577	202,462	645,928	1,178,885	2,235,852
	80,343,070	**122,605,406**	**628,005,763**	**308,931,362**	**1,139,885,601**

Group	Less than 1 month £	1-3 months £	3-12 months £	1-5 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**

The tables above show the contractual, undiscounted cash flows of the Group's financial liabilities apart from profit rate swaps which are stated at fair value.

Whilst BLME has sufficient assets in the short dated time buckets to cover its short dated liabilities as they become due, it also holds a significant Liquid Asset Buffer (in line with the PRA BIPRU rules) of £110.2 million as at 31 December 2014 (2013: £73.0 million). These LAB holdings have been greater than the regulatory liquidity requirement throughout the year.

The following table sets out components of the Group's liquidity reserve:

Group	2014 £	2013 £
Cash and cash equivalents	45,993,251	65,649,884
Highly liquid securities (including LAB)	182,870,352	124,640,757
Total	**228,863,603**	**190,290,641**

As at 31 December 2014, there are no limitations on the use of the liquidity reserve held by the Group (2013: none).

c. Market risks

Market risk is the risk that changes in market prices will affect income. It covers profit rate risk, credit spread risk, equity price 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.

The table below sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios:

Group

As at 31 December 2014

	Note	Carrying amount	Market risk measure: Trading portfolio	Market risk measure: Non-trading portfolio
Assets subject to market risk		£	£	£
Cash and cash equivalents		45,993,251	–	45,993,251
Due from financial institutions	18	187,620,279	–	187,620,279
Due from customers		5,038,233	–	5,038,233
Investment securities	19	188,134,024	47,602,287	140,531,737
Financing arrangements	21	707,268,707	–	707,268,707
Finance lease receivables	22	160,540,217	–	160,540,217
Operating lease assets	24	52,227,636	–	52,227,636
Investment properties	20	28,580,000	–	28,580,000
Liabilities subject to market risk		£	£	£
Due to financial institutions	27	626,867,807	–	626,867,807
Due to customers	28	471,443,676	–	471,443,676
Profit rate swaps	9	2,235,852	–	2,235,852

Group

As at 31 December 2013

	Note	Carrying amount	Market risk measure: Trading portfolio	Market risk measure: Non-trading portfolio
Assets subject to market risk		£	£	£
Cash and cash equivalents		65,649,884	–	65,649,884
Due from financial institutions	18	133,390,526	–	133,390,526
Investment securities	19	128,014,007	35,543,740	92,470,267
Financing arrangements	21	594,571,253	–	594,571,253
Finance lease receivables	22	199,156,031	–	199,156,031
Operating lease assets	24	77,002,129	–	77,002,129
Investment properties	20	24,340,000	–	24,340,000
Liabilities subject to market risk		£	£	£
Due to financial institutions	27	648,417,624	–	648,417,624
Due to customers	28	308,529,502	–	308,529,502
Profit rate swaps	9	1,972,903	–	1,972,903

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 2014, the Group's net profit rate sensitivity to profit and loss on its fixed and variable rate assets, and its capital and reserves, as measured by the discounted value of a one basis point change in market rates, was £14,050 (2013: £2,686). 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 £4,008,000 / £2,954,000 (2013: increase / decrease by £1,109,000 / £564,000) and to decrease / increase equity by £555,000 / £1,456,000 (2013: decrease / increase by £269,000 / £648,000).

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 2014 was £3,416,591 (2013: £2,965,090). 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 £337,520 (2013: £292,968).

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 £108,601 (2013: £103,906) which would impact both the income statement and equity. The foreign exchange result for the year to 31 December 2014 was a net loss of £25,515 (2013: £271,992 loss).

iv. Equity price risk

Equity prices are monitored by the Group's Investment Committee, but the sensitivity risk is not currently significant in relation to the overall results and financial position of the Group.

d. Operational risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The responsibility for the operating framework for risk governance rests with the Board. This extends to determining risk appetite in line with the Bank's strategy and ensuring that there is a clearly defined risk management structure with distinct roles and responsibilities that allow risks to be monitored, controlled and reported effectively. Risk governance is underpinned by ensuring that the Board and its committees are provided with transparent and risk sensitive reporting to facilitate their accountabilities and decision making. The Operational Risk Framework is built around the three Lines of Defence model tempered to the Group's profile. This Framework has been approved and is periodically reviewed by the Board through the Board Risk Committee which meets quarterly.

Senior Management ensures the identification and assessment of operational risk through a Risk and Control Self-Assessment ("RCSA") process. Technology risk (including CyberSecurity and Information Risk) surrounding core banking systems is perceived to be the area of risk that concerns most business areas and is compounded by a high inherent End User Computing risk.

The operational risk function monitors progress through a network of operational risk 'champions' located within each business unit and support function. Operational Risk losses are reported through a centralised risk management system accessible to all staff.

During the year ended 31 December 2014 significant investments in improving and further embedding an effective risk management culture across the Group were made. These included: employment of a full-time operational risk resource; enhanced RCSA reporting; improved training & development for operational risk champions; targeted training and awareness programmes for staff and management; and an enhanced cyber-security programme.

Basel III requires capital to be retained for operational risk, which the Group has calculated to be £5.4 million using the Basic Indicator Approach (2013: £7.3 million).

e. Capital adequacy

At 31 December 2014 and throughout the year BLME complied with the capital requirements that were in force as set out by the Prudential Regulation Authority ("the PRA"). The PRA adopted the Basel III requirements with effect from 1 January 2014. As a result, the Group's regulatory capital requirements were based on Basel II in 2013 and Basel III in 2014 however the difference between the two requirements on the Group is not substantial.

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

Tier 1 capital - CET1	2014 £ (unaudited)	2013 £ (unaudited)
Ordinary share capital	48,933,422	48,933,422
Share premium	205,623,225	205,623,225
Retained losses	(10,629,881)	(12,272,463)
Total Tier 1 capital	**243,926,766**	**242,284,184**
Deductions from Tier 1 capital		
Intangible assets	(1,748,171)	(1,265,924)
Others	(179,000)	–
Total Tier 1 capital after deductions	**241,999,595**	**241,018,260**
Tier 2 capital	**–**	**–**
Total Tier 2 capital	**–**	**–**
Total Tier 1 and Tier 2 capital	**241,999,595**	**241,018,260**
Deductions from Tier 1 and Tier 2 capital:		
Investment in BLME Sharia'a Umbrella Fund SICAV SIF	(52,820,038)	(49,097,652)
Investment in DMJ II LLC	–	–
Investment in group companies	–	(65,218)
Total regulatory capital	**189,179,557**	**191,855,390**

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:

Pillar 1 capital requirements	2014 £ (unaudited)	2013 £ (unaudited)
Credit Risk	93,270,000	79,262,000
Market risk – foreign currency PRR	239,000	134,000
Counterparty risk capital component	252,000	246,000
Operational risk	5,403,000	7,337,000
Total Pillar 1 capital requirement	**99,164,000**	**86,979,000**
Total regulatory capital in place	**189,179,557**	**191,855,390**
Excess of capital in place over minimum requirement under Pillar 1	**90,015,557**	**104,876,390**

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 2014 and has incorporated this measure in the capital planning process. The ratio was reported to the PRA in 2014 and becomes effective in 2018.

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