BLME Holdings plc
Annual Report and Accounts
For the year ended 31 December 2016
Registered number 08503102

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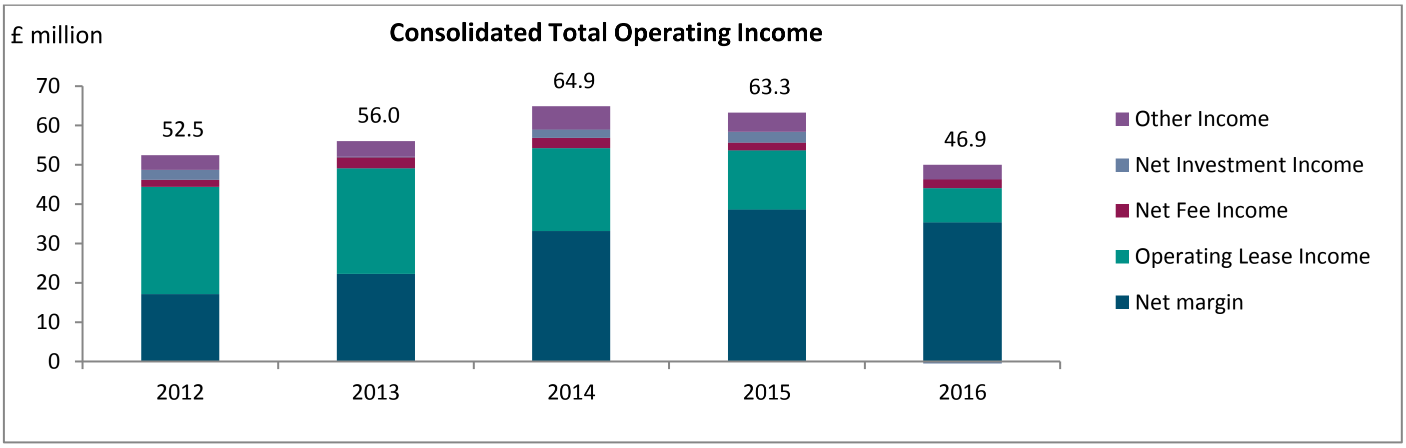
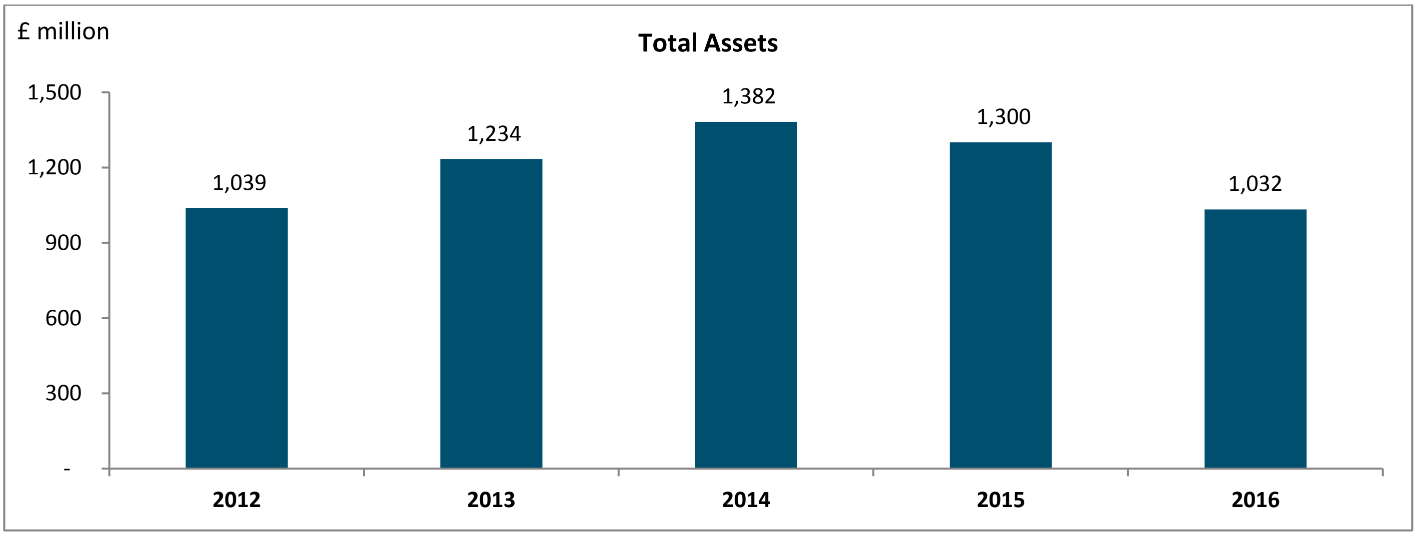
2016 Group Highlights for BLME Holdings plc

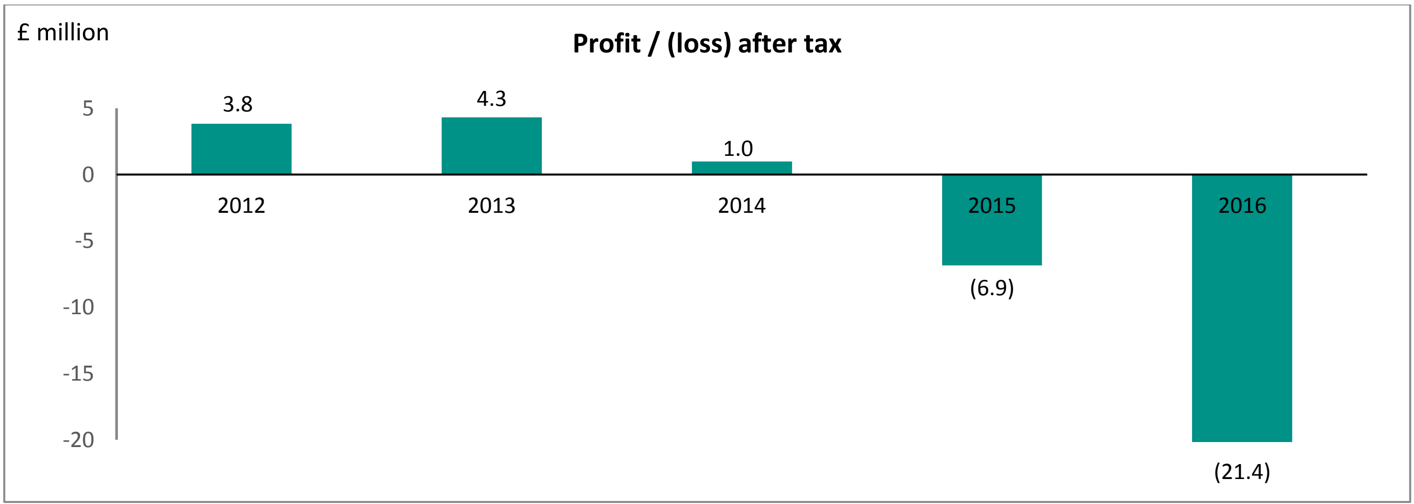
- The focus in 2016 has been the transformation of the Group into a simpler and more efficient bank
- Disappointing financial performance driven by credit losses in non-core or higher risk portfolios that have been exited or managed down
- Progress on restructuring the bank has created a platform for sustainable growth



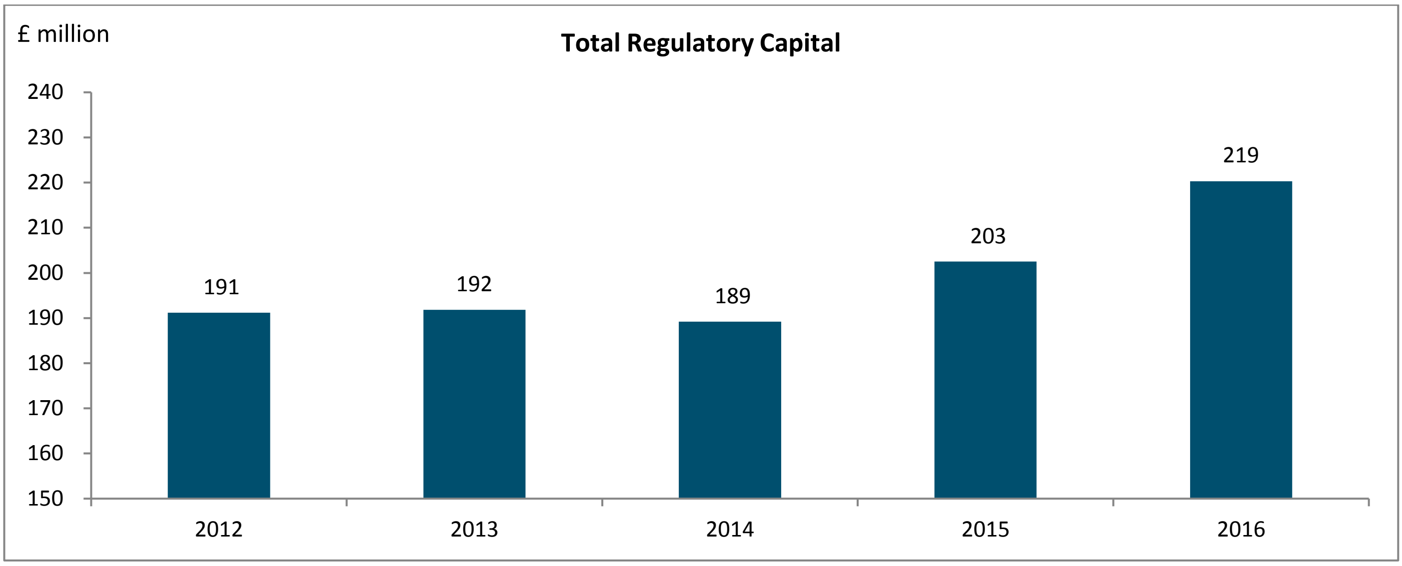
As a consequence of the Bank exiting non-core portfolios such as Islamic Capital Markets and US Leasing, and higher risk products which includes ABL Finance, operating income has decreased from £63.3 million in 2015 to £46.9 million in 2016.



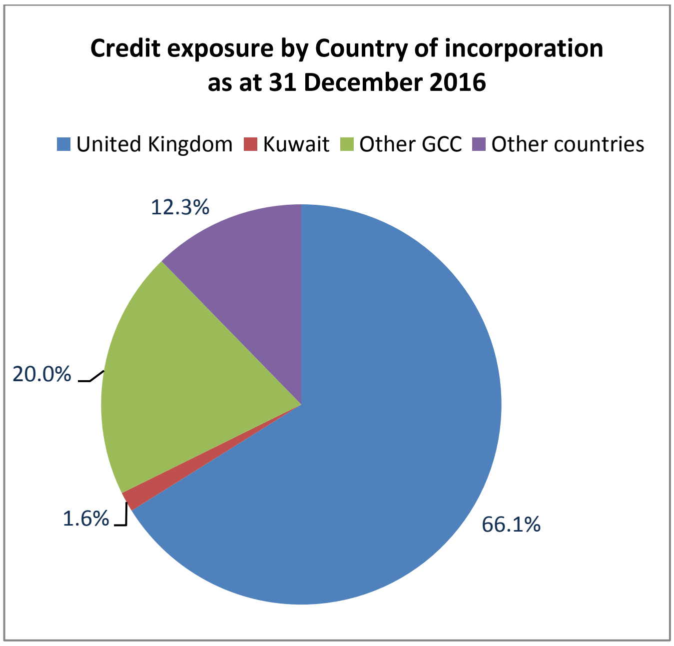
In 2016 Total Assets have contracted and stabilised at £1 billion compared to £1.3 billion at 31 December 2015 as we continued to de-risk our balance sheet which is in line with the Bank's strategy.

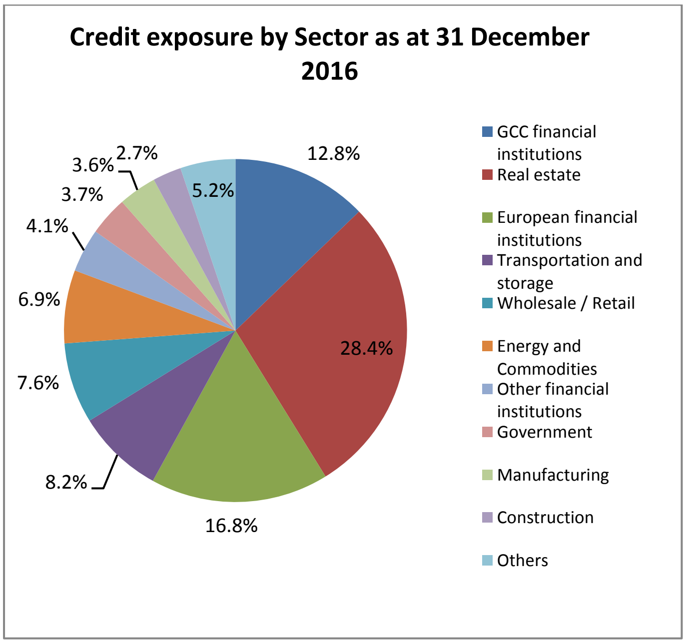


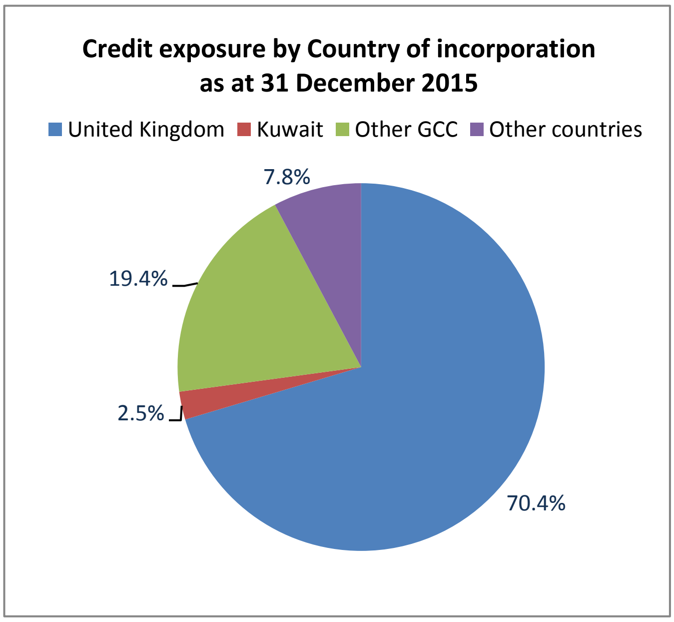
Loss for the year driven by impairment charges, deferred tax asset write-off, loss on disposal and hedging adjustments.

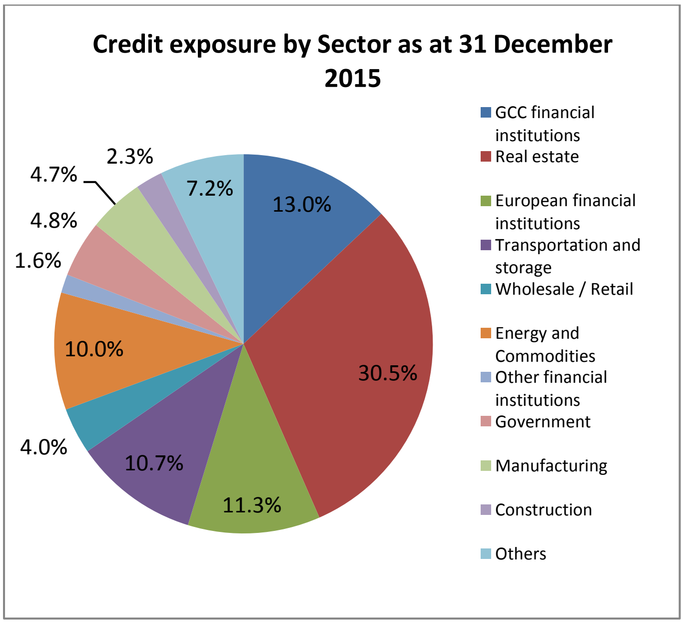


The Bank remains in a strong capital position.









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

Dear Shareholders

Although disappointed with the 2016 financial results, I am encouraged by the progress that has been made during 2016 in transforming BLME into a simpler and more efficient bank. This progress is not yet reflected in the financial performance of BLME but the work has created a platform for sustainable growth in the future.

Changes to the Board

The Board is committed to achieving long term and sustainable success for BLME and returns for shareholders.

In 2016, having acted as interim CEO, Michael Williams re-joined the Board as an Independent Non-Executive Director. Jabra Ghandour resigned as CEO in October but remains a valued member of the Board and Chris Power, BLME’s Chief Financial Officer, was appointed Executive Director. Their experience will complement the Board’s current mix of UK and GCC, and Wealth Management and Corporate Banking knowledge and expertise.

I welcome Giles Cunningham who was appointed CEO in November 2016; he has already developed a clear implementation plan for the Bank’s strategy and taken significant steps to reduce the cost: income ratio. The Executive Management Team has also been strengthened over the past 12 months with key hires in strategically important positions.

Outlook for BLME

Transforming a bank is a significant undertaking and there remains much to be done. It has only been through the dedication and hard work of our colleagues during a difficult year that progress has been made.

Further investment will be made in the Bank’s infrastructure and distribution capabilities, however the Board expects impairments and operational investment to materially reduce in the future with the expectation that the Bank will return to operating profit in the mid-term.

BLME recognises the importance of providing dividend income for our shareholders. However, until market conditions are conducive and BLME has distributable reserves this will not be achievable. The Board is as disappointed as its shareholders with the lack of liquidity in the Company's shares. We recognise that the best way to generate liquidity is to increase profitability and that is what the Board is focussed upon.

On behalf of the Board I would like to thank the staff for their hard work, the Sharia’a Supervisory Board for their valuable guidance and our shareholders for their loyalty and support.

Adel Abdul Wahab Al-Majed
Chairman
15 March 2017

Chief Executive Officer's statement

I took on the role of Chief Executive Officer at BLME in 2016, fully aware of the challenges the Bank faced but also of the significant opportunities available. I have spent my first months reviewing the Bank's strategy and producing a detailed implementation plan alongside a full efficiency review.

2016 results overview

The Group has made a loss after tax of £21.4 million for 2016 driven by a total impairment charge of £15.8 million, a deferred tax write off of £3.1 million and a £1.7 million loss on disposal of a group company after a decision to not continue our relationship with Renaissance Asset Finance Limited which resulted in deconsolidation of the asset. The result also includes a £1.4 million loss arising from hedge accounting adjustments. Almost three quarters of BLME's specific impairment charges relate to transactions originated between 2007 and 2011 in business lines that the Bank has since exited such as Acquisition Finance or is in the process of managing exposures down such as property development finance.

As a consequence of the Bank exiting non-core portfolios such as Islamic Capital Markets and US Leasing, and higher risk products which includes ABL Finance, operating income has decreased from £63.3 million in 2015 to £46.9 million in 2016 although margin has improved slightly. By leveraging our distribution networks and with active support from key shareholders BLME's new business pipeline is much improved and we expect to see the benefits of this pipeline start to flow through in 2017.

In 2016 Total Assets have contracted and stabilised at £1 billion compared to £1.3 billion at 31 December 2015 as we continued to de-risk our balance sheet which is in line with the Bank's strategy.

BLME's Strategy

BLME aims to become the preferred Sharia'a compliant wealth management provider in the UK for high net worth individuals in the GCC region. BLME will continue to leverage its reputation and network in the UK and GCC to offer Real Estate and Lease finance to businesses and individuals.

Jabra Ghandour, my predecessor, and Michael Williams made significant progress in building a solid foundation from which to implement the Bank's new strategy, creating a more focused offering and shaping a more conservative approach to risk.

BLME's 2017 Priorities

Putting our customers first

BLME has invested in improving operations and addressing legacy issues over the past 18 months and must now re-focus on our customers. Our customers are at the centre of our strategy, products and day-to-day operations. We are working on simplifying the Bank's operating model. The Bank's newly formed Middle Office will help to ensure that customer on-boarding becomes more streamlined and customer-centric.

Resilience and Consistency

When the Bank was launched ten years ago its risk appetite was less conservative than today and resulted in exposures to some asset classes which heightened the Bank's risk profile. Moving forward BLME will apply a focussed business plan to clearly defined target customers within a disciplined risk framework. This will create a more resilient bank with less volatility.

Product development

In order to meet the needs of our customers BLME has to create new products and services for our target customers. Several new products are in development and will be launched over the course of 2017. We continue to collaborate with our customers to identify and fill gaps in our product and service offering.

Controlled and contained costs

BLME's cost: income ratio has been too high. This is due mainly to the investment in risk management, corporate governance, compliance staff, operations and managing the legacy transactions that have been impaired. We have identified several areas of cost savings that will be implemented in the first quarter of 2017 and which will lower the operating expenses of the Bank considerably over the course of the year.

Enhanced risk management

The Bank's financial performance continues to reflect the impact of legacy issues, both transactional and operational. In response to the challenges created by the issues over the past 18 months my predecessors completed a full review of our risk management framework and operations. The Bank has enhanced risk management through improved processes, new policies and procedures and targeted recruitment including a new Chief Risk Officer.

BLME is continuously exploring ways to improve risk management and create a resilient and robust business model. We will continue this approach of continuous improvement and reflection on our risk management framework as we implement our new strategy. We have reviewed and amended our risk appetite as part of amending our strategy and are implementing appropriate risk management processes to manage the operational and conduct risks associated with expanding our wealth management business.

BLME also appointed a Chief Compliance Officer and strengthened our resources in Financial Crime and Compliance to ensure that the Bank is well equipped to comply with the Senior Managers Regime, embed a robust corporate governance framework, and to manage the risks associated with our strategy.

2017 Outlook

The global economy has suffered from a year of uncertainty. As we enter 2017 this will continue as a new US president takes office, the nature of the UK's exit from the EU remains unclear and several significant elections occur across the EU. Rising inflation and increased budget deficits will create further challenges. However with continued interest in UK investments by GCC nationals and the opportunities particularly in the UK Real Estate market, BLME is well positioned for sustainable growth.

I would like to thank the staff of BLME for their dedication and commitment during a period of change and uncertainty and look forward to creating a sustainable and profitable bank with them on a stronger and more stable footing.

Finally, I am grateful for the guidance and support I have received from the Chairman, Adel Al Majed and the Board who are fully behind our 2017 and 2018 plan to return to profitability.

Giles Cunningham
Chief Executive Officer
15 March 2017

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.P, 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

Giles Cunningham – Chief Executive Officer
Giles Cunningham joined BLME in October 2016 having previously served as Chief Executive Officer, International at Qatar Islamic Bank. Prior to that appointment Giles was Chief Executive Officer of The Zubair Corporation from 2008 until 2011. He started his career at Kleinwort Benson, the investment bank before moving to Lloyds TSB Bank where he spent 17 years. Giles held a number of senior roles with Lloyds, both in the UK and internationally. This included two years as Chief Financial Officer in Lloyds Bank, Brazil and three years as the Bank's Middle East Chief Executive Officer, based in Dubai. Most recently he was based in London and responsible for the Lloyds TSB International strategy and business. Giles is a mathematics graduate, an Associate of the Chartered Institute of Bankers, holds an MBA and is an active Harvard Business School alumnus.

Chris Power – Chief Financial Officer
Chris graduated from the London School of Economics and he also holds an MBA. He qualified as a chartered accountant at Deloitte in London in 1986 and progressed to become a Senior Manager heading up the Hong Kong Banking and Securities Group of Deloitte. Chris joined the ABN Amro group in 1994, where he held various senior positions in Audit, Risk and Compliance as well as CFO and COO. This included working in Hong Kong, Thailand and Brazil, culminating in his membership of ABN Amro's Executive Group as a Corporate Executive Vice President. In 2008 he joined CLS Group Holdings AG (the world's foreign exchange settlement utility) as the Chief Financial Officer and in 2010 was promoted to the Group Finance Director of the Board.

Non-executive Directors

Michael Williams (Senior Independent Director)
Michael Williams is an independent Non-executive Board Member of BLME Holdings plc. He joined the Bank in 2012 and held the positions of Chairman of the Nominations Committee and of the Risk Committee prior to being appointed Chief Executive Officer on an interim basis between May 2015 and March 2016. 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. 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.

Neil Holden (Independent)
Neil is Chairman of the Remuneration Committee of BLME Holdings plc and was Chairman of the Nominations Committee in 2016. 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 AlawwalBank, 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 a Board member at Alawwal Bank.

David Williams (Independent)
David joined the Bank in October 2015 as an Independent Non-executive Director and Chairman of the Risk Committee. He is a senior credit risk professional with 27 years of experience in international banking operating at executive and board level in the Middle East, Europe and Asia. Over a career with Barclays PLC his executive roles included Wholesale Credit Risk Director of the Barclays Group and Chief Credit Officer at Barclays Capital. David was a Non-executive Board Director of LCH Clearnet Group Ltd. David is a former British Army officer and is currently a Trustee of Haig Housing Trust, a major services charity.

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 the Executive Director of the International Investment Division. Zeyad holds numerous board positions and is currently Chairman of the Board and Executive Committee for Munshaat Real Estate Projects Company and a member of the Board and Executive Committee of Ibdar Bank B.S.C. along with board positions for real estate and private equity funds.

Jabra Ghandour
Jabra Ghandour is a Non-executive Board member of BLME Holdings plc having previously served as Chief Executive Officer between March and November 2016. He has more than 30 years' of experience in Financial Services. Before joining BLME he was Managing Director and Board Member of International Bank of Qatar. Jabra began his career at Cairo Amman Bank where he was Head of Treasury before moving to Union Bank as Executive Manager responsible for Treasury and Financial Institutions. Jabra joined Jordan National Bank (Ahli Bank) in 1994 as Assistant General Manager followed by four years at Merrill Lynch (Jordan) as General Manager. From 2002 to 2012 he worked at National Bank of Kuwait holding several senior positions including General Manager, Jordan and Head of Private Banking. Jabra has played a key role in developing and growing market leading banks. He is also an independent Board member of Bank of Etihad.

Group Strategic report

BLME is focussed on implementing its strategy to become the leading provider of Sharia'a wealth management solutions for GCC nationals. To complement our growing Wealth Management business BLME will continue to offer Real Estate Finance and Lease Finance.

Sustainable profitability and stable returns

BLME's strategy has been created with the aim of creating stability and reducing volatility. A priority for the Bank is to implement this strategy, creating a foundation from which to build sustainable profitability and in the future, stable returns for our shareholders. BLME has exited some of the higher risk business offerings and is reducing exposure to others in line with our more conservative risk framework.

Maximise efficiencies and reduce risk

BLME has completed a full review of costs over the past three months with a number of efficiencies and savings having been identified including having all London staff operating out of one building.

The Group will continue prudently to employ capital and maintain appropriate capital adequacy, liquidity and leverage ratios. BLME reported to the PRA ratios above the minimum requirement throughout 2016. The capital planning process continues to incorporate these measures.

The result of the UK's referendum on EU membership will bring challenges but presents significant opportunities, particularly for the Bank's GCC clients. BLME has liquidity and is open for business, with wide ranging expertise in Real Estate and Leasing.

Delivering on our strategy for shareholders and clients

The Directors consider these performance indicators to provide the basis of a quantitative assessment of BLME's aspirations and the implementation of our strategy.

In order to provide a transparent and clear measurement on the impact of BLME's performance, the following key performance indicators have been identified.

Key performance indicators	**2016**	**2015**
Net operating (loss) / profit before tax	£(18.9)m	£(8.4)m
(Loss) / profit after tax	£(21.4)m	£(6.9)m
Pre-tax return on equity	(8.7)%	(3.5)%
Cost income ratio (adjusted for operating lease depreciation)	103.3%	76.1%
Net fee income / total income	4.6%	3.0%
Development property as percentage of total property lending facilities	92.7%	71.5%
Deposits from primary depositor as percentage of total deposits	63.0%	56.9%

Well-governed, innovative and client-centric Sharia'a bank

Respect and compliance with the law, regulations and Sharia'a principles is the highest priority for BLME. This priority positions integrity, consistency and fairness at the heart of BLME's operations. It is central to BLME's culture that all stakeholders are valued, and treated with dignity and transparency. BLME approaches clients, business and product development with a strong attention to risk.

Business divisions

Corporate Banking

BLME has well-established Leasing, Real Estate and Trade Finance products. Specialist finance, including yacht, aircraft and luxury car finance is offered to our wealth management clients.

Wealth Management

In addition to the Real Estate and Specialist finance, BLME Wealth Management provides deposit products, transactional banking and concierge services. Wealth Management provides Real Estate investment and finance solutions including sourcing properties.

Treasury

Manages the Bank's Capital and liquidity of the Bank and is also responsible for funding all assets and operating within BLME's market risk appetite. To this end Treasury also ensures funding is sourced at cost effective rates across a diverse liability base both at the wholesale and retail client level.

BLME has a market leading savings product, the Premier Deposit Account, in addition to reciprocal interbank relationships.

Our commitment to providing excellent service and the drive of staff will provide the foundation for the implementation of our strategy and our return to profitable growth. BLME will continue to build on these values and principles as we move forward as a more focussed and collaborative Bank.

A review of the Group's business and performance can be found in the Chairman's statement, Chief Executive Officer's statement and Note 4. A description of the principal risks and uncertainties facing the business is detailed in Note 36.

By order of the Board

Giles Cunningham
Chief Executive Officer
15 March 2017

Directors' report

The Directors present their annual report and audited financial statements for the year ended 31 December 2016.

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 the UK and the Middle East. BLME has three strategic business divisions - Corporate Banking, Wealth Management and Treasury - offering competitive financial products and services. The results for the year are discussed further in the group strategic report.

Financial results and dividends

The financial statements for the reporting period ended 31 December 2016 are shown on pages 30 to 112. The consolidated Group loss for the year after taxation amounts to £21.4 million (2015: loss of £6.9 million). The result for the Company for the year was a loss of £152.9 million (2015: £nil) reflecting an impairment write down in the Company's investment in subsidiary as a result of disappointing financial performance. The basis for this write down is explained in more detail in Note 19. The Directors do not recommend the payment of a dividend (2015: £nil).

Directors and Directors' interests

The Directors who held office during the year, and their committee memberships and functions as at 31 December 2016, were as follows:

Name and Board/Committee Chairmanships (as at 31 December 2016)	**Date of Appointment**	**Date of Resignation**	**Committee Memberships** (as at 31 December 2016)
Adel Abdul Wahab Al-Majed *Chairman of the Board*	26 April 2013		
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah *Vice Chairman of the Board*	26 April 2013		Audit Risk Remuneration
Giles Cunningham	17 November 2016		Executive Credit
Chris Power	26 September 2016		Executive
Richard Williams	24 April 2013	1 March 2016	
Neil Holden (Senior Independent Director) *Chairman of the Nominations Committee* *Chairman of the Remuneration Committee*	26 April 2013		Nominations Audit Risk Remuneration Credit
Frank Vermeulen (Independent) *Chairman of the Audit Committee*	26 April 2013		Nominations Audit Risk Remuneration Credit
Michael Williams (Independent)	26 April 2013		Nominations Credit

Zeyad Al-Mukhaizeem	7 February 2014		Audit Risk Remuneration
David Williams (Independent) *Chairman of the Board Risk Committee* *Chairman of the Board Credit Committee*	15 October 2015		Nominations Risk Credit
Jabra Ghandour	25 March 2016		

There were some significant changes to the Board during 2016. Richard Williams stepped down from the Board on 1 March 2016 with Chris Power, the Group's Chief Financial Officer, appointed to the Board on 26 September 2016. Michael Williams stepped down as interim Chief Executive Officer on 25 March 2016 with Jabra Ghandour appointed as Chief Executive Officer on 25 March 2016; Jabra stood down to become a non-executive director on 17 November 2016. Giles Cunningham took over as Chief Executive Officer and was appointed to the Board on 17 November 2016.

In accordance with the Articles of Association all of the directors except for David Williams and Jabra Ghandour, who were reappointed at last year's AGM, may offer themselves for re-appointment at the next Annual General Meeting. With the exception of the two new Executive Directors – Giles Cunningham and Chris Power – all of the current Directors were re-elected at the Company's Annual General Meeting held 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 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 2016 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
Neil Holden	Ordinary 25p	30,000
Frank Vermeulen	Ordinary 25p	10,522
Michael Williams	Ordinary 25p	Nil
Zeyad Al-Mukhaizeem	Ordinary 25p	Nil
David Williams	Ordinary 25p	Nil
Giles Cunningham	Ordinary 25p	Nil
Chris Power	Ordinary 25p	Nil
Jabra Ghandour	Ordinary 25p	Nil

Chairman's other significant commitments

Director	**Company**	**Appointment**	**Date of Appointment**
Adel Abdul Wahab Al-Majed (BLME Group Chairman 31 March 2014 to present)	Boubyan Bank K.S.C.P	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 year 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:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Capital risk
- Conduct 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 (2015: £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.

The financial performance in 2015 and 2016 has been very disappointing, however, the Board re-assessed the Group’s risk management framework early in 2016 and has now developed a clear strategy and implementation plan to return the Group to profitability. Reducing the cost: income ratio is a key driver and the Board has already identified a number of areas that will result in Q1 2017 savings whilst also providing an appropriate platform from which the Bank’s strategy can be executed. The Directors have also assessed the 2017 budget and forecasts with comfort drawn from the Bank’s Liquid Asset Buffer, robust capital position and the strong relationships between the Group and its liquidity providers. Furthermore, the Directors have assessed how the low oil price environment has affected the Group’s major funders and noted that the impact has been minimal to date.

The result of the UK’s referendum on EU membership is considered to be an area of opportunity for the Bank. However, given the uncertainties across the global economy, management assessed and stress-tested a number of scenarios in the run-up to the vote. Accordingly the immediate impact of the result was appropriately managed and is being monitored on a frequent basis.

For these reasons the financial statements have been prepared on a going concern basis.

Disclosure of information to auditor

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 auditor is 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 auditor is aware of that information.

Auditor

KPMG LLP has been engaged as the Group's auditor for almost 10 years, and in accordance with auditor tender rules, the Board has considered it appropriate to undertake a tender process in 2017. A resolution concerning the appointment of the external auditor and authorising the Directors to set their remuneration will be proposed at the Annual General Meeting.

By order of the Board

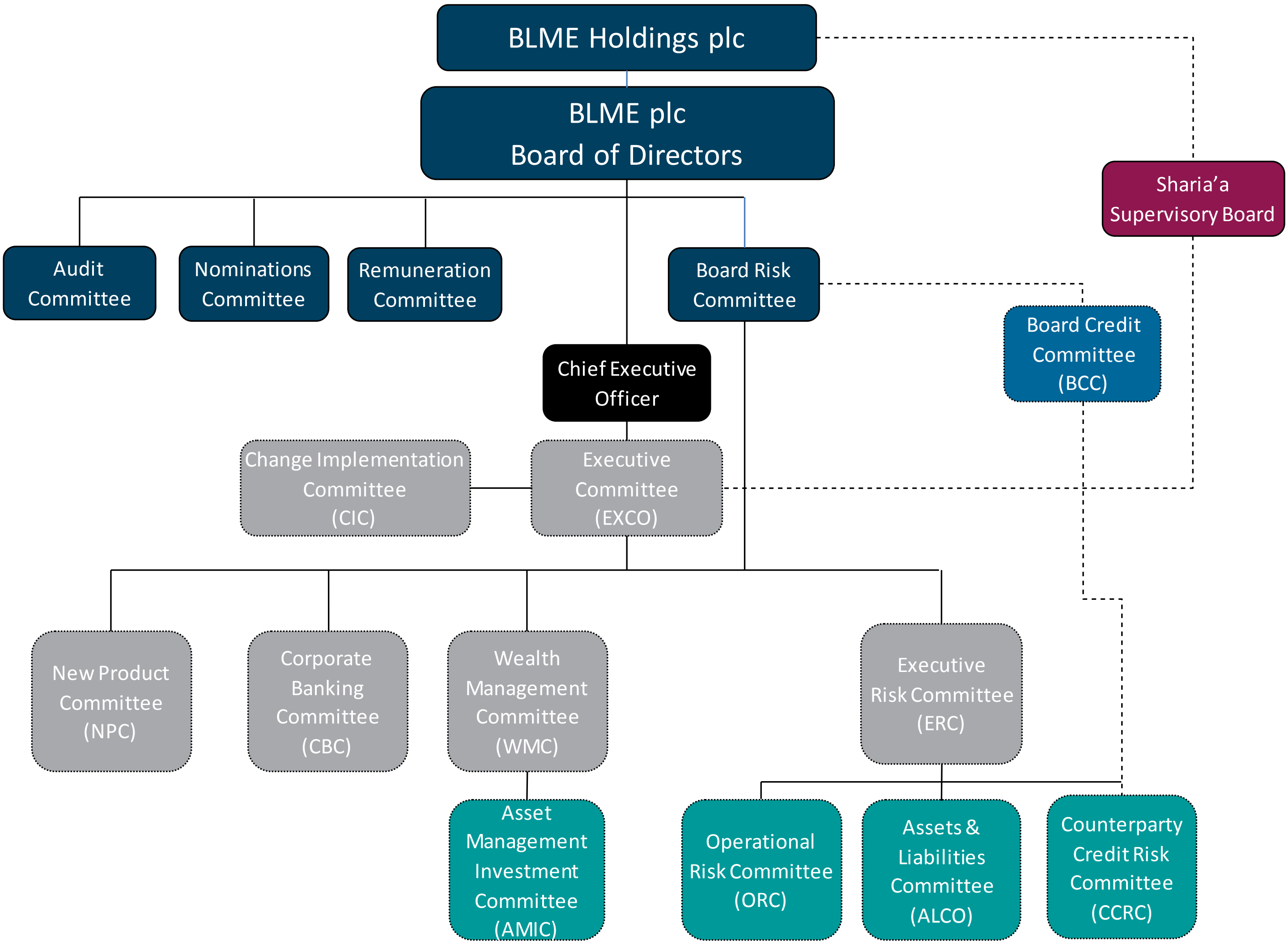
Peter Bulkeley
Company Secretary
15 March 2017

Corporate governance report

The Company complied with the Corporate Governance Principles as set out in section 3.2 of the DFSA Markets Rules throughout 2016.

The Board considers that good corporate governance is central to achieving the Group's objectives. To this end, the Board has established a governance framework that sets out procedures, policies and practices that are required by law, regulation and/or best practice guidelines. The framework is also used to determine 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.

Governance structure



Note: The Group operates with a dual board structure with mirror image Audit, Nominations, Remuneration and Board 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 2016 the Board of Directors comprised two Executive Directors:

- Giles Cunningham – Chief Executive Officer
- Chris Power – Executive Director

and eight 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 – Senior Independent Director and Chairman of Nominations Committee and Remuneration Committee
- Frank Vermeulen – Chairman of Audit Committee (Independent)
- David Williams – Chairman of Risk Committee (Independent)
- Michael Williams (Independent)
- Zeyad Al-Mukhaizeem
- Jabra Ghandour

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. Following the inaugural Annual General Meeting in 2014 the Directors must stand for re-election by the Shareholders at least every three years. With the exception of David Williams and Jabra Ghandour, all of the current Directors will need to offer themselves for re-election at the Company’s next Annual General Meeting.

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 and Committee meetings attendance record 2016

	Board			Nominations Committee			Audit Committee			Risk Committee			Remuneration Committee		
	Regular attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Ad hoc attended	Meetings eligible to attend
As Executive Directors															
Giles Cunningham	1		1												
Jabra Ghandour	3	4	7												
Christopher Power	2		2												
Michael Williams	1	1	2												
Richard Williams	1	1	2												
As Non-Executive Directors															
Adel Abdul Wahab Al-Majed	5	4	10												
Sheikh Abdullah Jaber Al	5	4	10				4	2	7	3	2	8	4	2	7
Michael Williams	4	4	8												
Frank Vermeulen	4	5	10	5	2	7	5	2	7	4	3	8	4	2	7
Neil Holden	5	5	10	5	2	7	5	2	7	5	3	8	5	2	7
Zeyad Al-Mukhaizeem	5	5	10				5	1	7	4	2	8	5	2	7
David Williams	5	5	10	5	2	7				5	3	8			
Jabra Ghandour	1		1												

Of the 10 board meetings held during the year, five were regular meetings and five were ad hoc meetings. The ad hoc meetings covered a broad variety of topics including approving the Interim and Annual Reports, approving the appointment of a new Chief Executive Officer, approving the 2016 ICAAP, ILAAP and RRP, approving the AGM resolutions and notice of AGM and consenting 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 relatively short notice. The Executive Directors regularly attend the Audit Committee and Risk Committee meetings as guests.

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 LLP, provide non-audit services in addition to the provision of audit services. In the year ending 31 December 2016, non-audit services provided by KPMG LLP comprised advice with regards to Corporation tax, VAT and other miscellaneous services. Further details regarding the fees paid to KPMG LLP for these services are included in Note 12 on page 65.

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 page 24.

Board Risk Committee

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

BRC is responsible for the oversight of the risk profile of the Bank and for providing guidance, advice and recommendations to the Board on credit, market, liquidity, direct investment 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 ("ILAAP") and assesses the adequacy of stress testing and risk policy.

Ultimate responsibility for risk rests with the Board which, with advice and recommendations from BRC, approves the risk appetite for each major class of risk in line with BLME's business model and strategic priorities and also approves the annual ICAAP and ILAAP. Board Credit Committee is a sub-committee of BRC established to review and opine on decisions made by the Counterparty Credit Risk Committee that are outside of stated risk appetite and/or meet other escalation criteria.

The management of risk is delegated to the Chief Executive Officer who in turn delegates the day-to-day management of risk to the Executive Committee and, in particular, to the Executive Risk Committee which oversees the three sub-committees of the Bank responsible for risk oversight (being ALCO, CCRC and ORC). The day-to-day independent oversight of risk is performed by the Bank's risk department. This process is supported by the finance department's internal control role in monitoring adherence to risk limits, management action triggers and regulatory limits.

During the year, ERC took oversight responsibility for ALCO, CCRC and ORC. The CIC, NPC and WMC were all created in 2016, with the latter having oversight responsibility of AMIC.

Board Remuneration Committee

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

The Remuneration Committee ensures that employees, 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 Mercer as a professional advisor. Mercer is independent and has no connection with BLME.

More information regarding the Group's Remuneration policy is included in the Remuneration report on pages 25 to 26.

Board Nominations Committee

The Nominations Committee was chaired by Neil Holden throughout 2016; with effect from 27 February 2017, Michael Williams became chair following his appointment as the Senior Independent Director. The Nominations Committee also comprises Frank Vermeulen and David Williams.

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.

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, Giles Cunningham, 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, Chris Power, 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 complied with, and advises the Board, through the Chairman, in all governance matters. The Board has the responsibility for 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 Chairman.

During the year ended 31 December 2016, on average two of the Directors were Executive directors; on average 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. Professional development and training for the Board is assessed and monitored by the Nominations Committee and reviewed as part of the annual performance evaluation and in compliance with the Senior Managers' Regime.

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 year and is regularly reviewed by the Board with guidance from the Audit Committee.

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.

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/)

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.

The Company Secretary 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 2016 to 31 December 2016 and have reviewed the BLME Holdings plc Annual Report and Accounts for the year ended 31 December 2016. 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 2016 to 31 December 2016 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 2016 to 31 December 2016 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
15 March 2017

Audit Committee report

Statement from the Chairman of the Board Audit Committee

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)
David Williams – INED
Chief Financial Officer
Chief Compliance Officer

Dear Shareholder,

It is my pleasure to inform you about the modus operandi and activities of the Audit Committee. The responsibility of the Committee is to monitor the financial reporting process and to monitor the effectiveness of the Group's internal quality control and risk management systems including internal audit. As part of the Committee's role, it reports to the Board on the effectiveness of these controls, the independence and the effectiveness of the statutory auditor. The Committee reviews the interim and full year financial statements as part of its role.

To ensure it fulfils its responsibilities under its terms of reference the Committee establishes an annual agenda. This includes reviewing the annual Internal Audit 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 outsourced 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 management on key business areas, with particular emphasis on compliance (including financial crime and compliance monitoring), internal controls and operational risk, and assesses the Group's accounting policies and financial reporting processes including assessing significant judgements and estimates contained within the financial statements. This included consideration of the specific and collective impairment provisions, the de-recognition of deferred tax assets, the deconsolidation of a small ticket leasing company and the application of hedge accounting. Given the very disappointing financial performance in 2016 with the Bank addressing legacy issues in its risk portfolio, the Committee's agenda included considerable time assessing the specific impairment provisions. In addition the Committee has commenced the consideration of the impact of IFRS 9 Financial Instruments, which is described in more detail on pages 43 to 44, and which will remain a subject of focus in the coming year.

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.

The Committee makes recommendations to the Board on the appointment of the external auditors and has unrestricted access to BLME's auditors. The external audit is required to be subject to a tendering process in 2017 as the existing auditor has been engaged by the Group for 10 years.

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:

- review and discussion of the external audit plan and results of the annual audit
- 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
- obtaining written confirmation from the auditors that, in their professional judgement, they are independent.

Frank Vermeulen
Chairman, Board Audit Committee
15 March 2017

Remuneration report

Statement from the Chairman of the Board Remuneration Committee

Remuneration Committee Members
Neil Holden – Chair
Sheikh Abdullah Jaber Al Ahmed Al Sabah
Frank Vermeulen
Zeyad Al-Mukhaizeem

Remuneration Committee Guests
Mercer (advisor)
Paul Riordan – COO
David Williams – INED
Michael Williams – INED

Dear Shareholder,

As Chairman of the Board Remuneration Committee I am pleased to introduce the Remuneration Report for 2016 to provide information regarding the BLME Group's remuneration policy and decisions.

Financial performance in 2016 was very disappointing and is commented upon in more detail in the Chairman's and Chief Executive Officer's statements on pages 5 to 7. In that context the Bank has been addressing legacy issues both in its risk portfolio and structures and revising the strategy to focus more and build on its Wealth Management capability. This work includes improving the underlying cost income ratio and addressing the misalignment of front to back office resources. These changes will continue into 2017 and considerable progress is already apparent.

Remuneration policy

Our ability to deliver against our strategy requires us to attract and retain high calibre staff and align their interest with shareholders. Our Remuneration Policy is designed to ensure that we are competitive in the market and hence able to attract such high calibre staff whilst retaining, developing and motivating our existing staff. The remuneration policy framework is designed to support our business strategy whilst discouraging inappropriate risk taking and appropriately rewarding staff and 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

2016 activity

The Committee's activity during the year included:

- 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 scheme awards for executives and performance assessment against targets for DABS
- Review and approval of Executive Directors remuneration including leavers and joiners
- Review and approval of the remuneration of the Chairman of the Board
- Approval of the bonus pool and discretionary bonuses for senior staff including leavers and joiners
- Approval of share option awards to senior and key staff

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 and consistent with Sharia'a law.

A discretionary bonus forms part of the Group's remuneration package. For senior executives and staff designated as Material Risk Takers 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. Due to the disappointing financial performance in 2016, the Committee has decided that no discretionary cash bonus awards will be paid in connection with 2016 performance.

The Group has Shareholder approval to make awards up to an aggregate maximum of 10% of the Company's issued share capital over a 10 year period from the date of the Dubai Nasdaq listing in October 2013. In order to align and retain the Senior Management team and key staff across the Bank with the newly articulated strategy, the Remuneration Committee approved the award of approximately 3.6% of issued share capital as options under the Bank's USOP scheme to senior management and key staff. Such awards were made in December 2016 and are subject to vesting over a 5 year period. Vesting of awards will also be subject to the Committee's discretionary assessment as to whether performance was achieved within the risk appetite of the firm, based on feedback from the Chief Risk Officer, the Chief Compliance Officer and the Board Risk Committee. Approval was given to a second award, of similar scale, after communication of the Bank's results in March 2017.

Awards made in 2016 across all equity-settled share schemes totalled the equivalent of 5.2% of the issued share capital (2015: 2.1%) and the total number of equity-settled options in issue as at 31 December 2016, less shares already held by the EBT, represented 6.4% of the issued share capital (31 December 2015: 3.3%).

Neil Holden
Chairman, Board Remuneration Committee
15 March 2017

Additional information on the structure of our share-based payment schemes and all awards made under these schemes is provided in the Share-based payments note on pages 66 to 70.

Statement of Directors' responsibilities
In respect of the annual report and financial statements

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

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

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent company and of their profit or loss for that period.

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

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

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

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

Independent auditor’s report

To the members of BLME Holdings plc

We have audited the financial statements of BLME Holdings plc for the year ended 31 December 2016 set out on pages 30 to 112. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the Parent company’s financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in 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 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent company’s affairs as at 31 December 2016 and of the Group's loss for the year then ended;

- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;

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

- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Group Strategic report and the Directors' report for the financial year is consistent with the financial statements.

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Group Strategic report and the Directors’ report:

- we have not identified material misstatements in those reports; and

- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

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 parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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.

Zaffarali Khakoo
Senior Statutory Auditor
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London
15 March 2017

Consolidated income statement

For the year 1 January 2016 to 31 December 2016

	Note	2016 £000	2015 £000
Income			
Income from financing and investing activities	*5*	54,995	60,099
Returns to financial institutions and customers	*6*	(19,530)	(21,508)
Net margin		35,465	38,591
Fee and commission income		2,687	2,551
Fee and commission expense		(520)	(651)
Net fee income		2,167	1,900
Net fair value losses on investments	*7*	(3,117)	(1,922)
Net fair value (losses) / gains on investment properties	*20*	(40)	4,707
Operating lease income		8,703	15,131
Other operating income	*8*	3,682	4,925
Total operating income		**46,860**	**63,332**
Expenses			
Personnel expenses	*10*	(15,628)	(16,518)
Operating lease depreciation	*24*	(6,366)	(12,025)
Other depreciation and amortisation	*23,25*	(1,522)	(787)
Other operating expenses	*12*	(24,620)	(20,067)
Change in third party interest in consolidated funds	*34*	(45)	(1,673)
Total operating expenses		**(48,181)**	**(51,070)**
Operating (loss) / profit before impairment charges and loss on disposal of group company		**(1,321)**	**12,262**
Net impairment charge on financial assets and operating leases	*14*	(15,843)	(20,659)
Loss on disposal of group company	*34*	(1,720)	-
Net operating loss before tax		**(18,884)**	**(8,397)**
Tax (expense) / credit	*15*	(2,499)	1,547
Loss for the year		**(21,383)**	**(6,850)**
		Pence	**Pence**
Earnings per share			
Basic earnings per share	*16*	(11.07)	(3.55)
Diluted earnings per share	*16*	(11.07)	(3.55)

All of the loss for the financial year and the loss in the prior year were derived from continuing activities.

The notes on pages 40 to 112 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year 1 January 2016 to 31 December 2016

	2016 £000	2015 £000
Income		
Loss for the year	(21,383)	(6,850)
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	25	53
Foreign currency translation differences for cash flow hedging reserve	-	(136)
Foreign currency translation differences for fair value reserve	94	-
Changes in fair value of cash flow hedges taken to equity	-	535
Cashflow hedging reserve recycled to the income statement	1,971	-
Change in fair value of available-for-sale financial assets taken to equity	231	366
Reclassification of the fair value of hedging instruments	(1,193)	-
Income tax on other comprehensive income	(589)	(133)
Other comprehensive (expense) / income for the year net of income tax	**539**	**685**
Total comprehensive loss for the year attributable to equity holders of the Parent company	**(20,844)**	**(6,165)**

The notes on pages 40 to 112 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2016

	Note	2016 £000	2015 £000
Assets			
Cash and balances with banks		71,152	88,732
Due from financial institutions	*18*	107,182	23,690
Investment securities	*19*	112,161	194,712
Financing arrangements	*21*	473,304	613,753
Finance lease receivables	*22*	232,701	282,607
Operating lease assets	*24*	24,361	39,641
Investment properties	*20*	-	26,790
Property and equipment	*23*	1,523	2,111
Intangible assets	*25*	1,693	2,262
Goodwill	*34*	-	4,769
Other assets	*26*	8,276	17,183
Current tax asset		-	717
Deferred tax assets	*15*	-	3,303
Total assets		**1,032,353**	**1,300,270**
Liabilities			
Due to financial institutions	*27*	586,964	681,597
Due to customers	*28*	213,804	321,473
Profit rate swaps	*9*	1,305	1,369
Third party interest in consolidated funds	*34*	433	42,694
Other liabilities	*29*	12,739	15,370
Total liabilities		**815,245**	**1,062,503**
Equity			
Share capital	*32*	48,933	48,933
Merger reserve	*33*	16,000	16,000
Other reserve		15,226	15,226
Capital redemption reserve		50	50
Fair value reserve		(331)	537
Cash flow hedging reserve		-	(1,382)
Share-based payment reserve		1,604	1,484
Foreign currency translation reserve		16	(9)
Retained earnings		135,610	156,928
Total equity attributable to equity holders of the Parent company		**217,108**	**237,767**
Total liabilities and equity		**1,032,353**	**1,300,270**

These financial statements were approved by the Board of Directors on 15 March 2017 and were signed on its behalf by:

Giles Cunningham
Chief Executive Officer

Chris Power
Chief Financial Officer

The notes on pages 40 to 112 are an integral part of these consolidated financial statements.

Company statement of financial position

As at 31 December 2016

	Note	2016 £000	2015 £000
Assets			
Investment in subsidiary	*19*	89,196	241,933
Total assets		**89,196**	**241,933**
Liabilities			
Other liabilities		1	1
Total liabilities		**1**	**1**
Equity			
Share capital	*32*	48,933	48,933
Merger reserve	*33*	-	16,000
Share-based payment reserve		1,604	1,484
Retained earnings		38,658	175,515
Total equity attributable to equity holders of the Parent Company		**89,195**	**241,932**
Total liabilities and equity		**89,196**	**241,933**

These financial statements were approved by the Board of Directors on 15 March 2017 and were signed on its behalf by:

Giles Cunningham
Chief Executive Officer

Chris Power
Chief Financial Officer

Company Registration Number: 08503102

The notes on pages 40 to 112 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year 1 January 2016 to 31 December 2016

	2016	2015
	£000	**£000**
Cash flows from operating activities		
Loss for the year before tax	(18,884)	(8,397)
Adjusted for:		
Exchange differences	711	(529)
Fair value losses / (gains) on investment properties	40	(4,707)
Fair value losses on investments	202	157
Adjustments to cash flow hedge reserve	2,305	-
Gains on disposal of intangible assets	-	(33)
Provision for impairment	15,843	20,659
Depreciation and amortisation	7,888	12,812
Losses / (gains) on disposal of property and equipment	-	(896)
Share-based payment awards	171	166
Mark to market movement in profit rate swaps	(250)	1,667
Loss on disposal of group company	1,720	-
	9,746	20,899
Net decrease / (increase) in operating assets:		
Due from financial institutions	(77,443)	163,814
Due from customers	-	5,038
Financing arrangements	126,909	75,398
Finance lease receivables	44,190	(128,506)
Operating lease assets	6,407	(152)
Other assets	12,865	(15,740)
	112,928	99,852
Net (decrease) / increase in operating liabilities:		
Due to financial institutions	(131,306)	66,469
Due to customers	(108,712)	(149,873)
Third party interest in consolidated funds	(9,247)	2,882
Other liabilities	6,390	(7,579)
	(242,875)	(88,101)
Corporation tax received / (paid)	1,003	(200)
Net cash outflow from operating activities	**(119,198)**	**32,450**
Cash flows from investing activities		
Purchase of property and equipment	8	(1,012)
Purchase of intangible assets	(372)	(1,229)
Purchase of investment properties	-	(3,860)
Sale of investment properties	26,750	10,357
Purchase of investments	(56,808)	(188,627)
Sale of investments	167,408	176,926
Cash outflow upon deconsolidation of subsidiary	(1,705)	-
Net cash outflow from investing activities	**135,281**	**(7,445)**
Subscriptions to consolidated funds	4,680	30,557
Redemptions from consolidated funds	(43,639)	(14,854)
Net cash outflow from financing activities	**(38,959)**	**15,703**
Net change in cash and cash equivalents	**(22,876)**	**40,708**
Cash and cash equivalents at the beginning of the year	88,732	45,993
Exchange differences in respect of cash and cash equivalents	5,296	2,031
Cash and cash equivalents at the end of the year	**71,152**	**88,732**

The notes on pages 40 to 112 are an integral part of these consolidated financial statements.

Company statement of cash flows

For the year 1 January 2016 to 31 December 2016

	2016	2015
	£000	£000
Cash flows from operating activities		
Loss for the year before tax	(152,857)	-
Adjusted for:		
Impairment loss on subsidiary	152,857	-
	-	-
Net increase in operating liabilities		
Other liabilities	-	-
	-	-
Cash flows from financing activities		
Redemption of preference shares held by BLME	-	-
Dividend paid in respect of redeemable preference shares	-	-
Net cash (outflow) / inflow from financing activities	-	-
Net change in cash and cash equivalents	**-**	-
Cash and cash equivalents at the beginning of the period	-	-
Cash and cash equivalents at the end of the period	**-**	**-**

The notes on pages 40 to 112 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2016	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
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2015	48,933	16,000	15,226	50	537	(1,382)	1,484	156,928	(9)	237,767
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(21,383)**	**-**	**(21,383)**
Other comprehensive (expense) / income										
Foreign currency translation	-	-	-	-	94	-	-	-	25	119
Cashflow hedging reserve recycled to income statement	-	-	-	-	-	1,971	-	-	-	1,971
Recognition of tax asset on cash flow hedge reserve	-	-	-	-	-	(589)	-	-	-	(589)
Change in fair value of AFS financial assets	-	-	-	-	231	-	-	-	-	231
Reclassification of the fair value of hedging instruments	-	-	-	-	(1,193)	-	-	-	-	(1,193)
Tax on change in fair value of AFS financial assets	-	-	-	-	-	-	-	-	-	-
Total other comprehensive (expense) / income	**-**	**-**	**-**	**-**	**(868)**	**1,382**	**-**	**-**	**25**	**539**
Total comprehensive expense for the year	**-**	**-**	**-**	**-**	**(868)**	**1,382**	**-**	**(21,383)**	**25**	**(20,844)**
Contributions by and distributions to owners										
Equity-settled share-based payment awards	-	-	-	-	-	-	171	-	-	171
Transfer to Retained Earnings	-	-	-	-	-	-	(51)	51	-	-
Purchase of own shares	-	-	-	-	-	-	-	14	-	14
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**120**	**65**	**-**	**185**
Balance at 31 December 2016	**48,933**	**16,000**	**15,226**	**50**	**(331)**	**-**	**1,604**	**135,610**	**16**	**217,108**

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. The change in fair value of AFS financial assets includes a £1.2 million adjustment relating to fair value hedging. During 2016, management identified that fair value movements in hedging instruments relating to the fair value risk being hedged were recorded against financing arrangements rather than being recognised against the fair value reserve. More detail is provided in note 9.

Cash flow hedging reserve: during the year, the Group identified that cash flow hedge accounting had not been appropriately adopted as the hedging transactions did not satisfy the criteria for hedge accounting under IAS 39. This was corrected in the current year and more detail is provided in note 9.

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 retained earnings represents the recycling of credits previously recognised within the Share Based Payment Reserve in relation to DABS options which have been settled, have forfeited or have lapsed.

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 40 to 112 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2015	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
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2014	48,933	16,000	15,226	50	151	(1,628)	1,410	163,686	(62)	243,765
Loss for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(6,850)**	**-**	**(6,850)**
Other comprehensive income / (expense)										
Foreign currency translation	-	-	-	-	-	(136)	-	-	53	(83)
Changes in fair value of cash flow hedges	-	-	-	-	-	535	-	-	-	535
Recognition of tax asset on cash flow hedge reserve	-	-	-	-	-	(153)	-	-	-	(153)
Change in fair value of AFS financial assets	-	-	-	-	366	-	-	-	-	366
Tax on change in fair value of AFS financial assets	-	-	-	-	20	-	-	-	-	20
Total other comprehensive income	**-**	**-**	**-**	**-**	**386**	**246**	**-**	**-**	**53**	**685**
Total comprehensive expense for the year	**-**	**-**	**-**	**-**	**386**	**246**	**-**	**(6,850)**	**53**	**(6,165)**
Contributions by and distributions to owners										
Equity-settled share-based payment awards	-	-	-	-	-	-	166	-	-	166
Transfer to Retained Earnings	-	-	-	-	-	-	(92)	92	-	-
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**74**	**92**	**-**	**166**
Balance at 31 December 2015	**48,933**	**16,000**	**15,226**	**50**	**537**	**(1,382)**	**1,484**	**156,928**	**(9)**	**237,767**

The notes on pages 40 to 112 are an integral part of these consolidated financial statements.

Company statement of changes in equity

For the year ended 31 December 2016

	Share capital	Merger reserve	Share-based payment reserve	Retained earnings	Total
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2015	**48,933**	**16,000**	**1,484**	**175,515**	**241,932**
Loss for the year	-	-	-	(152,857)	(152,857)
Other comprehensive income / (expense)	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**(152,857)**	**(152,857)**
Contributions by and distributions to owners					
Settlement of share-based payment awards by BLME	-	-	(51)	-	(51)
Equity-settled share-based payment awards	-	-	171	-	171
Recycle of merger reserve to retained earnings after impairment of subsidiary	-	(16,000)	-	16,000	-
Total transactions with owners	**-**	**(16,000)**	**120**	**16,000**	**120**
Balance at 31 December 2016	**48,933**	**-**	**1,604**	**38,658**	**89,195**

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 represented the excess of the net asset value of BLME at that time of £239.9 million over the £48.9 million nominal value of the ordinary shares issued to the former shareholders of BLME (see Note 32). £175 million 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 lapsed and/or forfeited.

The notes on pages 40 to 112 are an integral part of these consolidated financial statements.

Company statement of changes in equity (continued)

For the year ended 31 December 2015

	Share capital	Merger reserve	Share-based payment reserve	Retained earnings	Total
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2014	**48,933**	**16,000**	**1,410**	**175,515**	**241,858**
Result for the year	-	-	-	-	-
Other comprehensive income / (expense)	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**
Contributions by and distributions to owners					
Settlement of share-based payment awards by BLME	-	-	(92)	-	(92)
Equity-settled share-based payment awards	-	-	166	-	166
Total transactions with owners	**-**	**-**	**74**	**-**	**74**
Balance at 31 December 2015	**48,933**	**16,000**	**1,484**	**175,515**	**241,932**

The notes on pages 40 to 112 are an integral part of these consolidated financial statements.

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 Cannon Place, 78 Cannon Street, London, EC4N 6HL. 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 2016 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 whilst 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 (also 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 providing a means of exchanging fixed rate profit rate risk for floating rate risk – or vice versa.

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

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 2016. 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.

All amounts have been rounded to the nearest thousand except when otherwise indicated.

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.

The financial performance in 2015 and 2016 has been very disappointing, however, the Board re-assessed the Group's risk management framework early in 2016 and has now developed a clear strategy and implementation plan to return the Group to profitability. Reducing the cost: income ratio is a key driver and the Board has already identified a number of areas that will result in Q1 2017 savings whilst also providing an appropriate platform from which the Bank's strategy can be executed. The Directors have also assessed the 2017 budget and forecasts with comfort drawn from the Bank's Liquid Asset Buffer, robust capital position and the strong relationships between the Group and its liquidity providers. Furthermore, the Directors have assessed how the low oil price environment has affected the Group's major funders and noted that the impact has been minimal to date.

The result of the UK's referendum on EU membership is considered to be an area of opportunity for the Bank. However, given the uncertainties across the global economy, management assessed and stress-tested a number of scenarios in the run-up to the vote. Accordingly the immediate impact of the result was appropriately managed and is being monitored on a frequent basis.

For these reasons the financial statements have been prepared on a going concern basis.

b. New standards and interpretations adopted

The following new standards or amendments to standards were effective from 1 January 2016 but have not had a significant – or any – impact on the Groups measurement or disclosures:

- IFRS 14 Regulatory Deferral Accounts
- Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11)
- Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38)
- Agriculture: Bearer Plants (Amendments to IAS 16 and IAS 41)
- Equity Method in Separate Financial Statements (Amendments to IAS 27)
- Annual Improvements to IFRSs 2012-2014 Cycle – various standards
- Investment Entities: Applying the Consolidation Exception (Amendments to IFRS 10, IFRS 12 and IAS 28)
- Disclosure Initiative (Amendments to IAS 1)

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 2016 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 is effective for annual periods beginning on or after 1 January 2018. The Group does not plan to adopt this standard early.

The actual impact of adopting IFRS 9 on the Group's consolidated financial statements in 2018 is not known and cannot be reliably estimated because it will be dependent on the financial instruments that the Group holds and economic conditions at that time as well as accounting elections and judgements that it will make in the future. The new standard will require the Group to revise its accounting processes and internal controls related to reporting financial instruments and these changes are not yet complete. The Group is in the process of evaluating the impact of adopting this standard; updates have been provided on a regular basis to the Audit Committee explaining the considerations required.

Classification

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

Management is still in the process of assessing the impact of IFRS 9 on the classification and measurement of financial assets and impairment of financial assets.

With regards to financial liabilities, IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and the Group has no current intention to do so; consequently management does not expect this to have a material impact on the Group's consolidated financial statements when transitioning to IFRS 9.

Impairment

IFRS 9 replaces the 'incurred loss model' under IAS 39 with a forward-looking expected credit loss ("ECL") model. This will require significant judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. It will also apply to finance lease receivables, trade receivables and off-balance sheet commitments.

Under IFRS 9, loss allowances will be measured on either of the following bases:

- 12-month ECLs. These are ECLs that result from possible default events within the 12-months after the reporting date; and
- Lifetime ECLs. These are ECLs that result from all possible default events over the expected life of a financial instrument.

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

The Group believes that impairment losses are likely to increase and become more volatile for assets in the scope of the IFRS 9 impairment model, since all financial assets will be assessed for at least 12-month 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 as applied in our current impairment assessment.

Transition and disclosure

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below:

- the Group plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018;
- new hedge accounting requirements should generally be applied prospectively however the Group may elect to apply the expected change in accounting for forward points retrospectively. The Group has not made a decision in relation to this election.
- the following assessments have to be made on the basis of facts and circumstances that exist at the date of initial application:
    - the determination of the business model within which a financial asset is held;
    - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL (if any); and
    - the designation of certain debt securities and equity investments not held for trading as at FVOCI.

IFRS 9 will require extensive new disclosures, in particular about hedge accounting, credit risk and expected credit loss.

ii. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue from customers is recognised (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 2018 and the Group does not plan to adopt this standard early. Management is performing a detailed assessment of the impact resulting from the application of IFRS 15 and expects to disclose additional quantitative information before the Group adopts IFRS 15.

iii. IFRS 16 Leases

The new standard on leasing was issued in January 2016 with an effective date of 1 January 2019. The full impact of this standard is being assessed however the two most significant areas are likely to be the following:

- Lessee accounting model: there will be a single accounting model with no lease classification test. All leases will be on-balance sheet and will result in the recognition of a right of use asset representing the lessees right to use the underlying asset and a lease liability representing its obligation to make payments.

- Lessor accounting model: the lease classification test will be based on existing IAS 17 criteria. Consideration will, however, be required in relation to lease modifications.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases in relation to office premises. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces straight-line operating lease expense with a depreciation charge for right-of-use assets and financing expense on lease liabilities. Furthermore, the Group will need to consider the impact of its leases in relation to company cars and any leased computer/office equipment although there are optional exemptions for short-term leases and leases of low value items. An element of the full impact analysis will consider which transition approach to apply (retrospective or modified retrospective with optional practical expedients).

IFRS 16 replaces existing leases guidance including IAS 17, IFRIC 4, SIC-15 and SIC-27. The Group does not plan to adopt this standard early.

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.

iv. Loss of control

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in the income statement.

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, 13, 20, 30, 34, 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

Profit rate income is 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 on investment securities".

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, available-for-sale or held to maturity 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.

- **Held to maturity**

Held to maturity assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost less impairment losses.

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.

In assessing collective impairment, the Group uses historical information on the timing of recoveries, the amount of loss incurred and an estimated emergence period. The emergence period is assessed using historical information as a proxy together with an assessment of current factors that may affect our customers. The emergence period used also considers the maturity profiles of each financial asset within the collective impairment portfolio. Management also estimates a probability of default and loss given default across the business divisions using external ratings companies and data. Note 3a provides further information on the areas of estimation uncertainty inherent in calculating a collective impairment charge.

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 Board 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 customer, 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 pages 100 to 101 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 facility balance 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 48. 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 were no reversals in 2016 (2015: one).

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 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.

During 2016, management identified that fair value movements in hedging instruments relating to the fair value risk being hedged were recorded against financing arrangements rather than being recognised against the fair value reserve. Refer to note 9.

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.

During 2016, the Group identified that cash flow hedge accounting had not been appropriately adopted as the hedging transactions entered into did not satisfy the criteria for hedge accounting under IAS 39. Refer to note 9.

- **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 property".

f. Property and equipment

i. Recognition and measurement

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

ii. Depreciation

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

- Computer equipment – 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, intangible assets and operating leases

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. Operating leases

- **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. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

- **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.

j. 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.

Residual value exposure occurs in the leasing portfolio due to the uncertain nature of the value of the underlying asset at the end of the lease. Throughout the life of an assets, its residual value will fluctuate due to changes in asset usage, uncertainty of the future market for that asset and general economic conditions. Residual values are set at the commencement of the lease based upon management's expectation of future sale proceeds. During the course of the lease, these values are monitored and compared to past history and future projections. Any impairment identified is immediately charge to the income statement.

k. 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.

l. 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.

m. 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.

n. 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.

o. 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.

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.

p. Cash and cash equivalents

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

q. Other receivables

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

r. 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.

s. 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.

t. 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.

u. Business combinations and goodwill

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is measured at fair value.

Goodwill is tested annually for impairment and compares the carrying amount with the recoverable amount. The recoverable amount is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognised when the carrying amount of goodwill exceeds its recoverable amount. Impairment losses are recognised in profit and loss and are not reversed.

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

a. 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 items with similar credit risk 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 set out in Note 2 c v, based on historical experience and current economic conditions.

The Group considers its leasing, real estate, trade finance and corporate & structured finance portfolios to be individually significant.

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.

c. Effective profit rate adjustments

IAS 39 requires financial instruments to be recognised at the effective profit rate of the asset, which is considered to be the rate that exactly discounts estimated future cash flows through the expected life of the instrument. As the timing of certain cash flows is uncertain, judgement has been applied in estimating all contractual cash flows (profit rate income and fees).

d. Recognition of deferred tax assets

Deferred tax assets in relation to tax losses should only be recognised when it is probable that sufficient taxable profits will be available against which the unused tax losses can be utilised. Judgement has been applied in estimating the future profitability of the business and when considering whether these will be generated in a timely manner. During the year, management derecognised the deferred tax asset, which had primarily arisen as a result of tax losses carried forward from prior years. Management deemed it appropriate to de-recognise this asset on the basis of current and prior year losses and after an assessment of the timeliness of generating sufficient taxable profits against which the carried forward tax losses could be utilised.

e. Consolidation assessments

The Group consolidates subsidiaries and structured entities when management considers the Group to have power and control over the investee. Judgement has been applied in determining whether control has been established by considering if the company 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.

f. Impairment of subsidiary

Continued poor financial performance of the Bank provided an indicator of impairment; consequently management tested the Company’s investment in subsidiary for impairment. Under IAS 36, an investment is impaired if the cost of investment is greater than the recoverable amount. The recoverable amount has been calculated based on the Bank’s value in use, determined by discounting future cash flows based on five-year budgets, adjusted for non-cash items such as share-based payments and depreciation. A post-tax discount rate of £10.9% and a terminal growth rate of 2.2% from 2022 were used in the calculation. The discount rate has been estimated using a five-year risk-free rate plus adjustments for variations in the amounts and timings of cash flows and uncertainty inherent in the asset. The terminal growth rate is based on a weighted average of a strong, moderate and weak growth rate environment.

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 during the year:

Corporate Banking
Corporate Banking provides debt 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, Real Estate, Trade Finance and Corporate & Structured 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.

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 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 2016

	Treasury Division £000	Corporate Banking £000	Wealth Management £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	682	32,140	2,643	-	35,465
Operating lease income	881	7,822	-	-	8,703
Net fee income	381	1,766	20	-	2,167
Net fair value losses on investments	(3,361)	-	244	-	(3,117)
Net fair value gains on investment properties	-	-	(40)	-	(40)
Other operating income	977	1,133	1,572	-	3,682
Total operating income	**(440)**	**42,861**	**4,439**	**0**	**46,860**
Directly attributable segment expenses	(2,144)	(9,594)	(4,937)	-	(16,675)
Operating lease depreciation	-	(6,366)	-	-	(6,366)
Net impairment charge on financial assets and operating	608	(15,868)	(583)	-	(15,843)
Change in third party interest in consolidated funds	-	(295)	250	-	(45)
Loss on disposal of group company	-	(1,720)	-	-	(1,720)
Net segment contribution	**(1,976)**	**9,018**	**(831)**	**0**	**6,211**
Common costs not directly attributable to segments					(25,095)
Net operating loss before tax					**(18,884)**
Reportable segment assets	**290,779**	**710,824**	**26,219**	**4,531**	**1,032,353**

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 2015

	Treasury Division £000	Corporate Banking £000	Wealth Management £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	4,355	30,654	3,582	-	38,591
Operating lease income	1,198	13,933	-	-	15,131
Net fee income	432	1,273	194	1	1,900
Net fair value losses on investments	1,642	-	(3,564)	-	(1,922)
Net fair value gains on investment properties	-	-	4,707	-	4,707
Other operating income	318	2,634	1,973	-	4,925
Total operating income	**7,945**	**48,494**	**6,892**	**1**	**63,332**
Directly attributable segment expenses	(4,210)	(8,617)	(4,496)	-	(17,323)
Operating lease depreciation	-	(12,025)	-	-	(12,025)
Net impairment charge on financial assets	(234)	(19,145)	(1,280)	-	(20,659)
Change in third party interest in consolidated funds	-	38	(1,711)	-	(1,673)
Net segment contribution	**3,501**	**8,745**	**(595)**	**1**	**11,652**
Common costs not directly attributable to segments					(20,049)
Net operating loss before tax					**(8,397)**
Reportable segment assets	**284,280**	**877,247**	**127,697**	**11,046**	**1,300,270**

Entity wide disclosures

Geographical analysis of non-current assets

	31 December 2016 £000	31 December 2015 £000
United Arab Emirates	155	210
Luxembourg	253	31,437
United Kingdom	32,546	50,045
USA	2,850	11,011
Others	49	53
Total	**35,853**	**92,756**

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

5. Income from financing and investing activities

Income from:	2016 £000	2015 £000
Due from financial institutions:		
Murabaha income	195	122
Wakala income	207	217
Finance lease receivables:		
Finance lease income	7,350	8,810
Hire Purchase income	7,953	7,732
Istisna and Ijara income	140	89
Financing arrangements:		
Mudaraba income	22	135
Murabaha income	35,110	36,772
Musharaka income	46	51
Wakala income	-	649
Investment securities:		
Sukuk income	3,972	5,522
	54,995	**60,099**

6. Returns to financial institutions and customers

	2016 £000	2015 £000
Customer deposits	6,501	11,332
Murabaha	11,431	9,431
Wakala	1,598	745
	19,530	**21,508**

7. Net fair value losses on investments

	2016 £000	2015 £000
Net realised losses on investments	(610)	(1,765)
Net unrealised losses on investments	(202)	(157)
Adjustment to cash flow hedge reserve (excluding FX)	(2,305)	-
	(3,117)	**(1,922)**

Refer to note 9 for an explanation of the adjustment to cash flow hedge reserve.

8. Other operating income

	2016 £000	2015 £000
Gains on foreign exchange transactions	756	-
Gains on leased asset sales	1,135	2,026
Rental income from investment properties	1,540	1,968
Other	251	931
	3,682	**4,925**

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 derivatives, 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

	2016 Cash flow hedges $000	2016 Cash flow hedges £000	2016 Fair value hedges $000	2016 Fair value hedges £000
Profit rate swaps	-	-	75,000	20,000

Group

	2015 Cash flow hedges $000	2015 Cash flow hedges £000	2015 Fair value hedges $000	2015 Fair value hedges £000
Profit rate swaps	57,000	-	108,000	20,000

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.

During 2016, management identified that fair value movements in hedging instruments relating to the fair value risk being hedged were recorded against financing arrangements rather than being recognised against the fair value reserve. Management concluded that the impact on the reported consolidated and bank financial statements in prior years was not material and consequently the Group reflected the adjustment in the current year (a charge of £1.2 million to other comprehensive income in 2016).

Fair value of PRSs designated as fair value hedges:

Group	2016 Fair value assets £000	2016 Fair value liabilities £000	2015 Fair value assets £000	2015 Fair value liabilities £000
Profit rate swaps	-	1,254	-	1,100

Movement in the fair value of PRSs used for fair value hedging:

Group	2016 £000	2015 £000
Net profit rate swap liability as at 1 January	(1,100)	(912)
Gains / (losses):		
Exchange translation	(79)	(3)
On hedging instruments through the income statement	141	103
On effective hedges	(216)	(288)
Net profit rate swap liability as at 31 December	**(1,254)**	**(1,100)**

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 2016 a loss of £0.1 million (2015: £0.1 million) 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 ("OCI") and accumulate in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows affect the income statement.

During 2016, the Group identified that cash flow hedge accounting had not been appropriately adopted as the hedging transactions entered into did not satisfy the criteria for hedge accounting under IAS 39. Management concluded that the impact on the reported consolidated and bank balance sheets in prior years was not material. Furthermore, net assets in the prior year were not impacted; consequently the Group has reflected the related adjustments in the current year result (a loss of £1.4 million, which consisted of a £2.0 million gross charge offset with a tax credit of £0.6 million).

Fair value of PRSs designated as cash flow hedges:

Group	2016 Fair value assets £000	2016 Fair value liabilities £000	2015 Fair value assets £000	2015 Fair value liabilities £000
Profit rate swaps	-	-	-	269

Contractual notional balances of PRSs designated for cash flow hedging purposes

The schedules of contractual notional balances on which the expected profit cash flows arise as at 31 December 2016 and 31 December 2015 respectively are as follows:

Group	Less than 6 months	1 year or less but more than 6 months	Greater than 1 year	2016
	£000	£000	£000	£000
Liabilities	-	-	-	-

Group	Less than 6 months	1 year or less but more than 6 months	Greater than 1 year	2015 Total
	£000	£000	£000	£000
Liabilities	16,953	1,356	20,343	38,652

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

	2016	2015
	£000	£000
Wages and salaries	11,138	12,543
Social security costs	1,194	1,499
Defined contribution pension scheme costs	1,082	1,084
Sharia'a Supervisory Board fees	163	62
Recruitment costs	951	645
Other staff costs	1,100	685
	15,628	16,518

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

	2016	2015
	Number	Number
Period end	123	148
Average for the period - management	8	7
Average for the period - non-management	118	128

The 2015 number included employees from Renaissance Asset Finance Limited for the first time. As set out in Note 34 the Group deconsolidated RAF with effect from 31 March 2016.

11. Directors' emoluments

	2016	2015
	£000	£000
Directors' emoluments	1,123	1,042
Pension contributions	10	-
	1,133	**1,042**

The aggregate emoluments of the highest paid director was £0.3 million (2015: £0.4 million), and pension contributions of £0.01 million (2015: £nil) were made on his behalf. During the year, compensation for loss of office amounting to £0.1 million was expensed in relation to a director who resigned during the year (2015: £0.4 million). During the year, none of the directors exercised share options (2015: none).

12. Other operating expenses

	2016	2015
	£000	£000
Advertising and market development	236	284
Board and SSB related expenses	508	418
Communications and IT costs	1,852	1,645
Consultancy	2,627	1,066
Legal and professional fees	8,731	4,966
Loss on foreign exchange transactions and translation	-	529
Other operating charges	7,170	8,663
Rent and other occupancy costs	3,496	2,496
	24,620	**20,067**

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

	2016	2015
	£000	£000
Auditor's remuneration		
Fees payable to the company's auditor for the audit of the company's annual accounts	34	33
Fees payable to the company's auditor and its associates for other services:		
Audit of the accounts of subsidiaries	361	332
Audit-related assurance services	20	14
Tax compliance services	35	35
Tax advisory services	15	-
Other assurance services	111	150
	576	**564**

13. Share-based payments

During the year £0.1 million (2015: £0.3 million) 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:

	2016 £000	2015 £000
Approved Share Option Plan ("ASOP")	22	15
Unapproved Share Option Plan ("USOP")	136	118
Executive Share Option Scheme ("ESOP")	3	9
Deferred Incentive Plan Scheme ("DIPS")	10	24
Deferred Annual Bonus Scheme ("DABS")	(105)	91
	66	**257**

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 2016	**ASOP 2016**	**USOP Issue 1 2016**	**USOP Issue 2 2016**	**USOP Issue 3 2016**
Fair value (cents) *	11.8	11.8	23.5	25.0
Share price (cents) *	50.0	50.0	67.0	67.0
Exercise price (cents) *	50.0	50.0	50.0	50.0
Expected volatility (% p.a.)	20.0	20.0	20.0	20.0
Expected option life (years)	6.5	6.5	6.5	7
Expected dividends (% p.a.)	Nil	Nil	Nil	Nil
Risk free interest rate (%)	1.27	1.27	0.7	1.02

Options issued in 2015	ASOP	USOP Issue 1	USOP Issue 2	DIPS
	2015	2015	2015	2015
Fair value (cents) *	22.4	22.4	50.0	13.7
Share price (cents) *	67.5	67.5	50.0	67.5
Exercise price (cents) *	68.0	68.0	Nil	68.0
Expected volatility (% p.a.)	30.0	30.0	N/A	20.0
Expected option life (years)	6.5	6.5	N/A	5.0
Expected dividends (% p.a.)	Nil	Nil	Nil	Nil
Risk free interest rate (%)	1.55	1.55	N/A	1.4

* 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.

Equity-settled schemes

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	Weighted average excercise price (pence)	Number of options	Weighted average excercise price (pence)
	2016	2016	2015	2015
Outstanding at 1 January	1,222,865	106.0	1,213,837	118.5
Granted in the year	1,032,867	36.0	185,000	45.0
Forfeited in the year	(627,840)	92.6	(175,972)	127.7
Outstanding at 31 December	**1,627,892**	**66.1**	**1,222,865**	**106.0**
Exercisable at 31 December	**286,113**		**279,961**	

The weighted average remaining contractual life of the above ASOPs outstanding at the balance sheet date was 7.9 years (2015: 7.6 years). The weighted average exercise price is 66.1 pence (2015: 106.0 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 2016	Number of options 2015
Outstanding at 1 January	73,832	76,908
Granted in the year	-	-
Forfeited in the year	(21,534)	(3,076)
Outstanding at 31 December	**52,298**	**73,832**
Exercisable at 31 December	**52,298**	**73,832**

The weighted average remaining contractual life of the above parallel options outstanding at the balance sheet date was 3.2 years (2015: 4.2 years). The weighted average exercise price is 125 pence (2015: 125 pence). All of these options were exercisable at the balance sheet date (2015: all). 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 2016	Weighted average excercise price (pence) 2016	Number of options 2015	Weighted average excercise price (pence) 2015
Outstanding at 1 January	4,473,522	57.6	1,840,727	101.5
Granted in the year	9,230,133	39.6	2,687,500	28.3
Forfeited in the year	(2,611,404)	50.2	(54,705)	84.5
Outstanding at 31 December	**11,092,251**	**44.3**	**4,473,522**	**57.6**
Exercisable at 31 December	**355,536**		**21,536**	

The weighted average remaining contractual life of the above USOPs outstanding at the balance sheet date was 5.0 years (2015: 9.1 years). The weighted average exercise price is 44.3 pence (2015: 57.6 pence).

6.9 million of the USOPs granted in 2016 were issued with a longer vesting profile with 50% vesting after 3 years, 25% vesting after 4 years and 25% vesting after 5 years.

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 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.

ESOPS	Number of options 2016	Number of options 2015
Outstanding at 1 January	2,288,409	2,688,943
Granted in the year	-	-
Forfeited in the year	(455,982)	(400,534)
Outstanding at 31 December	**1,832,427**	**2,288,409**
Exercisable at 31 December	**1,832,437**	**2,256,884**

The weighted average remaining contractual life of the executive share options outstanding at the balance sheet date was 2.8 years (2015: 3.8 years). The weighted average exercise price is 162.5 pence (2015: 162.5 pence).

Deferred Incentive Plan Scheme ("DIPS")

The DIPS is a five-year plan introduced by the Group in 2015 with participation open to all Group employees. Under the Plan, employees sacrifice a portion of their salary in exchange for being granted options to acquire shares in BLME Holdings plc with a maximum market value limit of £30,000 at grant date. The options are granted under BLME Holding plc's existing ASOP and USOP schemes.

DIPS	Number of options 2016	Number of options 2015
Outstanding at 1 January	941,306	-
Granted in the year	-	1,295,713
Forfeited in the year	(339,757)	(354,407)
Outstanding at 31 December	**601,549**	**941,306**
Exercisable at 31 December	**-**	**-**

The weighted average remaining contractual life of the above DIPS options outstanding at the balance sheet date was 8.2 years (2015: 9.2 years). The weighted average exercise price was 45.0 pence (2015: 45.0 pence).

Cash-settled schemes

Deferred annual bonus scheme

DABS are granted under the "BLME Deferred Annual Bonus Scheme" which was introduced 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. DABS take the form of nil cost options but can be settled in cash at the discretion of the company.

The DABS scheme rules were amended in March 2015 to introduce employees awards being subject to forfeiture on leaving employment when the Remuneration Committee determines that the staff member concerned is a good leaver and for awards to be cash settled at the discretion of the Company.

DABS	Number of nil cost options 2016	Number of nil cost options 2015
Outstanding at 1 January	1,115,194	875,610
Awarded and deferred	1,315,920	1,698,749
Awarded under matched award	-	-
Forfeited in the year	(931,075)	(1,062,921)
Exercised in the year	(9,230)	-
Settled in the year	(497,457)	(396,244)
Outstanding at 31 December	**993,352**	**1,115,194**
Exercisable at 31 December	**104,923**	**65,431**

The weighted average remaining contractual life of the above nil cost options outstanding at the balance sheet date was 8.5 years (2015: 8.5 years). The weighted average exercise price was nil (2015: nil).

14. Impairments 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			2016
	Specific	Collective	Total
Impairments of financial assets:	**£000**	**£000**	**£000**
Balance at 1 January 2016	35,741	3,346	39,087
Exchange translation and other movements	1,369	-	1,369
Income statement:			
Gross impairment charge for the year	17,421	799	18,220
Amount recovered during the year	(2,377)	-	(2,377)
Net impairment charge for the year	**15,044**	**799**	**15,843**
Amounts written off during the year	(33,136)	-	(33,136)
Balance as at 31 December 2016	**19,018**	**4,145**	**23,163**
Being impairments against:			
Financing arrangements	13,511	1,827	15,338
Finance lease receivables	4,674	2,318	6,992
Operating lease assets	833	-	833
	19,018	**4,145**	**23,163**

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

Refer to Note 2c v and Note 3a for the factors considered in deriving the collective impairment charge for the year.

Group			2015
	Specific	Collective	Total
Impairments of financial assets:	**£000**	**£000**	**£000**
Balance at 1 January 2015	33,470	-	33,470
Exchange translation and other movements	(741)	-	(741)
Income statement:			
Gross impairment charge for the year	20,095	3,346	23,441
Amount recovered during the year	(2,782)	-	(2,782)
Net impairment charge for the year	**17,313**	**3,346**	**20,659**
Amounts written off during the year	(14,301)	-	(14,301)
Balance as at 31 December 2015	**35,741**	**3,346**	**39,087**
Being impairments against:			
Financing arrangements	30,624	2,462	33,086
Finance lease receivables	4,951	767	5,718
Operating lease assets	136	-	136
Due from financial insitutions	-	117	117
Other assets	30	-	30
	35,741	**3,346**	**39,087**

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

Specific impairments

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

Group		
	31 December 2016	**31 December 2015**
	£000	**£000**
Opening net carrying balance	45,112	22,797
Exchange translation and other movements	(2,112)	287
Change in allowance for impairment	24,752	10,534
Classified as impaired during the year	24,322	41,691
Transferred to not impaired during the year	(11,091)	(9,349)
Amounts written off	(33,084)	(14,231)
Disposals	(8,760)	(6,617)
Closing net carrying balance	**39,139**	**45,112**

The table below sets out an analysis of the gross and net carrying amount of specifically impaired financial assets and operating leases as at 31 December 2016 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 operating lease portfolio is valued regularly by external third parties.

Group

As at 31 December 2016	Gross exposure £000	Specific impairment £000	Net exposure £000
Analysed by statement of financial position line:			
Financing arrangements	43,410	(13,511)	29,899
Finance lease receivables	11,811	(4,674)	7,137
Operating lease assets	2,936	(833)	2,103
Balance as at 31 December 2016	**58,157**	**(19,018)**	**39,139**
Analysed by country:			
Bahrain	-	-	-
Cayman Islands	-	-	-
Dubai	3,798	(2,468)	1,330
France	-	-	-
Saudi Arabia	9,094	(3,630)	5,464
United Kingdom	43,443	(12,431)	31,012
USA	1,822	(489)	1,333
Balance as at 31 December 2016	**58,157**	**(19,018)**	**39,139**
Analysed by economic sector:			
Financial Services	3,798	(2,468)	1,330
Manufacturing	10,770	(4,927)	5,843
Real estate	26,413	(4,513)	21,900
Transportation and storage	10,951	(4,007)	6,944
Waste management	-	-	-
Others	6,225	(3,103)	3,122
Balance as at 31 December 2016	**58,157**	**(19,018)**	**39,139**

Group

As at 31 December 2015	Gross exposure £000	Specific impairment £000	Net exposure £000
Analysed by statement of financial position line:			
Financing arrangements	53,329	(30,624)	22,705
Finance lease receivables	24,995	(4,951)	20,044
Operating lease assets	2,342	(136)	2,206
Other assets	187	(30)	157
Balance as at 31 December 2015	**80,853**	**(35,741)**	**45,112**
Analysed by country:			
Bahrain	2,373	(339)	2,034
Cayman Islands	12,330	(11,597)	733
Dubai	3,539	(383)	3,156
France	2,634	(2,634)	-
Saudi Arabia	6,781	(595)	6,186
United Kingdom	51,712	(20,118)	31,594
USA	1,484	(75)	1,409
Balance as at 31 December 2015	**80,853**	**(35,741)**	**45,112**
Analysed by economic sector:			
Financial Services	5,912	(722)	5,190
Manufacturing	6,781	(595)	6,186
Real estate	20,062	(10,896)	9,166
Transportation and storage	45,464	(20,894)	24,570
Waste management	2,634	(2,634)	-
Balance as at 31 December 2015	**80,853**	**(35,741)**	**45,112**

Collective impairments

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

Group

	31 December 2016 £000	31 December 2015 £000
Opening net carrying balance	992,546	1,053,622
Movement in lending portfolio not specifically impaired	(208,225)	(57,730)
Change in allowance for impairment	(799)	(3,346)
Closing net carrying balance	**783,522**	**992,546**

Group

As at 31 December 2016	Gross exposure £000	Collective impairment £000	Net exposure £000
Analysed by statement of financial position line:			
Financing arrangements	429,894	(1,827)	428,067
Finance lease receivables	220,890	(2,318)	218,572
Operating lease assets	21,425	-	21,425
Due from financial institutions	107,182	-	107,182
Balance as at 31 December 2016	**779,391**	**(4,145)**	**775,246**

As at 31 December 2015	Gross exposure £000	Collective impairment £000	Net exposure £000
Analysed by statement of financial position line:			
Financing arrangements	627,264	(2,462)	624,802
Finance lease receivables	287,281	(767)	286,514
Operating lease assets	40,474	-	40,474
Due from financial institutions	23,690	(117)	23,573
Balance as at 31 December 2016	**978,709**	**(3,346)**	**975,363**

15. Taxation

Group	2016 £000	2015 £000
UK Corporation Tax		
- current tax for the year	40	(20)
Overseas tax for the year	22	15
Deferred tax for the year	2,437	(1,542)
Tax charge / (credit) in income statement	**2,499**	**(1,547)**

The tax charge for the year is higher (2015: credit and lower) than the standard rate of corporation tax which is explained as follows:

Group	2016	2015
	£000	£000
Reconciliation of effective tax rate		
Loss for the year before tax	(18,884)	(8,397)
Loss for the year multiplied by standard rate of corporation tax in the UK of 20% (2015: 20.25%)	(3,777)	(1,700)
De-recognition of deferred tax asset	3,062	-
Deferred tax on cash flow hedge de-recognised	625	-
Current year tax losses not recognised as deferred tax	2,623	-
Expenses not deductible for tax purposes	282	206
Tax exempt income	(50)	(75)
Effect of change in tax rates	-	21
Others	(185)	(101)
Gains / (losses) on other assets	271	(123)
Prior year adjustment to deferred tax	(352)	225
Tax charge / (credit) in income statement	**2,499**	**(1,547)**

Further to the Chancellor's 8 July 2015 Budget, which included a proposal to reduce the UK corporation tax rate from 20% to 19% from 1 April 2017, the Budget on 16 March 2016 also proposed to further reduce the rate to 17% from 1 April 2020. The proposal to reduce the rate to 17% was enacted on 6 September 2016.

Tax recognised in other comprehensive income

Group	2016	2015
	£000	£000
Cash flow hedging reserve	-	(153)
Fair value reserve	-	20
	-	**(133)**

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. During the year, management derecognised the deferred tax asset, which had primarily arisen as a result of tax losses carried forward from prior years. Management deemed it appropriate to de-recognise this asset on the basis of current and prior year losses and after an assessment of the timeliness of generating sufficient taxable profits against which the carried forward tax losses of £24.1 million could be utilised.

Movements in deferred tax balances

Group - 2016	Balance at 1 January	Recognised in profit or loss	Disposal	Balance at 31 December
	£000	£000	£000	£000
Property, equipment and software	171	(171)	-	-
Tax losses carried forward	3,103	(2,862)	(241)	-
Cash flow hedges	(10)	10	-	-
Share-based payment transactions	39	(39)	-	-
Tax assets	**3,303**	**(3,062)**	**(241)**	**-**

Group - 2015	Balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December
	£000	£000	£000	£000
Property, equipment and software	354	(183)	-	171
Tax losses carried forward	1,165	1,938	-	3,103
Cash flow hedges	48	-	(58)	(10)
Share-based payment transactions	28	11	-	39
Tax assets	**1,595**	**1,766**	**(58)**	**3,303**

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.

	2016	2015
Earnings per share	**pence**	**pence**
Basic	(11.07)	(3.55)
Diluted	(11.07)	(3.55)

	2016	2015
Profit attributable to ordinary shareholders	**£000**	**£000**
Loss attributable to shareholders (basic)	(21,383)	(6,850)
Loss attributable to shareholders (diluted)	(21,383)	(6,850)

	2016	2015
Weighted average number of ordinary shares	**Number**	**Number**
Number of ordinary shares of 25p in issue	195,733,691	195,733,691
Share held in Treasury by the BLME Holdings EBT	(2,592,248)	(2,601,478)
Weighted average number of shares (basic) at 31 December	193,141,443	193,132,213
Effect of dilutive share options in issue	8,908,352	2,115,194
Weighted average number of shares (diluted) at 31 December	202,049,795	195,247,407

17. Loss attributable to equity Shareholders of the Company

BLME Holdings plc is a non-trading parent company therefore none of the consolidated loss for the financial year has been dealt with in the accounts of the Company (2015: none).

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	2016
	£000	£000	£000	£000
Murabaha	52,640	-	10,012	62,652
Wakala	44,530	-	-	44,530
	97,170	**-**	**10,012**	**107,182**
Provision for impairment				0
				107,182

Group

	0 - 3 months	4 - 12 months	1 - 5 years	2015
	£000	£000	£000	£000
Murabaha	23,807	-	-	23,807
Wakala	-	-	-	-
	23,807	**-**	**-**	**23,807**
Provision for impairment				(117)
				23,690

19. Investment securities

Group	Listed	Unlisted	2016 Total
	£000	£000	£000
Fair value through profit and loss			
Sukuk	-	-	-
Available-for-sale			
Equity	-	3,170	3,170
Sukuk	90,171	820	90,991
Held to maturity			
Sukuk	-	18,000	18,000
	90,171	**21,990**	**112,161**

Group	Listed	Unlisted	2015 Total
	£000	£000	£000
Fair value through profit and loss			
Sukuk	63,415	1,373	64,788
Available-for-sale			
Equity	315	3,802	4,117
Sukuk	125,807	-	125,807
	189,537	**5,175**	**194,712**

Company	Listed	Unlisted	2016 Total
	£000	£000	£000
Investment in subsidiary			
Bank of London and The Middle East plc	-	89,196	89,196

Company	Listed	Unlisted	2015 Total
	£000	£000	£000
Investment in subsidiary			
Bank of London and The Middle East plc	-	241,933	241,933

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	2016	2015
	£000	£000
Investment in subsidiary		
Opening balance	241,933	241,859
Settlement of share-based payment awards by BLME	(51)	(92)
Equity-settled share-based payment awards	171	166
Impairment loss	(152,857)	-
Closing balance at 31 December	**89,196**	**241,933**

Continued poor financial performance of the Bank provided an indicator of impairment; consequently management tested the Company's investment in subsidiary for impairment. Under IAS 36, an investment is impaired if the cost of investment is greater than the recoverable amount. The recoverable amount of £89.2 million has been calculated based on the Bank's value in use, determined by discounting future cash flows based on five-year budgets, adjusted for non-cash items such as share-based payments and depreciation. A pre-tax discount rate of 12.0% and a terminal growth rate of 2.2% from 2022 were used in the calculation. The discount rate has been estimated using a five-year risk-free rate plus adjustments for variations in the amounts and timings of cash flows and uncertainty inherent in the asset. The terminal growth rate is based on a weighted average of a strong, moderate and weak growth rate environment.

The impairment loss of £152.9 million has been recognised and included in the “Net fair value losses on investment securities” line in the income statement of the parent company.

20. Investment properties

Group	2016	2015
	£000	£000
Valuation at 1 January	26,790	28,580
Purchases at cost	-	3,860
Disposals	(26,750)	(10,357)
Movements in fair value *	(40)	4,707
Valuation at 31 December	**0**	**26,790**

** 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 accounted for its investment properties under IAS 40 "Investment property" using a fair value model. The investment properties were valued by independent external professionally qualified valuation agents based on current prices in an active market and were classified as Level 2 for the purposes IFRS 13. Further detail on the valuation technique used can be found on page 104 in Note 36.

During the year, the Light Industrial Building Fund portfolio was sold which resulted in investment properties being derecognised from the Group’s consolidated statement of financial position.

The income statement includes rental income from the investment properties of £1.5 million (2015: £2.0 million) in the line “Other operating income” and direct operating expenses of £0.02 million (2015: £0.6 million) including repairs and maintenance in the line “Other operating expenses”.

21. Financing arrangements

Group	Less than 1 year	1 - 5 years	Over 5 years	2016 Total
	£000	£000	£000	£000
Murabaha	417,319	59,895	-	477,214
Mudaraba	-	3,798	-	3,798
Musharaka	1,133	-	-	1,133
Sukuk	-	6,497	-	6,497
	418,452	**70,190**	**-**	**488,642**
Provision for impairment				(15,338)
				473,304

Group	Less than 1 year	1 - 5 years	Over 5 years	2015 Total
	£000	£000	£000	£000
Murabaha	514,475	118,560	-	633,035
Mudaraba	-	3,539	-	3,539
Musharaka	-	1,896	-	1,896
Sukuk	17	8,352	-	8,369
	514,492	**132,347**	**-**	**646,839**
Provision for impairment				(33,086)
				613,753

22. Finance lease receivables

Group	2016	2015
	£000	£000
Gross investment in finance lease receivables		
Within one year	56,136	66,542
One to five years	49,953	86,846
Over five years	9,281	7,343
	115,370	160,731
Hire purchase		
Within one year	64,133	57,762
One to five years	80,403	98,278
Over five years	37	83
	144,573	156,123
Unearned future income on finance leases	(10,745)	(12,116)
Unearned future income on hire purchase	(9,505)	(16,344)
Provision for impairment	(6,992)	(5,718)
Amounts written off	-	(69)
Net investment in finance leases and hire purchase	**232,701**	**282,607**
The net investment in finance leases comprises:		
Within one year	46,610	55,312
One to five years	44,393	81,031
Over five years	8,769	6,939
	99,772	**143,282**
The net investment in hire purchase comprises:		
Within one year	56,630	49,447
One to five years	76,262	89,797
Over five years	37	81
	132,929	**139,325**

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

23. Property and equipment

Group	Computer Equipment £000	Office Equipment £000	Fixtures & Fittings £000	Motor Vehicles £000	Total £000
Cost					
At 1 January 2015	432	78	1,896	21	2,427
Additions	77	30	1,828	-	1,935
Disposals	-	(29)	(869)	(21)	(919)
At 31 December 2015	509	79	2,855	-	3,443
At 1 January 2016	509	79	2,855	-	3,443
Additions	25	20	99	-	144
Disposals	-	(30)	(769)	-	(799)
At 31 December 2016	**534**	**69**	**2,185**	**-**	**2,788**
Depreciation					
At 1 January 2015	368	77	1,617	8	2,070
Charge for the year	66	5	80	2	153
Disposals	-	(29)	(852)	(10)	(891)
At 31 December 2015	434	53	845	-	1,332
At 1 January 2016	434	53	845	-	1,332
Charge for the year	44	7	529	-	580
Disposals	-	(5)	(642)	-	(647)
At 31 December 2016	**478**	**55**	**732**	**-**	**1,265**
Net Book Value					
At 1 January 2015	64	1	279	13	357
At 31 December 2015	75	26	2,010	-	2,111
At 31 December 2016	**56**	**14**	**1,453**	**-**	**1,523**

24. Operating lease assets

Group	At 31 December 2015 £000	Additions 2016 £000	Disposals 2016 £000	Depreciation 2016 £000	Translation differences 2016 £000	At 31 December 2016 £000
Gross carrying amount	81,299	501	(43,883)	-	7,408	45,325
Less depreciation	(41,522)	-	33,401	(6,366)	(5,644)	(20,131)
	39,777	**501**	**(10,482)**	**(6,366)**	**1,764**	**25,194**
Provision for impairment						(833)
						24,361

Group	At 31 December 2014 £000	Additions 2015 £000	Disposals 2015 £000	Depreciation 2015 £000	Translation differences 2015 £000	At 31 December 2015 £000
Gross carrying amount	96,479	8,914	(26,324)	-	2,230	81,299
Less depreciation	(44,050)	-	16,078	(12,025)	(1,525)	(41,522)
	52,429	**8,914**	**(10,246)**	**(12,025)**	**705**	**39,777**
Provision for impairment						(136)
						39,641

Rental receipts under operating leases	**2016**	**2015**
Future rentals are as follows:	**£000**	**£000**
Less than one year	4,981	6,523
Between one and five years	6,177	10,981
More than five years	32	138
	11,190	**17,642**

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

25. Intangible assets

Group	**2016**	**2015**
Cost	**£000**	**£000**
Opening balance	5,166	3,936
Additions	373	1,290
Disposals	(11)	(60)
Closing balance	**5,528**	**5,166**
Depreciation and impairment losses		
Opening balance	2,904	2,303
Charge for the year	942	633
Disposals	(11)	(32)
Closing balance	**3,835**	**2,904**
Net Book Value	**1,693**	**2,262**

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

26. Other assets

Group	2016	2015
	£000	£000
VAT recoverable	-	2,670
Accrued income	99	81
Collateral deposits*	482	466
Prepayments	1,124	5,381
Other receivables and assets	6,571	8,585
	8,276	**17,183**

* The Group has pledged cash collateral deposits of £0.5 million (2015: £0.5 million) as security against rental payments on its premises.

27. Due to financial institutions

Group	2016	2015
	£000	£000
Reverse Murabaha	511,239	588,023
Wakala	75,725	93,574
	586,964	**681,597**

28. Due to customers

Group	2016	2015
	£000	£000
Customer deposits	206,110	305,253
Security deposits	7,694	16,220
	213,804	**321,473**

29. Other liabilities

Group	2016	2015
	£000	£000
Trade payables	257	883
VAT payable	1,284	33
Deferred income	48	229
Social security and income tax	352	532
Accruals	7,532	7,081
Provisions	1,180	-
Other creditors	2,086	6,612
	12,739	**15,370**

The provisions balance of £1.2 million relates to an onerous lease as described in Note 30.

30. Commitments under operating leases

Cannon Place	2016	2015
	£000	£000
Future minimum rentals are as follows:		
Lease expiring in more than five years	13,085	14,043
	13,085	**14,043**

There is a commitment at year-end under a non-cancellable operating lease for the Bank's main office premises at Cannon Place, 78 Cannon Street, London EC4N 6HL for a fifteen year period (with a ten year break clause) from 11 September 2015 to 10 September 2030, at an annual rental of £1.0 million with an initial rent free period.

During the year £0.8 million was recognised as an expense in the income statement in respect of this operating lease (2015: £0.2 million).

Manchester Square	2016	2015
	£000	£000
Future minimum rentals are as follows:		
Lease expiring between one and five years	679	-
Lease expiring in more than five years	-	5,662
	679	**5,662**

There is a commitment at the year-end under a non-cancellable operating lease for the Bank's Wealth Management Division's former 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 £0.5 million with an initial rent free period (2015: £0.5 million).

During the year, employees were relocated from Manchester Square to the Bank's primary office at Cannon Place; consequently, the company stopped using these premises during 2016 resulting in surplus lease space. The lease has a break clause in June 2018 and the obligations for the future payments and estimated costs to run the office have been provided for in these consolidated financial statements. During the year £1.2 million was recognised as an onerous lease provision in the income statement comprising both the contractual rental paid and a reliable estimate of future costs based on historical experience and contractual terms. In recognising this onerous lease, the present obligation of estimated costs associated with future service charges, maintenance and fixtures & fittings have also been accelerated through the income statement. BLME is not expecting any recoveries during this period and consequently none have been provided for.

Lowry House	2016	2015
	£000	£000
Future minimum rentals are as follows:		
Lease expiring between one and five years	8	8
	8	**8**

There is a commitment at the year-end under a non-cancellable licence agreement for the Bank's Corporate Banking Regional office premises at Lowry House, 17 Marble Street, Manchester M2 3AW for a one year period from 1 April 2015 to 31 March 2016, at an annual licence fee of £0.03 million (2015: £0.03 million).

During the year £0.04 million was recognised as an expense in the income statement in respect of this operating lease (2015: £0.02 million).

Dubai office	2016	2015
	£000	£000
Future minimum rentals are as follows:		
Lease expiring in less than five years	276	355
	276	**355**

There is a commitment at the year-end under a non-cancellable operating lease for the Bank's representative office in Dubai for a three year period from 15 November 2015 to 14 November 2018, at an annual rental of AED 0.7 million, which was equivalent to £0.1 million at the balance sheet date (2015: AED 0.7 million / £0.1 million), with an initial rent free period.

During the year £0.1 million was recognised as an expense in the income statement in respect of this operating lease (2015: £0.1 million).

Redditch	2016	2015
	£000	£000
Future minimum rentals are as follows:		
Lease expiring between one and five years	17	21
	17	**21**

There is a commitment for the Group and Bank at the year-end under a non-cancellable licence agreement for the premises of MKL Construction Equipment Finance Limited, a 60% subsidiary of the Bank, at Marubeni Komatsu Limited, Padgets Lane, Redditch B98 0RT, for a five year period from 25 September 2015 to 25 September 2020, at an annual rental of £0.007 million (2015: £0.007 million).

During the year £0.005 million was recognised as an expense in the income statement in respect of this operating lease (2015: £0.001 million).

31. Contingent liabilities

The contingent liability created in 2013 was extinguished during the year when BLME sold the Light Industrial Building Fund. The original contingent liability arose when BLME Holdco Limited, a subsidiary of BLME, 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

Group	Number of shares	Share capital £000
At 31 December 2015 and 31 December 2016	**195,733,691**	**48,933**

Company	Ordinary shares of 25p each £000	Deferred shares of £1 each £000	A Ordinary shares of £1 each £	Redeemable Preference shares of £1 each £000	Total issued share capital £000
Allotted, called up and fully paid					
At 31 December 2015 and 31 December 2016	**48,933**	**-**	**-**	**-**	**48,933**

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

Group	**2016**	**2015**
	£000	**£000**
Opening balance at 1 January	16,000	16,000
Closing balance at 31 December	**16,000**	**16,000**

Company	**2016**	**2015**
	£000	**£000**
Opening balance at 1 January	16,000	16,000
Recycled to retained earnings after impairment of subsidiary	(16,000)	-
Closing balance at 31 December	**0**	**16,000**

As referred to in Note 32, 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 £191 million 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 £239.9 million over the nominal value of the ordinary shares issued to the former shareholders of BLME of £48.9 million (see Note 32).

£175 million 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.

As explained in note 19, during the year management considered the Company’s investment in subsidiary to be impaired. The impairment loss of £150.7 million was first allocated against the merger reserve, with the remainder in retained earnings. As this transaction eliminates on group consolidation, a merger reserve at the group level still exists.

34. Subsidiaries and other entities

Subsidiaries (not structured entities)	Place of business & Country of incorporation	BLME interest in equity capital	Issued equity capital	Ultimate parent undertaking	Immediate parent undertaking	Registered office
Directly held:						
Bank of London and The Middle East plc	England & Wales	100%	£48,933,422	BLME Holdings plc	BLME Holdings plc	78 Cannon Street, London EC4N 6HL
Indirectly held:						
BLME Asset Management Limited	England & Wales	100%	£2	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
BLME Holdco Limited	England & Wales	100%	£102	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
BLME Holdings EBT	Jersey	100%	£100	BLME Holdings plc	BLME plc	n/a
BLME Limited	England & Wales	100%	£2	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
BLME Umbrella Fund Management Sarl	Luxembourg	100%	US$ 25,000	BLME Holdings plc	BLME plc	n/a
Global Liquidity Solutions Limited	England & Wales	100%	£1	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
MKL Construction Equipment Finance Limited	England & Wales	60%	£1,000	BLME Holdings plc	BLME plc	Padgets Lane, Redditch, B98 0RT
Renaissance Property Finance Limited	England & Wales	100%	£2	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
Renaissance Trade Finance Limited	England & Wales	100%	£2	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL

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.

Deconsolidation of Renaissance Asset Finance Limited in 2016

With effect from 30 June 2015, the Group consolidated Renaissance Asset Finance Limited (“RAF”) into the Group results; management determined that it had control of the entity due to an option to purchase 100% of RAF’s issued share capital becoming exercisable on 30 June 2015. Under IFRS 10, this resulted in the Group deeming to have power over, and control of, RAF. For the first three months of the current reporting period, BLME continued to consolidate RAF into the Group results. The option to purchase the business lapsed at the beginning of April 2016. Accordingly, under IFRS 10 control of the entity was lost and it was considered appropriate to deconsolidate RAF. Consequently, a loss of £1.7 million has been recognised in “loss on disposal of group company” in the income statement.

	At 31 March 2016
	£000
Derecognition of outstanding consideration	2,192
Derecognition of the carrying amount of net assets	(3,912)
Loss on disposal of group company	**(1,720)**

Outstanding consideration was calculated by estimating future cash flows and present valuing them using a risk-adjusted discount rate. Net cash flows expected to be generated factored in historical performance and budgets.

Consolidation of Renaissance Asset Finance Limited in 2015

Goodwill arising from this transaction has been recognised as follows:

	2016	2015
	£000	£000
Total consideration transferred	-	4,295
Fair value of identifiable net liabilites	-	474
Goodwill	-	4,769

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition and the line item within which they are consolidated in the Group's statement of financial position:

	2016	2015
	£000	£000
Cash	-	1,218
Financing arrangements	-	29,192
Finance lease receivables	-	3,431
Property and equipment	-	48
Other assets	-	1,339
Due to financial institutions	-	(35,172)
Due to customers	-	(1)
Other liabilities	-	(529)
Total net liabilities	-	(474)

The goodwill was attributable to management's demonstrable track record in establishing similar companies and the expected cash flows arising from the company's client base. Fair value has been determined by undertaking a discounted cash flow analysis of future cash flows of the business using market discount rates.

Asset Management seed capital investment

The Group also holds the following investments in different compartments of the BLME Sharia'a Umbrella Fund SICAV SIF:

Compartment (not structured entities)	Share Class	Holdings 2016	Holdings 2015
BLME Income Fund	Management	-	1
	B	-	25,741.369
	C	-	24,995.251
	G	-	1,234.491
	M	-	198.766
BLME Global Sukuk Fund	A	-	8,239.545
BLME Light Industrial Building Fund	A	176.487	10,027.628
	Management	1	-

The holdings represent a majority interest in the remaining active compartment of the BLME Sharia'a Umbrella Fund SICAV SIF which is therefore deemed to be controlled by the Group and thus consolidated into the Group's results. During 2016, the Bank redeemed its investment in the Income Fund and Global Sukuk Fund. The reduction in its holding of the Light Industrial Building Fund is explained further in Note 20. The overall holding in the BLME Sharia'a Umbrella Fund SICAV SIF is approximately 55.6% (2015: 57.6%) of the shares issued. The Group recognised an expense of £0.05 million (2015: £1.7 million) 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 44.4% (2015: 42.4%) has been reported in the Group's balance sheet liabilities line "Third party interest in consolidated funds".

There are two active structured entities ("SE") (2015: two) that are consolidated under IFRS 10 as the substance of the relationship is that the entities are deemed to be 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 two entities are as follows:

- Kalakane Transatlantic Investors II, Inc. (USA) – Operating leases
- DMJ 2 LLC (USA) – Operating leases

Lease assets owned by the SEs are reported as Group operating lease assets amounting to £2.4 million (2015: £10.6 million).

The BLME Holdings EBT holds a stock of own shares acquired at a cumulative cost of £4.2 million (31 December 2015: £4.2 million) which has been deducted from retained earnings in the Condensed Consolidated Statement of Changes in Equity. The BLME Holdings EBT did not purchase any own shares during the year (2015: nil). No stamp duty costs were incurred by the Group on behalf of the BLME Holdings EBT during the year (2015: nil).

- **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 £1,029 million and £812 million respectively (2015: £1,241 million and £1,003 million respectively).

- **Interests in unconsolidated structured entities**

The Group does not have any interests in unconsolidated structured entities.

- **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 (2015: none).

Except for a letter of support provided to MKL Construction Equipment Finance Limited, the Group did not provide financial support to any of its consolidated or unconsolidated structured entities during 2016 (2015: nil) and does not have any current intentions to provide such support (2015: none).

35. Related parties

During the year the Group entered into transactions, other than those included in Notes 11, 30 and 34, on an arm's length basis with related counterparties as detailed below.

	2016 £000	2015 £000
Boubyan Bank K.S.C.P		
Wakala placement	490,532	98,325
Wakala deposit taking	304,049	11,168
Foreign exchange transactions	249	-
The Public Institution for Social Security		
Reverse Murabaha	505,294	570,865

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

Included within:	2016 £000	2015 £000
Cash and balances with banks		
Nostros	1,941	1,244
Due from financial institutions		
Wakala placement	-	-
Due to financial institutions		
Wakala deposit taking	-	11,175

As at 31 December 2016, Boubyan Bank K.S.C.P held an economic interest of 26.39% of the Company's shares (2015: 25.62%). 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.P.

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

Included within:	2016 £000	2015 £000
Reverse Murabaha	522,812	585,426

As at 31 December 2016, The Public Institution for Social Security held 7.67% of the Company's shares (2015: 7.67%). The Group's Vice Chairman holds the position of Deputy Director General for Investment of The Public Institution for Social Security.

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

	2016	2015
	£000	£000
Key management emoluments *	827	760
Bank contributions to pension plans	10	-
	837	**760**

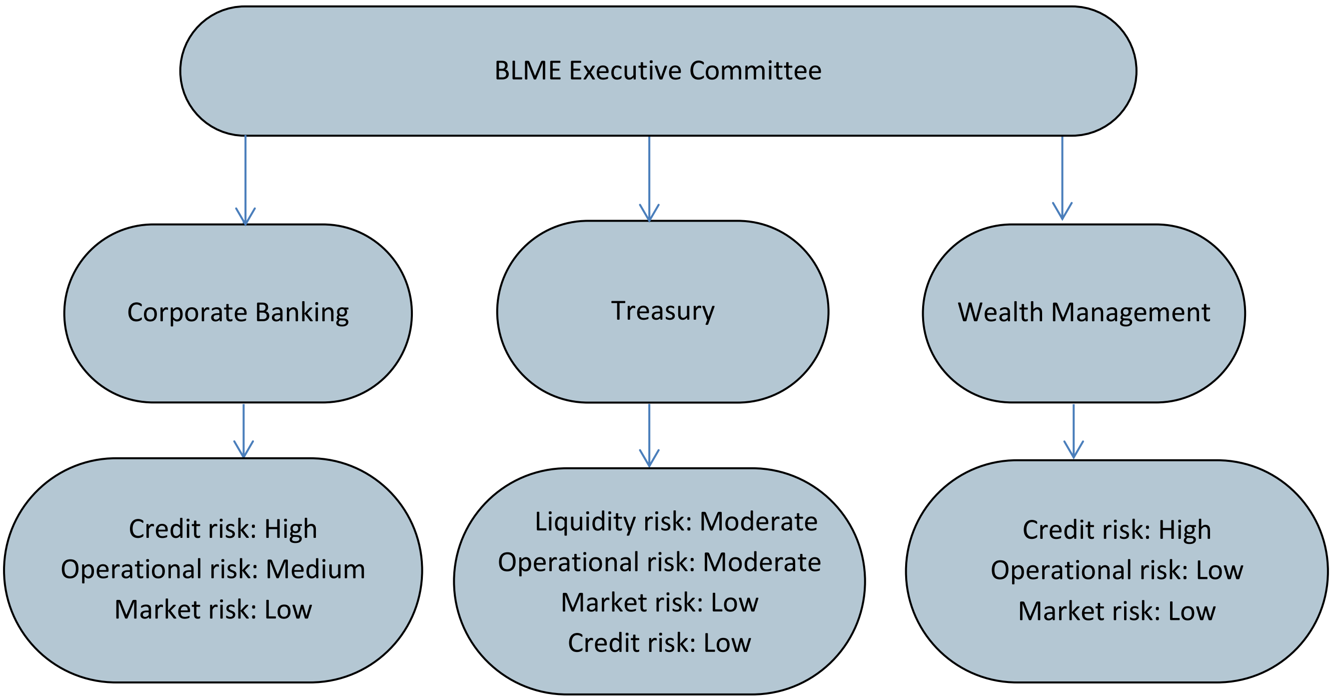
* Key management emoluments includes share-based payments of £0.09 million (2015: £0.01 million).

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
- capital risk
- conduct 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.

Following the appointment of the new management team a review of the Bank’s business strategy has been undertaken and the following objectives have been identified:

- Reducing exposure to capital intensive and less profitable business lines;

- Growing its presence in the Gulf Cooperation Council (GCC) states and the Middle East;
- Reducing funding concentration. This will be achieved by attracting more deposits through BLME's Premier Deposit Account;
- Realising its investment in the BLME Umbrella fund compartments.

As referred to in the Chairman and CEO statements, the Bank has undergone significant changes in 2016 which has included a refinement of the Bank's risk management framework and Board risk appetite.

Risk management framework

The Group's risk management framework ("RMF") provides the foundation for ensuring risk-taking activity is consistent with the Bank's strategy and risk appetite, and that the Bank delivers good service and good outcomes for customers from its products. The RMF establishes an appropriate balance between risks and reward and ensuring robust controls and management of risk.

The Group's method of managing risk begins with the definition of the Bank's Risk Appetite, which when combined with the Bank's strategy articulates its willingness to be exposed to risk events and losses.

The RMF is subject to regular evaluation to ensure that it meets the challenges and requirements of the market in which the Bank operates, including regulatory standards and industry best practices. The Bank requires a strong and proactive RMF in order to mitigate all principal risks and:

- Manage the Bank in line with the Board's approved Risk Appetite;
- Achieve the Bank's strategic objectives whilst adhering to its Risk Tolerance levels;
- Empower and equip the Bank's staff to make decisions in a risk-aware manner; with roles, responsibilities, and delegated authorities clearly defined; and
- Embed a culture of treating customers fairly.

The RMF lays out systematic processes to identify, evaluate, mitigate, report, and manage risk:

- Risk identification – ensure there is a clear definition of each risk entered into by the Bank with an identified Risk Owner;
- Risk assessment – agree and implement appropriate, effective risk measurement and reporting standards for each identified risk. Set metrics together with reporting monitoring controls, processes and standards;
- Risk mitigation – establish key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements. Ensure all frameworks and policies are regularly reviewed and kept relevant and up to date;
- Execution & monitoring – separate control functions independent of business lines are responsible for monitoring the operation of the controls and adherence to risk direction and limits;
- Manage and challenge – review and challenge all aspects of the Bank's risk profile;
- Ensuring all products are Sharia'a compliant;
- The roles of each line of defence.

The Bank's RMF requires the following principles to be adhered to:

- All risks assessed as being principal risks to be covered by a Risk Appetite Statement, Policy and operating process to mitigate the risk;
- The Board retains overall responsibility for approving business strategy, understanding principal risks and ensuring that the risks are adequately controlled and monitored;
- The Board Risk Committee provides overall supervision and challenge of the RMF, with independent reporting lines for the Chief Risk Officer to enable this;
- Adoption of a "4 eyes" maker / checker control system throughout the Bank, with independent review / approval of key risk decisions in a 3 Lines of Defence (3 LOD) model.

Board Risk Appetite

The Board defines its appetite and tolerance for risk expressed in terms of qualitative and quantitative metrics which are measured on a stressed and unstressed basis.

The BLME Risk Appetite Statement is set by the BLME Board and is reviewed at least semi-annually, as part of the BLME strategic discussion. The risk appetite is set at least annually.

The Board has set risk appetite within the context of projected financial earnings and balance sheet over the short and medium term. The risk appetite has been set to clearly articulate the Board's objectives under a stress event, and to align to the Board's stated strategy.

The Board's appetite for risk is stated as an appetite for potential loss under stressed and normal market scenarios which drives the business to focus on business that has adequate rewards for the risks taken, and to control the overall level of risk undertaken.

The principal risks faced by the Group are described below, together with details of how these risks are managed. 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 year, with the exception of Brexit which is explained immediately below.

UK referendum on EU membership

On 23 June 2016, the UK electorate voted to leave the European Union ("EU"). The result of the referendum was a scenario we had assessed and prepared for in advance. The results of our stress testing and modelling meant we were appropriately positioned to withstand the immediate aftermath of the vote. We see the outcome as creating opportunities for BLME and for our overseas investors and clients who can access these opportunities by utilising BLME's expertise.

During the contingency planning period in the run-up to the referendum, management had carefully considered and modelled scenarios that introduced the following risks from an 'exit'-vote:

- Increased volatility in the foreign exchange market, with particular reference to an expectation for a weakening of sterling
- Increased default risks of companies with links to the EU
- Increased volatility in UK Gilt prices, and knock-on consequences for market yields
- Exposure to the London prime real estate market

Nine months have passed since the outcome of the referendum yet it still remains too early to determine the full impact of the vote to leave the EU. The decision to leave brings uncertainties; these include potential changes to, or in, the EU's "Passporting" rights for financial services, the legal framework within which the Bank operates and customer behaviour. This has resulted in financial market and macroeconomic uncertainty as the exit process is expected to take a number of years to plan, negotiate and implement. We continue to closely monitor and manage our positions in light of the vote to ensure we continue to maintain a strong capital and liquidity position. Certain foreign exchange hedges have also been entered into to help mitigate FX risk arising from sterling volatility.

Notwithstanding the uncertainty, the direct impact on BLME is considered to be relatively low given the majority of our counterparties are UK-based SMEs. We also have a number of GCC-based counterparties along with other non-EU business links. In addition, we take comfort from our relatively low financing-to-value ratios in our property lending portfolio.

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 credit review 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 as is 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 Portfolio Limits and 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 monitored on a daily basis and regularly re-assessed for creditworthiness.

Board Credit Committee ("BCC") is a sub-committee of BRC established to review and agree decisions made by the Counterparty Credit Risk Committee ("CCRC") that are outside of stated risk appetite and/or meet other escalation criteria. 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.

ii. Exposure

The tables below present the Group's exposure to credit risk on balance sheet financial instruments as at 31 December 2016, before taking account of any collateral held or other credit enhancements. The amounts at the current reporting date reflect the continued de-risking of the Group's lending portfolio. This has resulted in a decrease in the overall gross exposures as a consequence of the Bank exiting non-core business such Islamic Capital Markets and US Leasing, and higher risk products which includes ABL Finance.

Group	**2016**	**2015**
	£000	**£000**
Cash and balances with banks	71,152	88,732
Due from financial institutions		
Murabaha	62,652	23,690
Wakala	44,530	-
Investment securities	112,161	194,712
Financing arrangements	473,304	613,753
Finance lease receivables	232,701	282,607
Other assets	8,276	17,183
Total credit exposure	**1,004,776**	**1,220,677**

The Group had 40 off balance sheet letters of guarantee outstanding at 31 December 2016 (2015: 54) with a total exposure of £24.8 million (2015: £21.2 million). These letters of guarantee mainly relate to short dated Trade Finance and ABL Finance facilities with a maturity of less than six months.

Other assets includes £1.2 million related to prepayments (2015: £5.4 million). Prepayments have minimal credit risk but has been included for convenience of agreeing to the statement of financial position.

iii. Exposure by country of incorporation of the borrower

The Group exposure to credit risk at balance sheet date were dispersed across the following countries:

Group	2016	2015
	£000	£000
GCC countries		
Bahrain	7,747	1,722
Kuwait	16,112	29,638
Qatar	42,779	21,129
Saudi Arabia	119,577	158,752
United Arab Emirates	28,157	54,980
EEA countries		
France	8,094	1,375
Ireland	3,295	9,482
Luxembourg	420	10,043
United Kingdom	667,699	860,797
Other countries		
British Virgin Islands	1,118	6,471
Cayman Islands	16,954	7,573
Djibouti	1,133	1,896
Guernsey	12,927	10,347
Hong Kong	-	4,241
Indonesia	-	1,007
Isle of Man	15,540	-
Jersey	15,080	7,273
Malaysia	-	5,402
Pakistan	-	517
South Africa	-	131
South Korea	1,240	3,981
Turkey	-	9,690
USA	46,904	14,230
Total credit exposure	**1,004,776**	**1,220,677**

iv. Exposure by economic sector

The Group's exposure to credit risk at balance sheet date were dispersed across the following economic sectors:

Group	2016	2015
	£000	£000
Financial services		
GCC financial institutions	126,774	159,706
UK financial institutions	161,247	129,987
European financial institutions	8,514	7,713
Other financial institutions	40,696	19,017
Mining and quarrying	5,413	6,799
Manufacturing	36,104	56,895
Real estate	290,194	374,935
Transportation and storage	81,711	128,418
Government	37,047	58,221
Wholesale / Retail	76,475	47,752
Oil and Gas	14,232	23,651
Commodities	54,974	92,035
Energy	-	4,585
Construction	26,935	27,936
Telecoms	-	1,783
Others	44,460	81,244
Total credit exposure	**1,004,776**	**1,220,677**

v. Credit risk quality

The Group's credit quality and direct investments are managed by CCRC and the Assets and Liabilities Committee respectively, under the oversight of the Executive Committee and, in the case of CCRC, Board Credit 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. BLME internal ratings are assigned an ECAI rating for comparison purposes. The table below shows the breakdown of credit quality as at 31 December 2016. Of the total portfolio 27% (2015: 28%) was directly rated by at least one of the ECAI, with 73% (2015: 72%) mapped using internal ratings.

For counterparties not rated by the major ECAI 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.

Group

At 31 December 2016	ECAI ratings		BLME Internal Rating		Unrated	
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade		Total
	£000	£000	£000	£000	£000	£000
Cash and balances with banks	71,152	-	-	-	-	71,152
Due from financial institutions	89,075	-	8,095	10,012	-	107,182
Investment securities	96,815	-	12,178	612	2,556	112,161
Financing arrangements	-	-	197,299	272,845	3,160	473,304
Finance lease receivables	13,498	-	48,060	170,040	1,103	232,701
Other assets	274	-	2,054	506	5,442	8,276
Total credit exposure	**270,814**	**-**	**267,686**	**454,015**	**12,261**	**1,004,776**

Group

At 31 December 2015	ECAI ratings		BLME Internal Rating		Unrated	
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade		Total
	£000	£000	£000	£000	£000	£000
Cash and balances with banks	88,732	-	-	-	-	88,732
Due from financial institutions	23,690	-	-	-	-	23,690
Investment securities	190,596	-	-	-	4,116	194,712
Financing arrangements	16,921	6,382	203,058	387,392	-	613,753
Finance lease receivables	8,813	2,446	70,879	200,469	-	282,607
Other assets	4,314	-	206	783	11,880	17,183
Total credit exposure	**333,066**	**8,828**	**274,143**	**588,644**	**15,996**	**1,220,677**

The Group's cash balances, due from financial institutions balances and investment securities were neither past due nor impaired as at 31 December 2016 and as at 31 December 2015.

Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	2016	**2015**	**2016**	**2015**
	£000	**£000**	**£000**	**£000**
Neither past due nor impaired	421,474	560,253	221,286	256,901
Past due but not impaired	23,758	33,257	6,596	6,429
Gross exposure associated with impairment provision	43,410	53,329	11,811	24,995
Less: allowance for impairments	(15,338)	(33,086)	(6,992)	(5,718)
Total	**473,304**	**613,753**	**232,701**	**282,607**
Past due but not impaired	**£000**	**£000**	**£000**	**£000**
Past due up to 30 days	23,758	8,980	5,031	5,742
Past due 30 to 60 days	-	24,277	403	687
Past due 60 to 90 days	-	-	608	-
Past due over 90 days	-	-	554	-
Total	**23,758**	**33,257**	**6,596**	**6,429**

The past due but not impaired balances as at 31 December 2016 include £21.4 million (2015: £29.8 million) relating to four (2015: four) real estate transactions where collateral value exceeds the facility balance. 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 and operating leases".

Forbearance

BLME offers 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 may 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 Bank's forbearance register is maintained by the Credit department and is subject to monthly oversight by the Bank's Counterparty Credit Risk Committee. The Audit Committee also reviews reports on forbearance activities.

Agreement to forbearance does not necessarily result in an impairment of that facility. All impairments will be individually assessed by the Credit department and Counterparty Credit Risk Committee on a case-by-case basis.

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

1) The contract is considered as performing (i.e. the debtor meets the conditions of the contract) 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

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 2016 there had been thirteen instances (2015: eleven):

- where the Group waived material financial covenants or agreed to temporary relaxation of repayment terms which were subsequently cured;
- where the Group agreed to provide temporary facilities beyond the terms upon which the facilities were intended to operate; and/or
- where the Group agreed to extend facilities beyond their contractual term outside of its normal credit criteria

The carrying value as at 31 December 2016 of exposures relating to forborne counterparties with no specific impairment charge was £60.1 million, which represents 6% of the Group's total assets (2015: £30.5 million and 2%).

- **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

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. The Group uses external valuers to perform independent valuations of assets. These valuations are reviewed and challenged by management and, where applicable, corroborated with internal estimations. In calculating collateral value, the Group considers factors such as asset condition, market environment, ease of liquidation and the interdependency between the borrower and collateral.

As at 31 December 2016, collateral represented 60% (2015: 59%) 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	**2016**	**2015**
	£000	**£000**
Real estate	3,596	6,346
Total	**3,596**	**6,346**

The real estate collateral balance reported above relates to a property that was under the appointment of an LPA receiver at 31 December. Negotiations with third parties have progressed, and in February 2017, the Bank concluded an exit having realised the collateral at a value that did not require further impairment charges.

Group	**2016 On balance sheet exposure**	**2016 Collateral**	**2015 On balance sheet exposure**	**2015 Collateral**
	£000	**£000**	**£000**	**£000**
Cash and balances with banks	71,152	-	88,732	-
Due from financial institutions	107,182	-	23,690	-
Investment securities	112,161	-	194,712	-
Financing arrangements	473,304	367,092	613,753	465,080
Finance lease receivables	232,701	226,514	282,607	244,294
Other assets	8,276	-	17,183	-
Total credit exposure	**1,004,776**	**593,606**	**1,220,677**	**709,374**

Group analysis of collateral	**2016**	**2015**
	£000	**£000**
Plant and equipment	245,291	278,260
Property	234,222	298,547
Raw materials/ finished stock	114,093	132,567
Total credit exposure	**593,606**	**709,374**

In addition, the Group holds financial guarantees of £60.9 million (2015: £47.4 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 2016, 94% (2015: 90%) of the Group's property lending exposure had a financing-to-value ratio equal to or less than 70%.

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	**Fair value hierarchy**	**2016 Carrying value £000**	**2016 Fair value £000**	**2015 Carrying value £000**	**2015 Fair value £000**
Cash and balances with banks		1	71,152	*	88,732	*
Due from financial institutions	i	2	107,182	106,973	23,690	23,687
Investment securities	ii, iii	See next table	112,161	112,161	194,712	195,266
Financing arrangements	iii	3	473,304	468,836	613,753	632,231
Finance lease receivables	iii	3	232,701	222,956	282,607	294,835
Due to financial institutions	iii	3	586,964	581,181	681,597	678,732
Profit rate swaps liability	ii	2	1,305	1,305	1,369	1,369
Due to customers	iii	3	213,804	212,357	321,473	319,280
Other assets	iv	2	8,276	8,276	17,183	17,183

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

Notes

i. These assets represent short term liquidity; the majority of these assets have an average residual life of 2 weeks and a maximum individual residual maturity of 6 weeks. The assets are placed with banks with an average credit rating of A. On this basis, carrying value reflects fair value.

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

iii. For financial assets and financial liabilities measured at amortised cost, the fair value has been estimated by calculating the present value of future cash flows associated with each deal using a risk-adjusted discount rate, which is the unobservable input.

iv. For other assets held at amortised cost, fair value is approximately equal to carrying value.

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	**2016 Level 1 £000**	**2016 Level 2 £000**	**2016 Level 3 £000**	**2016 Total £000**
Investment securities	90,171	18,820	3,170	112,161
Investment properties	-	-	-	-
Profit rate swaps liability	-	1,305	-	1,305
Other assets (FX deals)	-	3,888	-	3,888

Group	2015 Level 1 £000	2015 Level 2 £000	2015 Level 3 £000	2015 Total £000
Investment securities	190,909	-	3,803	194,712
Investment properties	-	26,790	-	26,790
Profit rate swaps liability	-	1,369	-	1,369
Other assets (FX deals)	-	5,303	-	5,303

During the year, there were no transfers between Level 1 and Level 2 fair value measurements (2015: none) and no transfers into or out of Level 3 fair value measurements (2015: none). Transfers between levels would occur at the date of the event or change in circumstances that caused the transfer.

The investment properties were 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 (2014) – 'the Red Book'. The properties were 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 was 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 (2015: 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	2016 £000	2015 £000
Balance at 1 January	3,803	3,339
Total gains / (losses) recognised in:		
- profit or loss*	(487)	(214)
- other comprehensive income**	34	549
Purchases	-	130
Sales	(180)	(1)
Balance at 31 December	**3,170**	**3,803**

** 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*

The reconciliation for investment properties is included in Note 20.

For the fair values of available-for-sale equity securities, reasonable possible changes at the reporting date to one of the significant unobservable inputs, holding the other inputs constant, would have the following effects:

Group				**31 December 2016**
	Income statement		**Other comprehensive income**	
	Increase	**Decrease**	**Increase**	**Decrease**
	£000	**£000**	**£000**	**£000**
Valuation adjustment +30%	-	-	1,358	-
Valuation adjustment -30%	-	(387)	-	(512)

Group				**31 December 2015**
	Income statement		**Other comprehensive income**	
	Increase	**Decrease**	**Increase**	**Decrease**
	£000	**£000**	**£000**	**£000**
Valuation adjustment +30%	-	-	1,236	-
Valuation adjustment -30%	-	(595)	-	(641)

ix. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2016.

Group	**2016 Fair value through profit and loss**	**2016 Available-for-sale**	**2016 Financial assets at amortised cost**	**2016 Total**
Assets	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	-	-	71,152	71,152
Due from financial institutions	-	-	107,182	107,182
Investment securities:				
Sukuk	-	90,991	18,000	108,991
Equity	-	3,170	-	3,170
Financing arrangements	-	-	473,304	473,304
Finance lease receivables	-	-	232,701	232,701
Other assets	3,888	-	4,388	8,276
Total financial assets	**3,888**	**94,161**	**906,727**	**1,004,776**

Group	2016 Profit Rate Swaps designated as fair value hedging instruments	2016 Other Profit Rate Swaps	2016 Financial liabilities at amortised cost	2016 Total
Liabilities	**£000**	**£000**	**£000**	**£000**
Due to financial institutions	-	-	586,964	586,964
Due to customers	-	-	213,804	213,804
Profit rate swaps	1,254	51	-	1,305
Total financial liabilities	**1,254**	**51**	**800,768**	**802,073**

Group	2015 Fair value through profit and loss	2015 Available-for-sale	2015 Financial assets at amortised cost	2015 Total
Assets	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	-	-	88,732	88,732
Due from financial institutions	-	-	23,690	23,690
Investment securities:				
Sukuk	68,905	122,004	-	190,909
Equity	-	3,803	-	3,803
Financing arrangements	-	-	613,753	613,753
Finance lease receivables	-	-	282,607	282,607
Other assets	5,303	-	11,880	17,183
Total financial assets	**74,208**	**125,807**	**1,020,662**	**1,220,677**

Group	2015 Profit Rate Swaps designated as fair value hedging instruments	2015 Profit Rate Swaps designated as cash flow hedging instruments	2015 Financial liabilities at amortised cost	2015 Total
Liabilities	**£000**	**£000**	**£000**	**£000**
Due to financial institutions	-	-	681,597	681,597
Due to customers	-	-	321,473	321,473
Profit rate swaps	1,100	269	-	1,369
Total financial liabilities	**1,100**	**269**	**1,003,070**	**1,004,439**

b. Liquidity risk

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

The Treasury Division is responsible for monitoring the liquidity profile of financial assets and liabilities, including projected cash flows from current and future business. This area maintains a portfolio of short-term money market assets and marketable securities and seeks to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis in accordance with guidelines issued by ALCO and approved by 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 ILAAP 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 2016, the Group held £777 million (2015: £962 million) of term deposits and held £2.0 million (2015: £2.4m) of secondary market assets.

Residual contractual maturities of financial assets

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2016 Total £000
Cash and balances with banks	71,152	-	-	-	-	71,152
Due from financial institutions	68,845	28,388	-	10,090	-	107,323
Investment securities	3,341	496	1,560	109,006	6,455	120,858
Financing arrangements	303,061	63,355	70,650	81,028	-	518,094
Finance lease receivables	3,755	22,134	87,387	130,356	9,318	252,950
Other assets	5,251	1,072	1,481	473	-	8,277
	455,405	**115,445**	**161,078**	**330,953**	**15,773**	**1,078,654**

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2015 Total £000
Cash and balances with banks	88,732	-	-	-	-	88,732
Due from financial institutions	21,522	2,315	-	-	-	23,837
Due from customers	-	-	-	-	-	-
Investment securities	5,688	419	29,120	164,798	2,989	203,014
Financing arrangements	280,287	79,452	132,028	158,279	-	650,046
Finance lease receivables	7,109	22,719	88,688	185,124	7,427	311,067
Other assets	8,069	2,982	5,611	522	-	17,184
	411,407	**107,887**	**255,447**	**508,723**	**10,416**	**1,293,880**

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.

None of the Group's assets have been pledged as collateral apart from cash collateral deposits of £0.5 million (2015: £0.5m) 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 £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £	2016 Total £000
Due to financial institutions	-	153,820	292,767	154,808	-	601,395
Due to customers	21,751	10,736	100,339	100,384	1,256	234,466
Profit rate swaps	-	-	-	1,305	-	1,305
	21,751	**164,556**	**393,106**	**256,497**	**1,256**	**837,166**

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £	2015 Total £000
Due to financial institutions	22,965	130,802	521,691	11,748	-	687,206
Due to customers	49,497	27,691	151,559	113,750	-	342,497
Profit rate swaps	83	-	35	1,251	-	1,369
	72,545	**158,493**	**673,285**	**126,749**	**-**	**1,031,072**

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 ("LAB") (in line with the Prudential Regulation Authority rules) of £89.7 million as at 31 December 2016 (2015: £115.3 million). These LAB holdings have been greater than the regulatory liquidity requirement throughout the year (unaudited).

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

Group	2016 £000	2015 £000
Cash and cash equivalents	71,152	88,732
Highly liquid securities (including LAB)	90,171	190,909
Total	**161,323**	**279,641**

As at 31 December 2016, there are no limitations on the use of the liquidity reserve held by the Group (2015: 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		**Market risk measure**	
31 December 2016	**Carrying amount**	**Trading portfolio**	**Non-trading portfolio**
Assets subject to market risk	**£000**	**£000**	**£000**
Cash and cash equivalents	71,152	-	71,152
Due from financial institutions	107,182	-	107,182
Investment securities	112,161	-	112,161
Financing arrangements	473,304	-	473,304
Finance lease receivables	232,701	-	232,701
Investment properties	-	-	-
Other assets	8,276	3,888	4,388
Liabilities subject to market risk	**£000**	**£000**	**£000**
Due to financial institutions	586,964	-	586,964
Due to customers	213,804	-	213,804
Profit rate swaps	1,305	-	1,305

Group		**Market risk measure**	
31 December 2015	**Carrying amount**	**Trading portfolio**	**Non-trading portfolio**
Assets subject to market risk	**£000**	**£000**	**£000**
Cash and cash equivalents	88,732	-	88,732
Due from financial institutions	23,690	-	23,690
Investment securities	194,712	64,788	129,924
Financing arrangements	613,753	-	613,753
Finance lease receivables	282,607	-	282,607
Investment properties	26,790	-	26,790
Others assets	17,183	5,303	11,880
Liabilities subject to market risk	**£000**	**£000**	**£000**
Due to financial institutions	681,597	-	681,597
Due to customers	321,473	-	321,473
Profit rate swaps	1,369	-	1,369

With the exception of two sukuks which are GBP denominated, all of the sukuk within investment securities are USD denominated; consequently any strengthening or weakening of the GBP:USD exchange rate would have a corresponding impact on the carrying value. This assumes that all other variables, in particular profit rates, remain constant and ignores any impact of forecast sales and purchases.

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 2016, 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 £24,853 (2015: £6,383). 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 as follows:

	At 31 December 2016		At 31 December 2015	
	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000
Increase in profit & loss	4,575	-	1,893	-
Decrease in profit & loss	-	5,228	-	1,749
Increase in equity	3,160	-	2,447	-
Decrease in equity	-	3,739	-	2,386

ii. Credit spread risk

In 2015, the Bank operated a Sukuk Trading Book, within which the portfolio size and individual issuer risks were limited to modest proportions since BLME does not have a material appetite for Trading Risk. These positions were exited during 2015 and as such, no credit spread risk has existed since 31 December 2015.

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.

	At 31 December 2016 £000	At 31 December 2015 £000
Resultant FX revaluation gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	68	22
	Year to 31 December 2016 £000	**Year to 31 December 2015 £000**
Net foreign exchange gain / (loss) for the period	756	(528)

iv. Equity price risk

Equity prices are monitored by the Group's Assets and Liabilities 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. This Framework has been approved and is periodically reviewed by the Board through the Board Risk Committee.

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. Operational risk events are reported through a centralised risk management system accessible to all staff; the resolution of an event is monitored by a network of operational risk 'champions' located within each business unit and support function.

Basel III requires capital to be retained for operational risk, which the Group has calculated to be £7.0 million using the Basic Indicator Approach (2015: £6.4 million) (unaudited).

e. Capital adequacy

The Company is not subject to regulatory capital requirements therefore the Bank's regulatory position has been set out below. At 31 December 2016 and throughout the year the Bank complied with the capital requirements that were in force as set out by the Prudential Regulation Authority ("the PRA") (unaudited). The PRA adopted the Basel III requirements with effect from 1 January 2014.

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

	2016	**2015**
Audited	**£000**	**£000**
Tier 1 Capital - CET1		
Ordinary share capital	48,933	48,933
Share premium	180,623	180,623
Retained (losses) / earnings	(14,033)	7,361
Total Tier 1 capital	**215,523**	**236,917**
Unaudited		
Deductions from Tier 1 capital		
Intangible assets	(1,708)	(2,262)
Others	847	(1,003)
Total Tier 1 capital after deductions	**214,662**	**233,652**
Tier 2 capital	4,398	3,346
Total Tier 2 capital	**4,398**	**3,346**
Total Tier 1 and Tier 2 capital	**219,060**	**236,998**
Deductions from Tier 1 and Tier 2 capital:		
Investment in BLME Sharia'a Umbrella Fund SICAV SIF	-	(34,494)
Investment in DMJ II LLC	-	-
Investment in group companies	-	-
Total regulatory capital	**219,060**	**202,504**

The amounts of regulatory capital shown above differ from the equity balances shown in the 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:

	2016 £000 (unaudited)	2015 £000 (unaudited)
Pillar 1 capital requirements		
Credit risk	76,759	97,618
Market risk - foreign currency PRR	596	267
Counterparty risk capital component	74	100
Operational risk	6,993	6,434
Total Pillar 1 capital requirement	**84,422**	**104,419**
Total regulatory capital in place	**219,060**	**202,504**

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 to prudently employ capital and maintain appropriate capital adequacy, liquidity and leverage ratios. BLME reported to the PRA ratios above the minimum requirement throughout 2016. The capital planning process continues to incorporate these measures.

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