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Bank of London & The Middle East

BLME Holdings plc
Interim Report
For the six months ended 30 June 2018

Registered number 08503102

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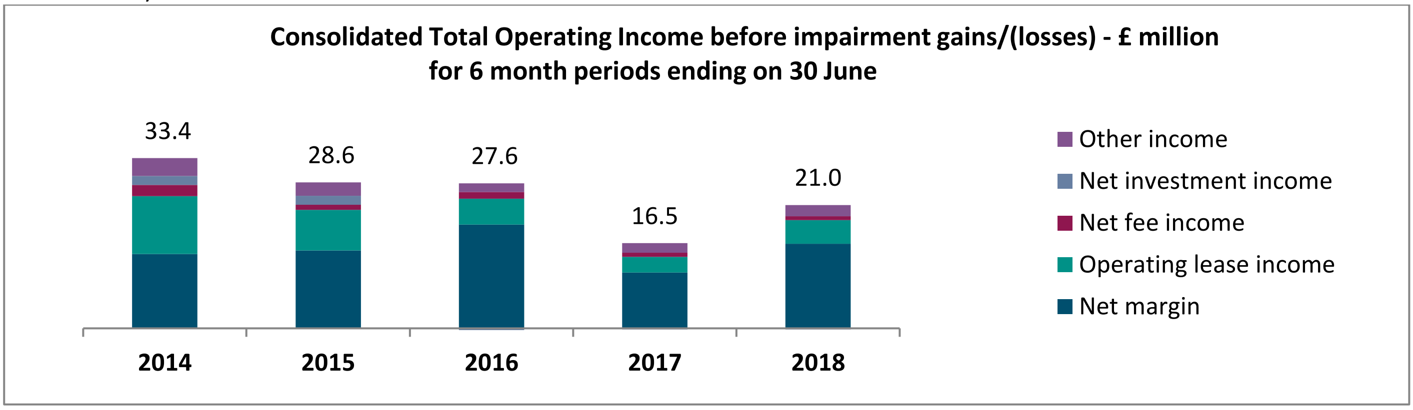
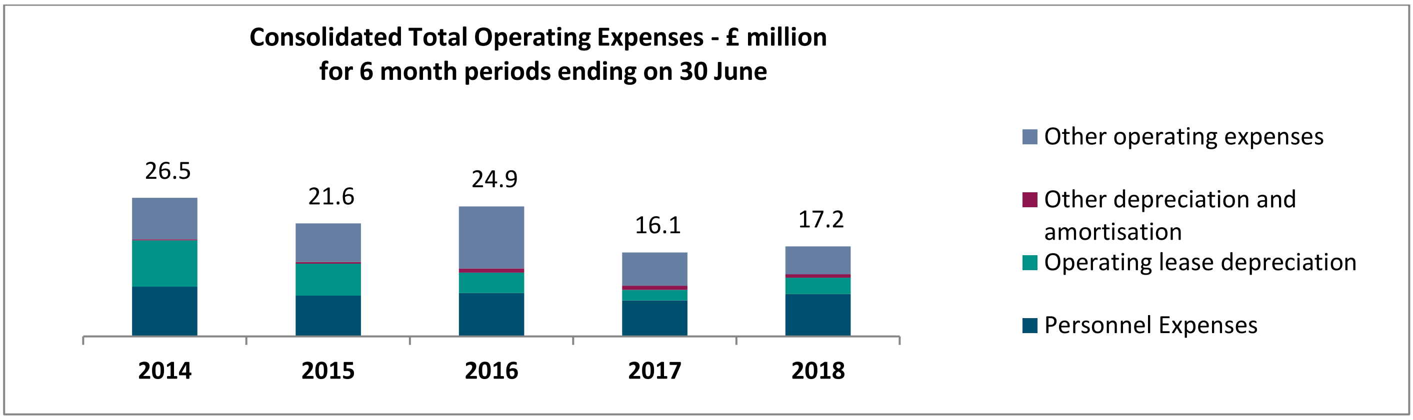
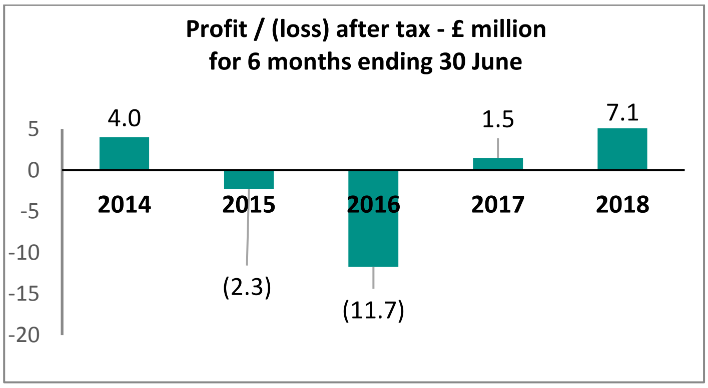
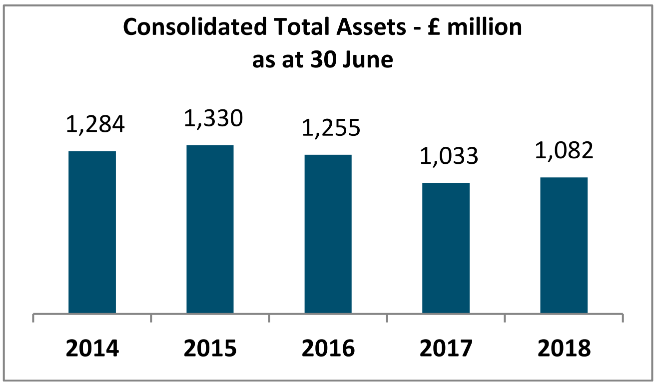
GROUP HIGHLIGHTS FOR BLME HOLDINGS PLC FOR THE SIX MONTHS TO 30 JUNE 2018

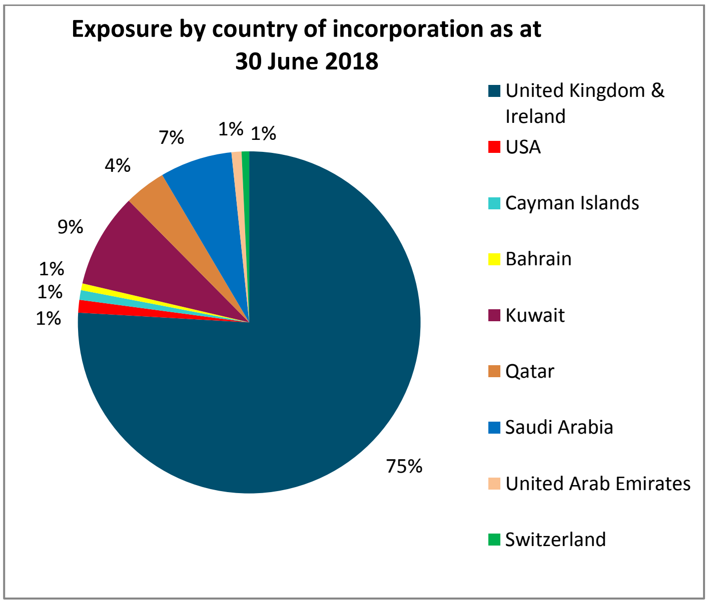
The Group's profit after tax for the six months ended 30 June 2018 was £7.1 million (six months to 30 June 2017: £1.5 million)

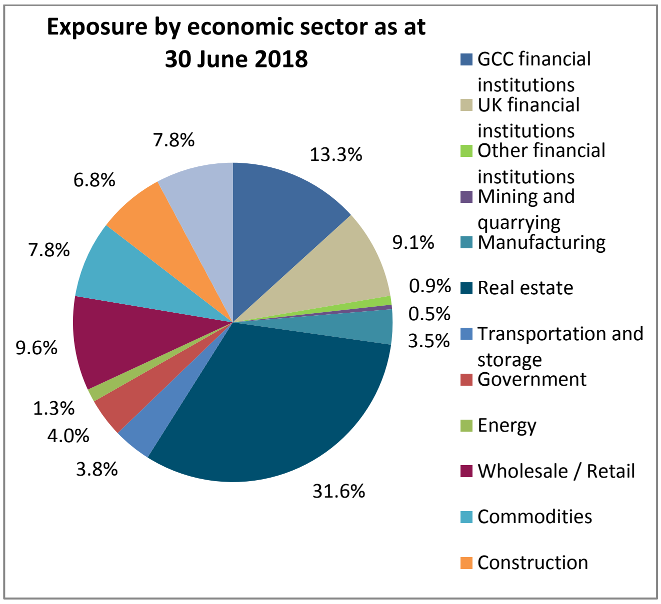












CHAIRMAN'S STATEMENT

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

To the Shareholders of BLME Holdings plc

Dear Shareholders,

I am pleased with the significant progress BLME has made in becoming the leading provider of Sharia'a compliant wealth management solutions to GCC nationals and with BLME achieving half-year profit after tax of £7.1 million. BLME is well positioned to continue to grow and develop with recent product development and the launch of the Dubai International Financial Centre (DIFC) Branch.

I would like to thank the staff and the senior management team for their hard work and the focus they have applied to turning BLME around.

Neil Holden has retired from the Board of BLME Holdings plc. As Chairman and on behalf of the Board, I would like to thank Neil for his service and support over the past 11 years. Joanne Hindle joined the board on the 01 July 2018 and brings with her a wealth of experience and a deep understanding of the UK regulatory and financial services sector.

The Board has taken several steps to address the concerns of our shareholders, such as our proposed Share Repurchase Programme which is subject to regulatory approval. We maintain an open dialogue with our shareholders and thank them for their support.

Finally, the Board are grateful for the support and guidance of the Sharia'a Supervisory Board.

Adel Abdul Wahab Al-Majed
Chairman
22 August 2018

CHIEF EXECUTIVE OFFICER'S STATEMENT

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

We have made very good progress during the first half of 2018, benefiting from our foundations for sustainable growth built in 2017.

Financial results - a strong start to the year

The Group has continued to maintain positive momentum with a profit after tax of £7.1 million compared to £1.5 million for the same period in 2017.

The Balance Sheet has remained stable at £1.1 billion during the first half of the year. With a healthy pipeline of new business we should see moderate balance sheet growth by the end of 2018.

Managing our costs remains a priority and so far we have been successful in this area with our cost income ratio before impairment reducing to 82% compared to 93% at the end of 2017. Our aim is to maintain this ratio over the second half of 2018.

Building sustainable portfolio growth

The launch of the Dubai International Financial Centre (DIFC) Branch is a significant step in achieving our ambitious wealth management aspirations, and we are already seeing the benefits in our client acquisition. There is a strong pipeline of mortgages for UK properties for GCC-based clients. Our first real estate investment opportunity has attracted interest from GCC clients culminating in an initial partial sell down.

Commercial Finance continues to perform well with a new distribution channel opened for Trade Finance and Lease Finance having completed the purchase of a £45 million portfolio of small ticket leases.

Supporting our Shareholders

In order to create distributable reserves in BLME, subject to the necessary approvals, we have commenced the process to reduce the BLME's share premium. This will enable us to transfer a portion of BLME's share premium to its retained earnings.

With our strong capital position and desire to stimulate liquidity in our shares, the Board intends to commence a share repurchase programme through the market in late 2018, subject to standard governance procedures and the necessary regulatory approvals. The mechanics and pricing are still to be agreed with the relevant authorities. An announcement will be made to the market prior to any share repurchase programme commencing.

Supporting our clients

We continue to invest in operational improvements including enhanced documentation, digital solutions for specific products and where appropriate automated processes.

We are delighted to have been awarded the 'Best Fixed Account Provider 2018' by MoneyFacts. Our savings offering is built on a simple online application process with competitive rates, this approach coupled with enhancements we made in late 2017 has resulted in an increase in deposits of 22% compared to end of 2017.

In the first half of the year we commenced a programme of client surveys so that we can provide consistent service across BLME and identify areas where we can improve. I am delighted that 100% of our UK leasing clients who responded to our first customer survey indicated that they would recommend BLME.

Robust risk management and corporate governance

The implementation of General Data Protection Regulation went smoothly and the Bank is working to ensure that these new policies and processes are now embedded into our business as usual operations across the Bank.

BLME operates under a conservative risk appetite. Reducing funding concentration risk remains a priority for the Bank, and in order to support this objective we have reduced the minimum investment in our Premier Deposit Account from £25,000 to £10,000.

In conclusion

We have made a good start to the year, and I am optimistic for the second half of 2018. Our cost trajectory is encouraging. Strategically, we will be putting considerable focus behind leveraging our new licence in the DIFC and building brand awareness.

I would like to thank the BLME team for all their hard work and commitment to delivering the Bank's strategy and the Sharia'a Supervisory Board, the Board and the Chairman for their guidance and support.

Giles Cunningham
Chief Executive Officer
22 August 2018

STATEMENT OF DIRECTORS' RESPONSIBILITIES

We confirm to the best of our knowledge that this condensed consolidated interim financial information has been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the European Union (EU).

The Directors, who are required to prepare the financial statements on a going concern basis unless it is not appropriate, are satisfied that the Group has the resources to continue in business for the foreseeable future and that the financial statements continue to be prepared on a going concern basis.

On behalf of the Board:

Giles Cunningham
Chief Executive Officer
22 August 2018

INDEPENDENT REVIEW REPORT TO BLME HOLDINGS PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 which comprises condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cashflows, condensed consolidated statement of changes in equity and the related explanatory notes. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with guidance contained in International Standard on Review Engagements 2410 (UK and Ireland) "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our work, for this report, or for the conclusions we have formed.

Directors' Responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

As disclosed in note 2, the annual financial statements of the Company are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our Responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2018 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

For and on behalf of Ernst & Young LLP
Chartered Accountants
London
22 August 2018

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2018 (unaudited)

	Note	6 months to 30 June 2018 £000	6 months to 30 June 2017 £000
Income			
Income from financing and investing activities		23,654	19,417
Returns to financial institutions and customers		(7,979)	(8,487)
Net margin		**15,675**	**10,930**
Fee and commission income		1,002	1,059
Fee and commission expense		(200)	(257)
Net fee and commission income		**802**	**802**
Net investment loss		(480)	(201)
Credit impairment gains	*8*	3,564	1,168
Operating lease income		3,938	3,071
Other operating income	*6*	1,064	1,882
Net operating income		**24,563**	**17,652**
Expenses			
Personnel expenses	*7*	(8,168)	(6,880)
Operating lease depreciation	*14*	(3,145)	(1,987)
Other depreciation and amortisation		(657)	(781)
Other operating expenses		(5,279)	(6,459)
Total operating expenses		**(17,249)**	**(16,107)**
Profit before tax		**7,314**	**1,545**
Tax expense	*9*	(254)	(40)
Profit for the period		**7,060**	**1,505**
Attributable to:			
Equity holders of the parent		6,907	1,300
Non-controlling interests		153	205
		7,060	**1,505**
Earnings per share		**Pence**	**Pence**
Equity shareholders of the parent for the period:			
Basic earnings per share	*10*	3.57	0.67
Diluted earnings per share	*10*	3.54	0.67

The notes on pages 15 to 51 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2018 (unaudited)

	6 months to 30 June 2018 £000	6 months to 30 June 2017 £000
Profit for the period	**7,060**	**1,505**
Items that may be reclassified to profit or loss:		
Foreign currency translation differences for foreign operations	32	(8)
Net losses in fair value of available-for-sale financial assets taken to equity	-	(461)
Net losses on financial assets measured at FVOCI	(168)	-
Net gains in fair value of hedging instruments	-	239
Income tax on other comprehensive income	(4)	-
Other comprehensive expense for the period net of income tax	**(140)**	**(230)**
Total comprehensive income for the period	**6,920**	**1,275**
Attributable to:		
Equity holders of the parent	6,767	1,070
Non-controlling interests	153	205
Total comprehensive income for the period	**6,920**	**1,275**

The notes on pages 15 to 51 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018 (unaudited)

	Note	30 June 2018 £000	31 December 2017 £000
Assets			
Cash and balances with banks		22,152	96,780
Due from financial institutions		29,028	28,544
Due from customers		9,033	9,027
Investment securities	*11*	97,351	114,930
Financing arrangements	*12*	649,565	567,820
Finance lease receivables	*13*	224,358	170,546
Operating lease assets	*14*	38,049	34,922
Property and equipment		735	987
Intangible assets		519	837
Other assets	*15*	11,361	3,141
Total assets		**1,082,151**	**1,027,534**
Liabilities			
Due to financial institutions		509,854	514,392
Due to customers		325,795	277,341
Profit rate swaps		343	636
Other liabilities	*16*	11,938	12,032
Current tax liability		509	251
Total liabilities		**848,439**	**804,652**
Equity			
Share capital		48,933	48,933
Other reserve		15,226	15,226
Capital redemption reserve		50	50
Fair value reserve		(554)	(382)
Share-based payment reserve		2,076	1,911
Foreign currency translation reserve		2	(30)
Retained earnings		163,826	156,894
Non-controlling interests		4,153	280
Total equity		**233,712**	**222,882**
Total liabilities and equity		**1,082,151**	**1,027,534**

These condensed consolidated financial statements were approved by the Board of Directors on 22 August 2018 and were signed on its behalf by:

Giles Cunningham

Chief Executive Officer

Christopher Power

Chief Financial Officer

The notes on pages 15 to 51 are an integral part of these condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018 (unaudited)

	6 months to 30 June 2018	6 months to 30 June 2017
Cash flows from operating activities	**£000**	**£000**
Profit after tax	7,060	1,505
Adjusted for:		
Exchange differences	(534)	1,033
Fair value gains on investment securities	448	187
Credit impairment gains	(3,564)	(1,168)
Depreciation and amortisation	3,802	2,774
Share-based payment awards	165	161
Mark-to-market movement in profit rate swaps	275	-
Tax expense	254	40
	7,906	**4,532**
Net decrease / (increase) in operating assets:		
Due from financial institutions	(504)	60,334
Due from customers	(6)	(9,024)
Financing arrangements	(79,939)	(46,259)
Finance lease receivables	(51,760)	71,645
Operating lease assets	(6,265)	(4,841)
Other assets	(8,329)	(1,807)
	(146,803)	**70,048**
Net increase / (decrease) in operating liabilities:		
Due to financial institutions	(5,171)	710
Due to customers	48,484	(538)
Third party interest in consolidated funds	-	(637)
Other liabilities	(563)	(1,548)
Non-controlling interests	-	177
	42,750	**(1,836)**
Net cash inflow/(outflow) from operating activities	**(96,147)**	**72,744**
Cashflow from investing activities		
Purchase of intangible assets	(88)	(184)
Purchase of investments	(5,095)	(69,441)
Sale of investments	23,648	23,946
Net cash inflow/(outflow) from investing activities	**18,465**	**(45,679)**
Cash flows from financing activities		
Dividend paid to Non-controlling interest	(279)	-
Sale of investments to Non-controling interest	4,000	-
Net cash inflow from financing activities	**3,721**	**-**
Net change in cash and cash equivalents	**(73,961)**	**27,065**
Cash and cash equivalents at the beginning of the period	96,780	71,152
Exchange differences in respect of cash and cash equivalents	(667)	5,400
Cash and cash equivalents at the end of the period	**22,152**	**103,617**

The notes on pages 15 to 51 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018 (unaudited)

	Share capital	Other reserve	Capital redemption reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Foreign currency translation reserve	Total	Non-Controlling Interests	Total Equity
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 December 2017	48,933	15,226	50	(382)	1,911	156,894	(30)	222,602	280	222,882
Changes on intial application of IFRS 9	-	-	-	-	-	25	-	25	-	25
Restated balance at 1 January 2018	**48,933**	**15,226**	**50**	**(382)**	**1,911**	**156,919**	**(30)**	**222,627**	**280**	**222,907**
Profit for the period	-	-	-	-	-	6,907	-	6,907	153	7,060
Other comprehensive income/(expense)										
Foreign currency translation	-	-	-	-	-	-	32	32	-	32
Net Change in fair value of equity/debt instrument at FVOCI	-	-	-	(168)	-	-	-	(168)	-	(168)
Tax on other comprehensive income	-	-	-	(4)	-	-	-	(4)	-	(4)
Total other comprehensive income/ (expense)	**-**	**-**	**-**	**(172)**	**-**	**-**	**32**	**(140)**	**-**	**(140)**
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**(172)**	**-**	**6,907**	**32**	**6,767**	**153**	**6,920**
Contributions by and distributions to owners										
Dividend		-		-	-	-	-	-	(280)	(280)
Sale of investment to non-controlling interest	-	-		-		-	-	-	4,000	4,000
Share-based payment awards	-	-	-	-	165	-	-	165	-	165
Other movements						-	-	-		-
Total transactions with owners	**-**	**-**	**-**	**-**	**165**	**-**	**-**	**165**	**3,720**	**3,885**
Balance at 30 June 2018	**48,933**	**15,226**	**50**	**(554)**	**2,076**	**163,826**	**2**	**229,559**	**4,153**	**233,712**

Fair value reserve includes the cumulative net change in fair value of FVOCI investments until the investment either is derecognised or becomes impaired. The change in fair value of financial assets and liabilities at FVOCI of £0.16 million includes adjustment relating to fair value hedging.
Share-based payment reserve represents the amortised portion of the fair value of equity instruments issued under the Group's share incentive schemes and accounted for as equity-settled share-based payments.
Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.
The **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.
Non-Controlling Interests relates to the minority shareholders in MKL Construction Equipment Finance Limited and Aspenway Limited.
Sale of investment to non-controlling interest comprises the sale proceeds of the part investment in Aspenway Limited which was sold down during the period.

The notes on pages 15 to 51 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Merger* reserve	Other reserve	Capital redemption reserve	Fair value reserve	Share-based payment reserve	Retained* earnings	Foreign currency translation reserve	Total	Non-Controlling Interests	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2016	48,933	-	15,226	50	(331)	1,604	151,610	16	217,108	192	217,300
Profit for the year	-	-	-	-	-	-	5,284	-	**5,284**	449	5,733
Other comprehensive (expense) / income											
Foreign currency translation	-	-	-	-	-	-	-	(46)	(46)	-	(46)
Change in fair value of AFS financial assets	-	-	-	-	(452)	-	-	-	(452)	-	(452)
Fair value reserve recycled to Income Statement	-	-	-	-	506	-	-	-	506	-	506
Tax on change in fair value of AFS financial assets	-	-	-	-	(105)	-	-	-	(105)	-	(105)
Total other comprehensive (expense) / income	**-**	**-**	**-**	**-**	**(51)**	**-**	**-**	**(46)**	**(97)**	**-**	**(97)**
Total comprehensive (expense)/ income for the year	**-**	**-**	**-**	**-**	**(51)**	**-**	**5,284**	**(46)**	**5,187**	**449**	**5,636**
Contributions by and distributions to owners											
Dividend	-	-	-	-	-	-	-	-	-	(361)	(361)
Equity-settled Share-based payment awards	-	-	-	-	-	307	-	-	307	-	307
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**307**	**-**	**-**	**307**	**(361)**	**(54)**
Balance at 31 December 2017	**48,933**	**-**	**15,226**	**50**	**(382)**	**1,911**	**156,894**	**(30)**	**222,602**	**280**	**222,882**

*The Merger reserve, Retained earnings and Non Controlling Interest comparative for prior year and the opening balance as at 01 January 2017 has been restated.

The notes on pages 15 to 51 are an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. 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"). The condensed consolidated financial statements of the Group for the six months ended 30 June 2018 comprise BLME Holdings plc and its subsidiaries (together referenced as "the Group").

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' as adopted by the EU. These interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2017. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The Group is adopting the same accounting policies as applied in the preparation of the Group's published financial statements for the year ended 31 December 2017 except for those explained in section 2.1 below for the updated and new IFRSs that are applicable in the current reporting period. All amounts have been rounded to the nearest thousand except when otherwise indicated.

2.1 Changes in accounting policies and disclosures due to adoption of new and amended accounting standards

The following new standards, amendments or interpretations are required to be applied as per the effective date however none are material to the Group with the exception of IFRS 9:

- Annual Improvements to IFRSs 2014-2016 Cycle – various standards, effective 01 January 2018
- IFRS 2 Classification and measurement of share-based payment transactions, effective 01 January 2018
- IFRS 16 Leases, effective 01 January 2019

The group have adopted IFRS 15 Revenue from Contracts with Customers from 1 January 2018, however it did not have any material impact.

In these interim condensed financial statements, the Group has adopted the requirements of IFRS 9 for the first time effective for periods beginning on and after 01 January 2018. The Group elected, as a policy choice permitted under IFRS 9, to continue to apply hedge accounting in accordance with IAS 39.

The Group has not restated comparative information for 2017 for financial instruments in the scope of IFRS 9. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. Differences arising from the adoption of IFRS 9 have been recognised directly in retained earnings as of 01 January 2018 and are disclosed in Note 4.

2.1.1 IFRS 9 Measurement categories of financial assets and liabilities

From 01 January 2018, the Group classifies all of its financial assets based on the business model for managing the assets and the its contractual terms, and measure them using one of the following categories which we described in section 2.2 below:

- Amortised Cost (AC),
- Fair value through other comprehensive income (FVOCI), and
- Fair value through profit and loss (FVPL).

2.1.2 Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected); and
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

2.1.3 The SPPY test

As a second step of its classification process the Group assesses the contractual terms of financial assets to identify whether they meet the SPPY test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortisation of the premium/discount).

The most significant elements of the yield from a financing arrangement are typically the consideration for the time value of money and credit risk. To make the SPPY assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

In contrast, contractual terms that introduce more than a de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are solely payments of principal and yield on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

2.2 Changes to classification and measurement

The IAS 39 measurement categories of financial assets (fair value through profit or loss (FVPL), available for sale (AFS), held-to-maturity and amortised cost) have been replaced by:

- **Financial Instruments measured at amortised cost ('AC')**

  The financial assets held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and yield are measured at amortised cost. From 01 January 2018, 'Financing Arrangements' , 'Due from financial institutions', 'Due from customers' and 'Investment securities' that were classified as 'loans and receivables (L&R)' or 'held to maturity (HTM)' under IAS 39 are now measured at amortised cost (AC).

  Undrawn finance commitment and letters of credit are commitments under which, over the duration of the commitment the Group is required to provide finance with pre-specified terms to the customer. The premium received is amortised over the life of the commitment.

- **Financial Assets measured at fair value through other comprehensive income ('FVOCI')**
  Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and yield are measured at FVOCI. 'Investment Securities' that are classified as available for sale under IAS 39 are now measured at Fair Value through other comprehensive Income (FVOCI).

- **Derivatives measured at Fair value through profit and loss ('FVPL')**
  Derivatives are financial instruments that derive their value from the price of underlying items such as equities, profit rates or other indices. Derivatives are recognised initially and subsequently measured at fair value. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative. 'FX Forwards', and 'Profit rate swaps' held for trading are measured at FVPL under this category. The profit and /or foreign exchange on certain fixed rate sukuks issued has been matched with the profit and/or foreign exchange exposure of certain profit rate swaps as part of a documented risk management strategy. The changes in fair values are recorded in the income statement.

2.3 Changes to impairment calculation

The adoption of IFRS 9 has fundamentally changed the Group's accounting for loan loss impairments by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach. IFRS 9 requires the Group to record an allowance for ECLs for all financing and other debt financial assets not held at FVPL, together with financing commitment contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset.

- **Overview of the ECL principles**
  From 01 January 2018, the Group has been recording the allowance for expected credit losses for all financing and other debt financial assets not held at FVPL, together with financing arrangements, due from financial institutions and customers and finance lease receivable contracts (collectively 'financial instruments').

  The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in page 19.

  The 12mECL is the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Both LTECLs and 12mECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments. The Group's policy for grouping financial assets measured on a collective basis is explained in below.

  Based on the above process, BLME groups its financing into Stage 1, Stage 2, and Stage 3 as described below:

  • Stage 1: When financing are first recognised, the Group recognises an allowance based on 12mECLs. Stage 1 financing also include facilities where the credit risk has improved and the financing has been reclassified from Stage 2.

  • Stage 2: When a financing has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. Stage 2 financing also include facilities, where the credit risk has improved and the financing has been reclassified from Stage 3.

• Stage 3: Financing considered credit-impaired, the Group records an allowance for the LTECLs.

- **The calculation of ECLs**

The Group calculates ECLs based on the weighted outcome of the three scenarios (base case, best case, and a worst case scenario) to measure the expected cash shortfalls, discounted by the effective profit rate (EPR). A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive. The mechanics of the ECL calculations are outlined below and the key elements are, as follows:

• PD The Probability of Default is an estimate of the likelihood of default over a given time horizon. Probabilities of Default are owned by the Risk department and are approved by CCRC and ERC. These are to be regularly reviewed by the Risk department in line with the agreed formula for their calculation. All amendments to the methodology require ERC approval.

• EAD The Exposure at Default is the principal exposure at the point which a default event is triggered, this is the monetary figure that the Group may lose prior to adjustment for collateral.

• LGD The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the financier would expect to receive, including from the realisation of any collateral. It is usually expressed as a percentage of the EAD. The Bank's Internal LGD methodology is owned by the Risk department and approved by ERC. Amendments to the methodology require ERC approval.

The other macro-economic inputs in the ECL model is explained in section 2.3.1.

When estimating the ECLs, the Group considers three scenarios (a base case, a best case, and a worst case). Each of these is associated with different PDs, EADs and LGDs. When relevant, the assessment of multiple scenarios also incorporates how defaulted financing arrangements are expected to be recovered, including the probability that the financing arrangements will cure and the value of collateral or the amount that might be received for selling the asset.

Impairment losses and releases are accounted for and disclosed separately from modification losses or gains that are accounted for as an adjustment of the financial asset's gross carrying value.

The mechanics of the ECL method are summarised below:

• Stage 1: The 12mECL is calculated as the portion of LTECLs that represent the ECLs that result from default events on a financial instrument that are possible within the 12 months after the reporting date. The Group calculates the 12mECL allowance based on the expectation of a default occurring in the 12 months following the reporting date. These expected 12-month default probabilities are applied to a forecast EAD and multiplied by the expected LGD and discounted by the original effective profit rate (EPR).

• Stage 2: When a financing has shown a significant increase in credit risk since origination, the Group records an allowance for the LTECLs. The mechanics are similar to those explained above, including the use of multiple scenarios, but PDs and LGDs are estimated over the lifetime of the instrument. The expected cash shortfalls are discounted by the original EPR.

• Stage 3: For financing considered credit-impaired, the Group recognises the lifetime expected credit losses for these financings. The method is similar to that for Stage 2 assets, with the PD set at 100%.

- **Significant increase in credit risk**

  The transition from recognising 12-month expected credit losses (i.e. Stage 1) to lifetime expected credit losses (i.e. Stage 2) in IFRS 9 is based on the notion of a significant increase in credit risk over the remaining life of the instrument. The focus is on the changes in the risk of a default, and not the changes in the amount of expected credit losses.

  BLME measures the increase in credit risk by monitoring the changes in credit scores of its counterparties since origination. The notch downgrade is based on the credit score, where a "BBB-" or higher rated counterparty has a 3 notch movement required to show deterioration, whilst a lower quality counterparty ("BBB+" to "BB-") needing a 2 notch movement, and the worst quality ("B+" and below) a 1 notch. This follows the broad principals of credit deterioration being seen when a default rate doubles. In addition, the Group also considers whether the counterparty payment performance is deteriorating (i.e. payments are 30-day past due and the counterparty is added to the watchlist).

2.3.1 Forward looking information

In its ECL models, the Group relies on historical trends and future projections for the following economic inputs:

• CPI - Consumer Price Index (Inflation)
• Central Bank base rates
• House price indices

Further information on future accounting developments and their potential effect on the financial statements of the Group are provided in Note 2 of the Group's published financial statements for the year ended 31 December 2017.

Presentation of comparative figures

The comparative financial information for the year ended 31 December 2017 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best assessment of the outcome, actual results may ultimately differ from those estimates. Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly. There have been no significant changes in the basis upon which critical estimates and judgements have been determined, compared to those applied at 31 December 2017 except for impairment under IFRS 9 as explained in section 3.1 below.

3.1 Impairment losses on financial assets

The measurement of impairment losses under IFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group's internal credit grading model, which assigns PDs to the individual grades.
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various formulas and the choice of inputs. Determination of associations between macroeconomic scenarios and, economic inputs, such as inflation levels and collateral values, and the effect on PDs, EADs and LGDs.
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

4. IFRS 9 TRANSITION DISCLOSURES

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 01 January 2018 is, as follows:

	31-Dec-17 IAS 39 measurement			Re-Measurement	01-Jan-18 IFRS 9	
	Category	Amount	Re-classification	ECL	Amount	Category
Financial Assets		**£000**			**£000**	
Cash and balances with banks	L&R	96,780	-	-	96,780	AC
Due from financial institutions	L&R	28,544	-	-	28,544	AC
Due from customers	L&R	9,027	-	-	9,027	AC
Investment securities	HTM	9,075	-	-	9,075	AC
Investment securities	AFS	105,855	-	-	105,855	FVOCI
Financing arrangements	L&R	567,820	-	31	567,851	AC
Finance lease receivables	L&R	170,546	-	(6)	170,540	AC
Other assets (FX Forward contracts)	FVPL	3,141	-	-	3,141	FVPL
		990,788	**-**	**25**	**990,813**	
Financial Liabilities						
Due to financial institutions	L&R	514,392	-	-	514,392	AC
Due to customers	L&R	277,341	-	-	277,341	AC
Profit rate swaps	FVPL	636	-	-	636	FVPL
Other liabilities (FX Forward contracts)	FVPL	12,032	-	-	12,032	FVPL
		804,401	**-**	**-**	**804,401**	

Key

L&R: Loans and receivables
HTM: Held to maturity
AFS: Available for sale
AC: Amortised Cost
FVOCI: Fair value through other comprehensive income
FVPL: Fair value through profit and loss

The following table reconciles the aggregate opening impairment allowances under IAS39 to the ECL allowances under IFRS 9.

	31-Dec-17 Impairment under IAS 39/IAS 37 measurement				01-Jan-18 IFRS 9 ECLs			
	Collective	**Specific**	**Total**	**Re-measurement**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Financial Assets	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
Financing arrangements	1,674	9,558	11,232	(175)	1,137	362	9,558	11,057
Finance lease receivables	1,492	3,190	4,682	150	1,258	384	3,190	4,832
Other assets	-	73	73	-			73	73
	3,166	**12,821**	**15,987**	**(25)**	**2,395**	**746**	**12,821**	**15,962**

The impact of transition to IFRS 9 on reserves and retained earnings is, as follows:

	Reserves and Retained Earnings
	Amount
Retained Earnings	**£000**
Closing balance under IAS 39 (31 December 2017)	156,894
Recognition of IFRS 9 ECLs including those measured at FVOCI	25
Opening balance under IFRS 9 (01 January 2018)	156,919
Total change in equity due to adopting IFRS 9	25

The impact of transition to IFRS 9 on regulatory capital is, as follows:

	Regulatory Capital
	Amount
	£000
Closing balance under IAS 39 (31 December 2017)	223,708
Recognition of IFRS 9 ECLs including those measured at FVOCI	25
Opening balance under IFRS 9 (01 January 2018)	223,733
Total change in capital due to adopting IFRS 9	25

5. SEGMENTAL INFORMATION

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

Wealth Management

Wealth Management includes the Group’s complementary businesses of Private Banking, Investment Solutions and Real Estate Finance.

The Private Banking business focuses on providing private banking services leveraging our Real Estate and Leasing capabilities. It provides deposit products, banking services and residential and investment property finance targeted towards GCC and Middle-East and North Africa (MENA) based High Net Worth Individuals and also offer business jet and super yacht finance.

Investment Solutions offers targeted Sharia 'a compliant investments through in-house capabilities or third parties.

Real Estate Finance provides finance to small and medium sized Real Estate developers, investors and High Net Worth Individuals looking to invest in UK property across all sectors.

Commercial Finance

Commercial Finance specialises in providing competitive financing solutions to the UK mid-market and particularly supports those companies that have links to the GCC region. The clients range from multinational corporations to family businesses generally earning a minimum operating profit of £1 million across a variety of business sectors. The facilities offered typically range in size from £1 million - £20 million and the credit approval process is centralised in the London office.

Commercial Finance, has particular expertise in following sectors: transportation, healthcare and energy and can offer companies a comprehensive package of facilities. The business is relationship focussed so the same team remains with the transaction from origination to repayment. Commercial Finance division is organised into three departments:

- Leasing solutions for the UK mid-market, including international facilities and wholesale finance through on balance sheet and joint venture investments.
- Corporate and Asset Finance for the GCC including vendor programmes.
- Trade Finance offering inventory finance, structured trade transactions and letters of credit.

Treasury

The Treasury division manages the Bank's capital, liquidity and funding, ensuring that the Bank operates within its market and liquidity risk appetites. To this end Treasury ensures funding sources are diversified and at cost effective rates. In alignment with the strategy objective to achieve wider and diversified funding, Treasury has launched a new savings product, the Notice Account, which provides shorter term savings opportunities.

Information regarding the results of the Group's three reportable segments is included in the following page. 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 six months ended 30 June 2018

	Wealth Management £000	Commercial Finance £000	Treasury Division £000	Total £000
Net margin from financing and investing activities	5,475	9,504	696	15,675
Operating lease income	-	3,414	524	3,938
Net fee income	105	676	21	802
Net investment (loss)	-	-	(480)	(480)
Other operating income	57	463	544	1,064
Credit impairment gains/ (losses)	346	3,241	(23)	3,564
Net operating income	**5,983**	**17,298**	**1,282**	**24,563**
Directly attributable segment expenses	(1,215)	(2,465)	(664)	(4,344)
Operating lease depreciation	-	(3,145)	-	(3,145)
Net segment contribution	**4,768**	**11,688**	**618**	**17,074**
Common costs not directly attributable to segments				(9,760)
Profit before tax				**7,314**
Segment assets	297,711	602,730	172,391	1,072,832
Unallocated assets				9,319
Total reportable segments assets				**1,082,151**

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 six months ended 30 June 2017

	Wealth Management £000	Commercial Finance £000	Treasury Division £000	Total £000
Net margin from financing and investing activities	4,440	6,237	253	10,930
Operating lease income	-	2,670	401	3,071
Net fee income	220	570	12	802
Net fair value losses on investment securities	-	-	(201)	(201)
Other operating income	17	791	1,074	1,882
Credit impairment gains/(losses)	923	263	(18)	1,168
Net operating income	**5,600**	**10,531**	**1,521**	**17,652**
Directly attributable segment expenses	(1,502)	(2,454)	(880)	(4,836)
Operating lease depreciation	-	(1,987)	-	(1,987)
Net segment contribution	**4,098**	**6,090**	**641**	**10,829**
Common costs not directly attributable to segments				(9,284)
Profit before tax				**1,545**
Segment assets	255,035	475,869	298,221	1,029,125
Unallocated assets				3,950
Total reportable segments assets				**1,033,075**

*During the period ended 30 June 2017, the Real Estate business moved from the Commercial Finance division to the Wealth Management division.

Entity wide disclosures

Geographical analysis of non-current assets	**As at 30 June 2018 £000**	**As at 30 June 2017 £000**
Dubai	30	133
Luxembourg	37	29
United Kingdom	50,157	39,459
USA	442	1,075
Others	-	14
Total	**50,666**	**40,710**

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

6. OTHER OPERATING INCOME

	6 months to 30 June 2018 £000	6 months to 30 June 2017 £000
Gain on foreign exchange transactions	-	1,033
Fair value gain on FX forwards	544	-
Gain on leased asset sales	463	832
Other	57	17
	1,064	**1,882**

7. PERSONNEL EXPENSES

	6 months to 30 June 2018 £000	6 months to 30 June 2017 £000
Wages and salaries	6,520	5,579
Social security costs	726	610
Defined contribution pension scheme costs	540	493
Recruitment and relocation costs	49	51
Other staff costs	333	147
	8,168	**6,880**

	6 months to 30 June 2018 Number	6 months to 30 June 2017 Number
Number of employees at period end	117	119
Average for the period - management	10	9
Average for the period - non-management	106	111

8. IMPAIRMENT OF FINANCIAL ASSETS

The table below shows the ECL charges on financial assets in the income statement and statement of financial position:

Income Statement

For 6 months to 30 June 2018	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Financing arrangements	(476)	254	(947)	(1,169)
Finance lease receivables	(517)	553	(2,586)	(2,550)
Other assets			155	155
Total Impairment Loss/ (Credit)	**(993)**	**807**	**(3,378)**	**(3,564)**

Statement of Financial Position

As at 30 June 2018	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Financing arrangements	782	638	8,287	9,707
Finance lease receivables	681	976	948	2,605
Other assets			225	225
Foreign exchange translation				(139)
Total Impairment Loss/ (Credit)	**1,463**	**1,614**	**9,460**	**12,398**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances is, as follows:

2018 6 months to 30 June 2018 Exposure	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2018	957,840	120,393	45,763	1,123,996
New assets originated or purchased	283,396	-	-	283,396
Assets repaid	(354,011)	(24,886)	-	(378,897)
Transfers to Stage 1	59,446	(59,446)	-	-
Transfers to Stage 2	(40,944)	51,157	(10,213)	-
Transfers to Stage 3	(647)		647	-
ECL				
Carrying amount as at 1 January 2018	2,395	746	12,821	15,962
New assets originated or purchased	1,206	-	-	1,206
Assets repaid	(1,429)	(264)		(1,693)
Transfers to Stage 1	170	(170)	-	-
Transfers to Stage 2	(947)	1,251	(304)	-
Transfers to Stage 3	(360)		360	-

2017 **Impairment of financial assets**	**6 months to 30 June 2017 £000**	**Year to 31 December 2017 £000**
Opening impairment balance	23,163	23,163
Exchange translation and other movements	(222)	(549)
Income statement:		
Gross specific impairment charge for the period	79	8,247
Gross collective impairment (credit)/charge for the period	100	(979)
Amounts recovered during the period	(1,347)	(10,573)
Net impairment (credit) for the period	**(1,168)**	**(3,305)**
Amounts written off during the period	(4,257)	(3,322)
Closing impairment balance	**17,516**	**15,987**
Being impairments against:		
Financing arrangements	10,595	11,232
Finance lease receivables	6,626	4,682
Operating lease assets	295	-
Other financial assets (Inventory)	-	73
	17,516	**15,987**

9. TAXATION

	6 months to 30 June 2018 £000	**6 months to 30 June 2017 £000**
UK Corporation tax		
- on current period profit	254	111
- prior period adjustment	-	(71)
	254	40
Overseas tax for the period	-	-
Deferred tax charge / (credit) for the period	-	-
Tax charge in income statement	**254**	**40**

The effective tax rate for the period is 3% (six months ended 30 June 2017: 3% and year ended 31 December 2017: 1%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the operating profit before tax for the six month period. This is below the standard rate for the period of 19% and the main reason for this is the utilisation of brought forward unrecognised losses

The headline rate of UK corporation tax reduced from 20% to 19% on 1 April 2017, and following the enactment of the 2016 Finance Act on 15th September 2016, this will reduce further to 17% from 1 April 2020. As these changes were enacted before the balance sheet date, relevant deferred tax balances have been calculated with reference to these rates.

Tax recognised in other comprehensive income

	6 months to 30 June 2018 £000	6 months to 30 June 2017 £000
Fair value reserve	4	-
	4	**-**

10. 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.

	6 months to 30 June 2018	6 months to 30 June 2017
Earnings per share	**pence**	**pence**
Basic	3.57	0.67
Diluted	3.54	0.67
Profit attributable to ordinary shareholders	**£000**	**£000**
Profit attributable to shareholders (basic)	6,907	1,300
Profit attributable to shareholders (diluted)	6,907	1,300

	At 30 June 2018	At 31 December 2017
Weighted average number of ordinary shares	**Number**	**Number**
Number of ordinary shares of 25p in issue	195,733,691	195,733,691
Shares held by the BLME Holdings Employee Benefit Trust	(2,307,640)	(2,258,915)
Weighted average number of shares (basic)	193,426,051	193,474,776
Effect of dilutive share options in issue	1,447,273	1,515,521
Weighted average number of shares (diluted)	194,873,324	194,990,297

11. INVESTMENT SECURITIES

	At 30 June 2018		
	Listed	Unlisted	Total
	£000	£000	£000
Fair Value through other comprehensive income (FVOCI)			
Equity	-	786	786
Sukuk	87,270	-	87,270
Amortised cost (AC)			
Sukuk	9,295	-	9,295
	96,565	**786**	**97,351**

	At 31 December 2017		
	Listed	Unlisted	Total
	£000	£000	£000
Available-for-sale			
Equity	-	973	973
Sukuk	104,882	-	104,882
Held to Maturity			
Sukuk	9,075		9,075
	113,957	**973**	**114,930**

12. FINANCING ARRANGEMENTS

	Less than 1 year	1-5 years	Over 5 years	At 30 June 2018 Total
	£000	**£000**	**£000**	**£000**
Murabaha	576,915	76,117	-	653,032
Mudaraba	3,510	-	-	3,510
Sukuk	2,730	-	-	2,730
	583,155	**76,117**	**-**	**659,272**
Provision for impairment				(9,707)
				649,565
IFRS 9 Stage 1 and 2 ECL				(1,420)
IFRS 9 Stage 3 ECL				(8,287)
				(9,707)

	Less than 1 year	1-5 years	Over 5 years	At 31 December 2017 Total
	£000	**£000**	**£000**	**£000**
Murabaha	498,075	74,070	-	572,145
Mudaraba	3,425	-	-	3,425
Sukuk	945	2,537	-	3,482
	502,445	**76,607**	**-**	**579,052**
Provision for impairment				(11,232)
				567,820
Specific Impairment				(1,674)
Collective Impairment				(9,558)
				(11,232)

These tables represent contractual maturities. For definitions of the above Sharia'a financing terminology, refer to glossary.

13. FINANCE LEASE RECEIVABLES

	At 30 June 2018 £000	At 31 December 2017 £000
Gross investment in finance lease receivables		
Less than one year	40,940	32,256
One to five years	68,088	43,338
More than five years	5,911	6,547
	114,939	82,141
Gross investment in hire purchase		
Less than one year	55,139	54,124
One to five years	73,883	52,277
More than five years	121	-
	129,143	106,401
Unearned future income on finance leases	(9,606)	(7,868)
Unearned future income on hire purchase	(7,513)	(5,446)
IFRS9 Stage 1 & 2 ECL	(1,657)	(1,492)
IFRS9 Stage 3 ECL	(948)	(3,190)
Net investment in finance leases and hire purchase	**224,358**	**170,546**
The net investment in finance leases comprises:		
Less than one year	34,916	24,444
One to five years	63,506	39,209
More than five years	5,486	6,273
	103,908	**69,926**
The net investment in hire purchase comprises:		
Less than one year	49,851	50,577
One to five years	70,481	50,043
More than five years	119	-
	120,451	**100,620**

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.

14. OPERATING LEASE ASSETS

	At 31 December 2017 £000	Additions 2018 £000	Disposals 2018 £000	Depreciation 2018 £000	Translation differences 2018 £000	At 30 June 2018 £000
Gross carrying amount	47,798	7,915	(4,425)	-	135	51,423
Less depreciation	(12,876)	-	2,775	(3,145)	(128)	(13,374)
	34,922	**7,915**	**(1,650)**	**(3,145)**	**7**	**38,049**

	At 31 December 2016 £000	Additions 2017 £000	Disposals 2017 £000	Depreciation 2017 £000	Translation differences 2017 £000	At 31 December 2017 £000
Gross carrying amount	45,325	27,830	(23,969)	-	(1,388)	47,798
Less depreciation	(20,131)	-	10,938	(4,858)	1,175	(12,876)
	25,194	**27,830**	**(13,031)**	**(4,858)**	**(213)**	**34,922**

Rental receipts under operating leases

	At 30 June 2018 £000	At 31 December 2017 £000
Future rentals are as follows:		
Less than one year	6,265	3,294
Between one and five years	12,718	13,815
More than five years	2,015	1,971
	20,998	**19,080**

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

15. OTHER ASSETS

	At 30 June 2018 £000	At 31 December 2017 £000
VAT recoverable	6,698	1,105
Accrued income	181	145
Collateral deposits*	54	487
Prepayments	1,297	723
Other receivables	1,951	681
FX Forward contracts	1,180	-
	11,361	**3,141**

* The Group has pledged cash collateral deposits of £0.05 million (2017:£0.5 million) as security against rental payments on its premises.

16. OTHER LIABILITIES

	At 30 June 2018 £000	At 31 December 2017 £000
Trade payables	433	176
Deferred income	292	48
Social security and income tax	349	354
Accruals	8,587	8,210
Other creditors	1,768	2,262
FX Forward contracts	509	982
	11,938	**12,032**

17. SUBSIDIARIES AND OTHER ENTITIES

Principal Subsidiaries	Country of incorporation and principal operations	BLME interest in equity capital	Issued equity capital	Principal business activity	Ultimate parent undertaking	Immediate parent undertaking	Registered office
Directly held:							
Bank of London and The Middle East plc	United Kingdom	100%	£48,933,422	Regulated Bank	BLME Holdings plc	BLME Holdings plc	78 Cannon Street, London EC4N 6HL
Indirectly held:							
BLME Asset Management Limited	United Kingdom	100%	£2	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
BLME Holdco Limited	United Kingdom	100%	£102	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
BLME Holdings EBT	Jersey	100%	N/A	Employee benefit trust	BLME Holdings plc	BLME plc	n/a
BLME Limited	United Kingdom	100%	£2	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
Global Liquidity Solutions Limited	United Kingdom	100%	£1	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
MKL Construction Equipment Finance Limited	United Kingdom	60%	£1,000	Leasing	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
Renaissance Property Finance Limited	United Kingdom	100%	£2	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
Renaissance Trade Finance Limited	United Kingdom	100%	£2	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
Aspenway Limited	Jersey	65%	£11,300,000	Investment Holding Company	BLME Holdings plc	BLME plc	26 New Street, St Helier, Jersey JE2 3RA

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.

The business activities of BLME Umbrella Fund Management S.a.r.l., the General Partner of the BLME Sharia'a Umbrella Fund SICAV-SIF, ceased on 31st October 2017. The Company was dissolved on 20 March 2018.

There is one active structured entity ("SE") (2017: two) that do not qualify as subsidiary under UK law but which is consolidated under IFRS 10 as the substance of the relationship is that the entity is deemed to be controlled by the Group. This entity is deemed to be controlled by the Group because the relationships between the Group and the SE is governed by participation agreement which allow the Group to exercise power over the SE in addition to being exposed to, and having rights over, the variable returns from its involvement with the SE. Furthermore, the Group has the ability to use its power to affect its returns from its involvement in the SE.

The one entity is as follows:

- DMJ 2 LLC (USA) – Operating leases

During 2017 the participation agreement with Kalakane Transatlantic Investors II, Inc. (USA) has expired and the group no longer expect any further business activity with this SE.

Lease assets owned by the SE amounts to £0.4 million (31 December 2017: £0.7 million).

The BLME Holdings Employee Benefit Trust ('EBT') holds a stock of own shares acquired at a cumulative cost of £3.7 million (31 December 2017: £3.7 million) which has been deducted from retained earnings in the Condensed Consolidated Statement of Changes in Equity. The EBT did not purchase any of its own shares during the period ending 30 June 2018 (31 December 2017: Nil) but was gifted 48,725 shares arising from the in-specie liquidation of a Sharia'a compliant equities fund. No stamp duty costs were incurred by the Group on behalf of the BLME Holdings EBT (six months to 30 June 2017: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 £1,076 million and £849 million respectively (31 December 2017: £1,026 million and £805 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 (2017: 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 2018 (2017: nil) and does not have any current intentions to provide such support (2017: none).

18. NON-CONTROLLING INTERESTS

The group holds a 60% shareholding in MKL Construction Equipment Finance Limited and 64.6% of Aspenway limited, and consolidate them as subsidiaries under IFRS 10. The non-controlling interests represents the minority shareholders of 40% in MKL Construction Equipment Finance Limited and 35.4% of Aspenway Limited.

19. RELATED PARTIES

During the reporting period the Group entered into transactions on an arm's length basis with related counterparties as detailed below:

	6 months to 30 June 2018	6 months to 30 June 2017
	£000	£000
Boubyan Bank K.S.C.P		
Wakala placement	400,516	309,083
Wakala deposit taking	138,453	45,007
The Public Institution for Social Security		
Reverse Murabaha	246,365	152,475
Aspenway Limited		
Due to financial institutions	11,300	

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

	At 30 June 2018	At 31 December 2017
Included within:	£000	£000
Cash and balances with banks		
Nostros	262	2,720
Due to financial institutions		
Wakala deposit taking	12,525	31,893

As at 30 June 2018, Boubyan Bank K.S.C.P held an economic interest of 26.39% of the Company's shares (31 December 2017: 26.39%). A Non-Executive Director who joined the Board on 6 December 2012 and was appointed Chairman on 31 March 2014 is the 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) were as follows:

	At 30 June 2018	At 31 December 2017
Included within:	£000	£000
Due to financial institutions	373,054	381,185

As at 30 June 2018, The Public Institution for Social Security held 7.67% (31 December 2017: 7.67%) of the Bank's shares. The Company's Vice Chairman holds the position of Deputy Director General for Investment and Operations 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 period was as follows:

	6 months to 30 June 2018 £000	6 months to 30 June 2017 £000
Key management emoluments *	402	382
Bank contributions to pension plans	22	32
	424	**414**

* Key management emoluments include share-based payments of £0.07 million (six months to 30 June 2017: £0.05 million).

On 17 October 2016 the Bank's Dubai Representative Office entered into a consultancy agreement with Jabra Ghandour to provide services to help build the Bank's Wealth Management brand and revenues. The agreement was made in the ordinary course of business and on an arms' length basis. The contract came to an end on 30 April 2018. Subsequently Jabra Ghandour has been appointed as CEO of Boubyan Capital, a subsidiary of Boubyan Bank K.S.C.P.

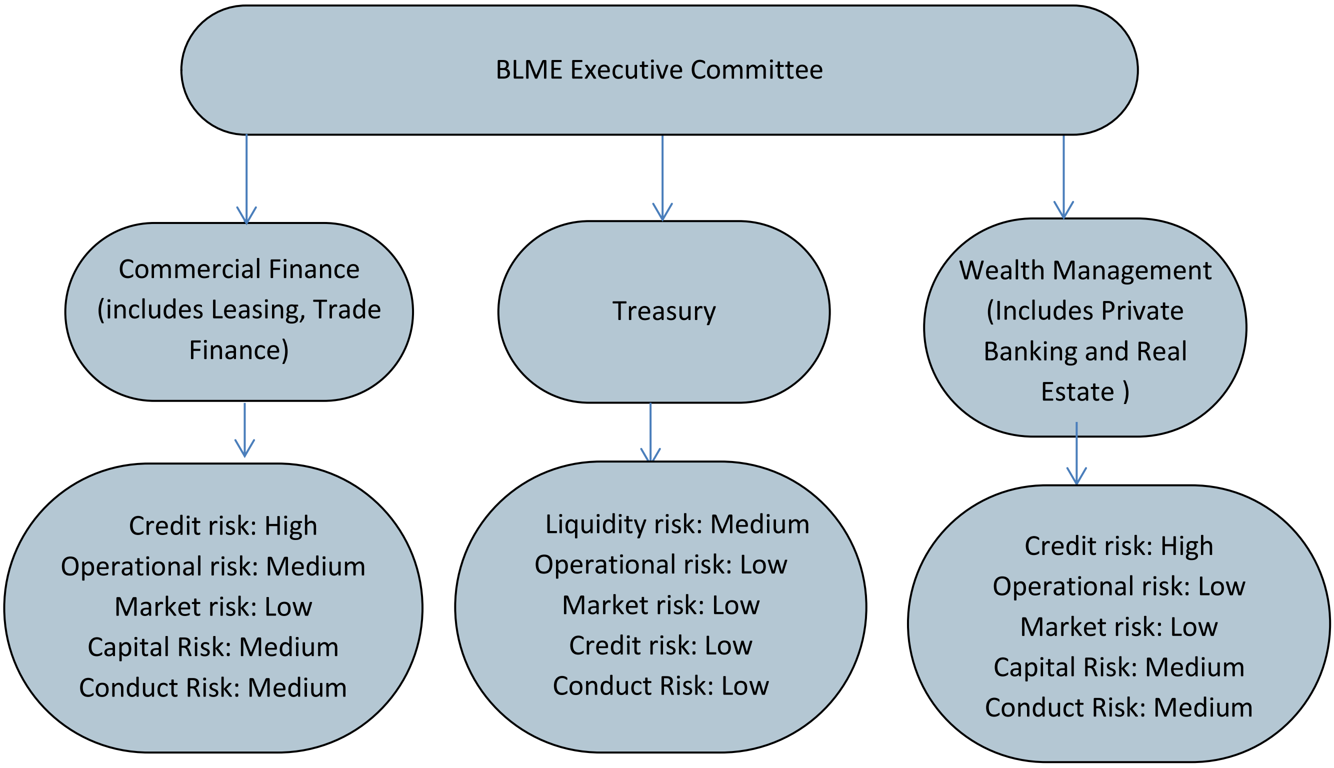
The Group recognised an expense of £0.11 million (six months to 30 June 2017: £0.15 million) in the income statement line "Other operating expenses" in relation to this agreement. The amount outstanding as at 30 June 2018 is £0.017 million (31 December 2017: £0.045 million).

20. 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 (includes cyber 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 a recent review of the Bank's business strategy, the following objectives have been identified:

- Continue to reduce exposure to capital intensive and less profitable business lines;
- Expansion of its presence in the Gulf Cooperation Council (GCC) states and the Middle East;
- Reduced wholesale funding concentration. This has been achieved by attracting more deposits through BLME's Premier Deposit Account (PDA) and will continue into 2019.

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 and 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; and
- To identify and evaluate 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 oversight and assurance of the RMF, with independent reporting lines for the Chief Risk Officer to enable this; and
- Adoption of a "4 eyes" maker / checker control system throughout the Bank, as well as independent review / approval of key risk decisions in a three 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.

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 will be 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 reduce the overall level of risk undertaken.

The principal risks faced by the Group, together with details of how these risks are managed (which have not changed in terms of impact significantly during the period), remain as detailed in the Group's 2017 Annual Report and Accounts and are expected to remain unchanged in the final six months of the financial year to 31 December 2018.

Impairment of Financial assets (Policy applicable from 01 January 2018)

- **Definition of Default and Cure**
  Credit financing risk is the risk of the Group sustaining a loss from a customer or other counterparty being unable to meet its contractual obligations. This default risk applies to all credit-sensitive transactions.

  Incorporated within credit default risk are the following sub-types:

  <u>Primary Financing Risk:</u> the possibility that payments (Principal, Profit share yield and / or other) due from a transaction will not be paid by the obligor when due. Financing and issuer risk may include amounts that may crystallise from contingent transactions such as letters of credit and underwriting.

  <u>Counterparty Credit Risk (also known as Pre-settlement risk):</u> the potential exposure that could arise if a trading partner for a Profit Rate or Foreign Exchange (FX) product defaults prior to expiration (either maturity or termination) leaving the Group exposed to a loss if the market has moved adversely. BLME uses a bespoke methodology to calculate pre-settlement risk, which represents a conservative view of the possible negative currency fluctuation over time. The resultant calculated or "net" credit risk is then assessed on the same basis as primary financing risk.

  <u>Settlement Risk</u>: the possibility that a counterparty might not honour the settlement of a transaction in a financial instrument, leaving BLME exposed if it has paid but failed to receive the corresponding settlement. BLME policy, not including its major Financial Institution ("FIs") Counterparties, is to enter into customer FX or Profit Rate transactions on a delivery versus payment ("DVP") so that no additional exposure arises at maturity. Market transactions with FIs will involve settlement exposure which is covered by the allocation of a specific Settlement Limit.

  Collectively, the total credit default risk represents the majority of the Group's total identified risk as outlined in the Group's ICAAP. This is therefore considered to be the key risk undertaken by BLME.

  BLME seeks to mitigate its credit default risk via:

  - A comprehensive credit application process for individual credit exposures.

- Regular, focused portfolio reviews.
- Key risk indicator tracking undertaken on a monthly basis via ERC.

Customers are transferred to the Bank's Asset Recovery Unit (ARU) as a result of the incremental risks identified via triggering of the Early Warning Indicators and Watchlist resulting in a concern that BLME could be faced with a non-performing finance ("NPF") situation. BLME policy towards the identification of NPLs mirrors Basel Committee guidance. All customers that have suffered sufficient credit deterioration require specialist intensive care and restructuring involvement from the ARU team. Unless specifically approved otherwise, day-to-day management of the file transfers to ARU.

ARU names will typically exhibit one or more of the following traits:

- Multiple Basel II judgemental triggers or one or more Basel II obligatory triggers
- Covenant breach(es)
- Overdue profit or principal payments
- A known requirement for facility restructuring
- Forbearance or a requirement for forbearance in the short-term
- One or more other escalation events per the 1 Line of Defence (LOD) escalation criteria

The Credit Risk Department reserve the right to recommend that any name is elevated to ARU status, subject to CCRC approval. It is also possible for customers to exhibit one or more of the above traits, but not receive ARU classification (for instance a non-distressed facility restructuring requirement or a minor covenant breach). The ARU checklist contains full details on the requirements of the ARU function on transferal of a file however the below key steps are to be taken in all cases:

1. Day 0: Impairment and transferral to ARU approved by CCRC
2. Day 7: Transferral of file from 1 line of defence to be completed
3. Day 14: Customer handover meeting with 1 line of defence to be completed
4. Day 30: Finance Loss Reserve form to be submitted to CCRC for approval, containing:
    - Exit analysis
    - Background
    - Future strategy
    - Headline DCF assumptions (to be discussed/agreed at CCRC)
    - Recommendations as to third party business and legal documentation reviews

It is recognised that 30 days may be too soon to adequately determine the level of provisions required. In the event that this is the case, a formal provision recommendation will be provided in line with the quarterly finance loss review (FLR) process. ARU undertakes various actions on receipt of a newly-impaired customer file. These are outlined in full in the ARU checklist, which is completed on an individual basis. In addition to the four steps outlined above, actions arising from ARU classification include, but are not limited to:

- Amendment of the credit rating to a default rating.
- Change of reporting department to ARU.
- Account placed on non-accrual.
- Consideration to be given to a formal, external security review.
- Consideration to be given to a formal, external Independent Business Review or valuation of the underlying assets.
- File is discussed at CCRC on an ad-hoc basis in line with any changes or business updates and is then subject to quarterly FLR.

- **Internal rating and PD estimation process**
  The Bank's independent Credit Risk Department operates its internal rating models, which rates its customers from 1 to 20.

	Fitch	Moody's	BLME (Internal Ratings)	
Investment Grade	AAA	Aaa	aaa	1
	AA+	Aa1	aa+	2
	AA	Aa2	aa	3
	AA-	Aa3	aa-	4
	A+	A1	a+	5
	A	A2	a	6
	A-	A3	a-	7
	BBB+	Baa1	bbb+	8
	BBB	Baa2	bbb	9
	BBB-	Baa3	bbb-	10
Non-Investment Grade "Junk"	BB+	Ba1	bb+	11
	BB	Ba2	bb	12
	BB-	Ba3	bb-	13
	B+	B1	b+	14
	B	B2	b	15
	B-	B3	b-	16
	CCC+	Caa1	ccc+	17
	CCC	Caa2	ccc	17
	CCC-	Caa3	ccc-	17
	CC+	Ca1	d	18
	CC	Ca2	d	18
	CC-	Ca3	d	18
	C+	C1	d	19
	C	C2	d	19
	C-	C3	d	19
	D	D	d	20

Credit ratings are subject to the following hierarchy:

- ECAI (Moody's, and Fitch only) long-term issuer rating
- Moody's Creditedge rating (to be mapped to BLME Internal rating).
- Moody's RiskCalc
- BLME Internal Rating Model (Corporate).
- Manual Rating

BLME Internal Credit Ratings follow a numerical scale and are equated to ECAI ratings in accordance with the BLME Internal Credit Ratings Scale. It is the responsibility of the 1 LOD to populate and propose Credit ratings, with these then challenged and analysed by the Credit Risk department. Formal approval of an individual credit rating is the responsibility of the relevant delegated authority holder, in all cases being the most senior signatory to such a proposal.

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.

i. Exposure by statement of financial position line

The table presents the Group's exposure to credit risk on balance sheet financial instruments as at 30 June 2018, before taking account of any collateral held or other credit enhancements. The amounts at the reporting date are indicative of the amounts at risk throughout the period.

Group	At 30 June 2018 £000	At 31 December 2017 £000
Cash and balances with banks	22,152	96,780
Due from financial institutions		
Murabaha	21,448	24,844
Wakala	7,580	3,700
Investment securities	97,351	114,930
Due from Customer	9,033	9,027
Financing arrangements	649,565	567,820
Finance lease receivables	224,358	170,546
Other assets (Foreign exchange forward deals)	1,180	-
Total credit exposure	**1,032,667**	**987,647**

As at 30 June 2018 there were 19 off balance sheet letters of guarantee outstanding (31 December 2017: 12) with a total exposure of £21.0 million (31 December 2017: £18 million). These letters of guarantee mainly relate to short dated Trade Finance and Corporate and Asset Finance facilities with a maturity of less than twelve months. BLME is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. BLME expects most guarantees it provides to expire unused.

ii. Exposure by country of the financed counterparty

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

Group	**At 30 June 2018 £000**	**At 31 December 2017 £000**
GCC countries		
Bahrain	6,593	8,464
Kuwait	92,115	94,017
Qatar	40,553	14,008
Saudi Arabia	70,319	92,570
United Arab Emirates	9,747	16,064
EEA countries		
United Kingdom	783,335	674,891
Other countries		
Cayman Islands	10,238	6,097
Djibouti	-	-
Guernsey	-	15,491
Switzerland	7,356	866
Jordan	-	1,369
Isle of Man	-	16,234
Jersey	-	11,891
USA	12,411	35,685
Total credit exposure	**1,032,667**	**987,647**

iii. Exposure by economic sector

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

Group	**At 30 June 2018 £000**	**At 31 December 2017 £000**
Financial services		
GCC financial institutions	136,861	141,042
UK financial institutions	93,770	126,235
Other financial institutions	9,265	46,244
Mining and quarrying	4,706	4,147
Manufacturing	36,613	31,101
Real estate	327,596	295,181
Transportation and storage	39,746	38,447
Government	40,835	40,788
Wholesale / Retail	98,660	84,700
Commodities	80,405	66,886
Energy	13,723	14,072
Construction	69,835	45,151
Others	80,652	53,653
Total credit exposure	**1,032,667**	**987,647**

iv. Credit risk quality

The Group's credit quality and direct investments are managed by CCRC and the Assets and Liabilities Committee (ALCO) respectively, under the oversight of the Executive Committee and, in the case of CCRC, under the oversight of BCC. Credit quality is assessed using techniques that include information from the major External Credit Assessment Institutions (ECAI) as well as internal ratings for customers who are not externally rated. The latter are mapped to the ratings of the ECAI.

The table below shows the breakdown of credit quality as at 30 June 2018. Of the total portfolio 18% (31 December 2017: 24%) was directly rated by at least one of the ECAI, with 82% (31 December 2017: 76%) mapped using internal ratings.

At 30 June 2018	**Neither Past Due Nor Impaired**							
	ECAI Rating		**BLME Internal Rating**					
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade	Ungraded	Past due but not impaired	Individually Impaired	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	21,896	-	-	-	256	-	-	22,152
Due from financial institutions	11,369	-	7,580	10,079	-	-	-	29,028
Due from customers	-	-	9,033	-	-	-	-	9,033
Investment secutities								
FVOCI								
Government debt securities	31,538	-	-	-	-	-	-	31,538
Other Investment securities	55,733	-	-	786	-	-	-	56,519
AC								
Government debt securities	3,660	5,634	-	-	-	-	-	9,294
Other Investment securities	-	-	-	-	-	-	-	-
Financing arrangements	47,705	-	309,796	222,187	18,791	37,159	13,927	649,565
Finance lease receivables	9,228	-	83,248	126,190	-	1,408	4,284	224,358
Other assets (Foreign exchange forward deals)	-	-	1,062	118	-	-	-	1,180
Total credit exposure	**181,129**	**5,634**	**410,719**	**359,360**	**19,047**	**38,567**	**18,211**	**1,032,667**

At 31 December 2017	**Neither Past Due Nor Impaired**							
	ECAI Rating		**BLME Internal Rating**					
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade	Ungraded	Past due but not impaired	Individually Impaired	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	96,780	-	-	-	-	-	-	96,780
Due from financial institutions	14,787	-	3,700	10,057	-	-	-	28,544
Due from customers	-	-	9,027	-	-	-	-	9,027
Investment securities								
Available for sale								
Government debt securities	31,712	-	-	-	-	-	-	31,712
Other Investment securities	73,170	-	-	973	-	-	-	74,143
Investment Hold to Maturity (HTM)								
Government debt securities	3,718	5,357	-	-	-	-	-	9,075
Other Investment securities	-	-	-	-	-	-	-	-
Financing arrangements	4,762	-	301,908	184,127	12,141	40,256	24,626	567,820
Finance lease receivables	10,157	-	63,856	75,975	4,461	479	15,618	170,546
Other assets (Foreign exchange forward deals)	-	-	-	-	-	-	-	-
Total credit exposure	**235,086**	**5,357**	**378,491**	**271,132**	**16,602**	**40,735**	**40,244**	**987,647**

The Group’s cash balances, amounts due from financial institutions and investment securities were neither past due nor impaired as at 30 June 2018 and 31 December 2017.

v. Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	At 30 June 2018	At 31 December 2017	At 30 June 2018	At 31 December 2017
	£000	£000	£000	£000
Neither past due nor impaired	606,766	512,496	219,614	157,639
Past due but not impaired	37,159	40,256	1,408	479
Gross exposure associated with impairment provision	13,927	24,626	4,284	15,618
Less: allowance for impairments	(8,287)	(9,558)	(948)	(3,190)
Total	**649,565**	**567,820**	**224,358**	**170,546**
Past due but not impaired	**£000**	**£000**	**£000**	**£000**
Past due up to 30 days	16,710	-	1,377	367
Past due 30 to 60 days	-	374	10	33
Past due 60 to 90 days	106	34,659	10	33
Past due over 90 days	20,343	5,222	11	46
Total	**37,159**	**40,255**	**1,408**	**479**

The past due but not impaired balances as at 30 June 2018 include £37 million (31 December 2017: £39.2 million) relating to three real estate transactions (31 December 2017: two) where the facility balances are lower than the collateral values. An analysis of impairments is provided in Note 8 “Impairment of financial assets”.

vi. Fair value of financial assets and liabilities

We have not identified any material movements between fair value and carrying value for our assets.

vii. Valuation of financial instruments

Level 1: Valuation is based upon quoted market price in an active market for an identical instrument.
Level 2: Valuation techniques are primarily based upon observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
Level 3: Valuation techniques using significant unobservable inputs.

Further detail on the Group’s fair value measurement techniques can be found in Note 3b of the Group’s annual financial statements for the year ended 31 December 2017.

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

At 30 June 2018	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment securities	96,565	-	786	97,351
Foreign exchange forward deals (asset)	-	1,180	-	1,180
Foreign exchange forward deals (liabilities)	-	509	-	509
Profit rate swaps liability	-	343	-	343

At 31 December 2017	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment securities	104,882	-	973	105,855
Foreign exchange forward deals (assets)	-	-	-	-
Foreign exchange forward deals (liabilities)	-	982	-	982
Profit rate swaps liability	-	636	-	636

During the six month period ended 30 June 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

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.

Investment securities	6 months to 30 June 2018	Year to 31 December 2017
	£000	£000
Balance at 1 January	973	3,170
Total gains /(losses) recognised in:		
- profit or loss*	(187)	(1,770)
- other comprehensive (expense) / income **	-	(427)
Purchases	-	-
Sales	-	-
Balance at period end	**786**	**973**

** This amount is included in "net investment income/(loss)" in the income statement*
*** This amount is included in "Net gain/(losses) on financial assets measured at FVOCI" in the statement of comprehensive income*

For the fair values of FVOCI 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:

				30 June 2018
	Income statement		Other comprehensive income	
	Increase	Decrease	Increase	Decrease
	£000	£000	£000	£000
Valuation adjustment +30%	-	-	236	-
Valuation adjustment -30%	-	(51)	-	(287)

				30 June 2017
	Income statement		Other comprehensive income	
	Increase	Decrease	Increase	Decrease
	£000	£000	£000	£000
Valuation adjustment +30%	-	-	788	-
Valuation adjustment -30%	-	(497)	-	(292)

viii. Financial assets and financial liabilities

Financial assets and financial liabilities comprise cash and cash equivalents, amounts due from / to financial institutions and customers, investment securities, financing arrangements, finance lease receivables and certain Sharia'a compliant derivative financial instruments.

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. Liquidity risk also includes the funding concentration risk which is the risk associated to the dependence on a single or limited number of counterparties to provide funding for the Group activities.

i. Residual contractual maturities of financial assets

At 30 June 2018	Less than 1 month	1-3 months	3 - 12 months	1-5 years	5+ years	Total
	£000	£000	£000	£000	£000	£000
Cash and balances with banks	22,152	-	-	-	-	22,152
Due from financial institutions	11,370	10,090	7,920	-	-	29,380
Due from customers	9,050	-	-	-	-	9,050
Investment securities	1,289	670	38,496	56,168	5,917	102,540
Financing arrangements	350,185	155,509	73,184	84,117	-	662,995
Finance lease receivables	7,424	16,727	69,445	141,971	6,033	241,600
Other assets (Foreign exchange forward deals)	603	298	279	-	-	1,180
	402,073	**183,294**	**189,324**	**282,256**	**11,950**	**1,068,897**

At 31 December 2017	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Cash and balances with banks	96,780	-	-	-	-	96,780
Due from financial institutions	18,489	-	10,090	-	-	28,579
Due from customers	9,042	-	-	-	-	9,042
Investment securities	1,966	745	19,506	93,924	5,498	121,639
Financing arrangements	327,360	131,351	37,034	83,455	-	579,200
Finance lease receivables	12,941	16,151	52,524	95,615	6,547	183,778
Other assets (Foreign exchange forward deals)	-	-	-	-	-	-
	466,578	**148,247**	**119,154**	**272,994**	**12,045**	**1,019,018**

The tables above show the contractual, undiscounted cash flows of the Group's financial assets.

None of the Group's assets have been pledged as collateral apart from cash collateral deposits of £0.05 million (31 December 2017: £0.5 million) pledged as security against rental payments on the Group's premises.

ii. Residual contractual maturities of financial liabilities

At 30 June 2018	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Due to financial institutions	59,382	77,691	305,096	74,342	-	516,511
Due to customers	34,877	33,116	149,790	117,912	2,273	337,968
Profit rate swaps	-	-	(75)	418	-	343
Other liabilities (Foreign exchange forward deals)	39	218	252	-	-	509
	94,298	**111,025**	**455,063**	**192,672**	**2,273**	**855,331**

At 31 December 2017	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Due to financial institutions	138,025	143,186	236,654	-	-	517,865
Due to customers	31,712	10,662	130,261	114,816	1,808	289,259
Profit rate swaps	-	-	-	636	-	636
Other liabilities (Foreign exchange forward deals)	752	259	(29)	-	-	982
	170,489	**154,107**	**366,886**	**115,452**	**1,808**	**808,742**

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 BIPRU rules

– of £96 million as at 30 June 2018 (31 December 2017: £91.1 million). These LAB holdings have been greater than the regulatory liquidity requirement throughout the period.

c. Market risks

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

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 30 June 2018, 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 £15,396 (31 December 2017: £7,951). 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 30 June 2018		At 30 June 2017		At 31 December 2017	
	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000
Increase in profit & loss	3,186	-	-	816	4,153	-
Decrease in profit & loss	-	2,968	258	-	-	3,761
Increase in equity	3,300	-	218	347	3,983	-
Decrease in equity	-	3,067	-	-	-	3,579

ii. Foreign exchange risk

Foreign exchange risk is the risk that the value of 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 30 June 2018 £000	At 31 December 2017 £000
Resultant FX revaluation gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	53	30

	6 months to 30 June 2018 £000	6 months to 30 June 2017 £000
Net foreign exchange gain/ (loss) for the period	(647)	1,032

iii. Equity price risk

Equity prices are monitored by the Group's Assets and Liabilities Committee ("ALCO") 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 £6.2 million using the Basic Indicator Approach (2017: £7 million) (unaudited).

e. Capital risk

Capital risk is the risk that low risk adjusted returns or stress events reduce the Bank's profitability, which result in a reduction in available capital. This could potentially lead to a breach in the Bank's regulatory capital requirements. Capital adequacy and capital risk was assessed during the 2018 ICAAP process, which showed BLME's internal assessment of capital requirements was sufficient to cover the capital requirements set by the Prudential Regulation Authority ("PRA").

At 30 June 2018 and throughout the period BLME complied with the capital requirements that were in force as set out by the PRA.

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 III (the Pillar 3 disclosures) which can be found in the Investor Relations section of the BLME website www.blme.com.

21. INTERIM REPORT AND STATUTORY ACCOUNTS

The information in this interim report is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This interim report was approved by the Board of Directors on 22 August 2018. The statutory accounts for the year ended 31 December 2017 have been delivered to the Registrar of Companies for England and Wales in accordance with section 446 of the Companies Act 2006.

GLOSSARY OF ABBREVIATIONS

This is complete glossary of the abbreviations used in 31 December 2017 year-end financial statements and for the half year ended 30 June 2018 condensed financial statements.

AC	Amortised Cost
AED	Arab Emirate Dirham
AFS	Available-for-Sale
AGM	Annual General Meeting
ALCO	Assets & Liabilities Committee
AML	Anti-Money Laundering
ARU	Asset Recovery Unit
ASOP	Approved Share Option Plan
Basel	Basel Accord or Basel Standards
BCC	Board Credit Committee
BLME	Bank of London and The Middle East plc
BLMEH	BLME Holdings plc
BREEAM	Building Research Establishment Environmental Assessment Method
BRC	Board Risk Committee
CCR	Counterparty Credit Risk
CCRC	Counterparty Credit Risk Committee
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CGs	Commercial Guidelines
CIC	Change Implementation Committee
COO	Chief Operating Officer
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer
DABS	Deferred Annual Bonus Scheme
DFSA	Dubai Financial Services Authority
DCF	Discounted cash flow
DIFC	Dubai International Finance Centre
DIPs	Deferred Incentive Planned Scheme
DVP	Delivery versus payment
EBT	Employee Benefit Trust
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EPS	Earnings Per Share
ERC	Executive Risk Committee
EU	European Union
EXCO	Executive Committee
EY	Ernst & Young LLP
FCA	Financial Conduct Authority
FLR	Finance loss review
FRC	Financial Reporting Council
FVOCI	Fair Value Through Other Comprehensive Income
FVPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GCC	Gulf Cooperation Council
GDPR	General Data Protection Regulation
HTM	Held to Maturity
IAS	International Accounting Standard
IASB	International Accounting Standard Board
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRIC	International Financial Reporting Interpretations Committee of the IASB

IFRS	International Financial Reporting Standard
ILAAP	Individual Liquidity Adequacy Assessment Process
INED	Independent Non-executive Director
ISA	International Standards on Auditing
KYC	Know Your Customers
LAB	Liquid Asset Buffer
LGD	Loss Given Default
LLP	Limited Liability Partnership
LOD	Lines of Defence
LTECL	Long term expected credit loss
MBA	Master of Business Administration
MCOBs	Mortgage and Home Finance Conduct of Business rules
MENA	Middle East and North Africa
MIFID	Markets in Financial Instruments Directive
MLRO	Money Laundering Reporting Officer
NCI	Non-Controlling Interest
NEDs	Non-executive Directors
NPF	Non-performing finance
OCI	Other Comprehensive Income
ORC	Operational Risk Committee
PC	Product Committee
PD	Probability of default
PDA	Premier Deposit Account
PIFSS	Public Institution for Social Security
POCI	Purchase or credit impaired
PRA	Prudential Regulation Authority
PRR	Position Risk Requirement
PRS	Profit Rate Swap
PVO1	Present Value to 1 basis point
RMF	Risk Management Framework
RRP	Recovery Resolution Plan
RSCA	Risk Control Self-Assessment
SE	Structured Entities
SIC	Standard Interpretations Committee of the IASB
SICAV	Société d'Investissement À Capital Variable
SID	Senior Independent Director
SIF	Special Investment Fund
SM&CR	Senior Managers and Certification Regime
SMR	Senior Managers Regime
SPPY	Solely payment of principal and yield
SSB	Sharia'a Supervisory Board
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
USOP	Unapproved Share Option Plan
WMIC	Wealth Management Investment Committee

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.

GLOSSARY OF ISLAMIC FINANCE TERMINOLOGY

Murabaha	A Murabaha contract is a deferred sale of goods in 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 often benchmarked against 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 share of the yield.
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.
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 by a producer 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 a Structured Entity (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 asset 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 transaction it enters into except in cases where it misappropriates any funds.
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 underlying 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.
Zakat	Zakat is an a legitimate obligation to donate a proportion on certain kinds of wealth each year to certain deserving classes of recipients prescribed for in accordance with the principles of Sharia'a. The purpose of zakat is to make society coherent so that the rich feel the suffering of the poor and the needy in society. Zakat is paid by Muslims who have wealth above a certain threshold. Zakat is paid on "shares" and shareholders of BLME are responsible for paying zakat on their shareholding.
Fatwa	Islamic law given by a recognised authority.

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