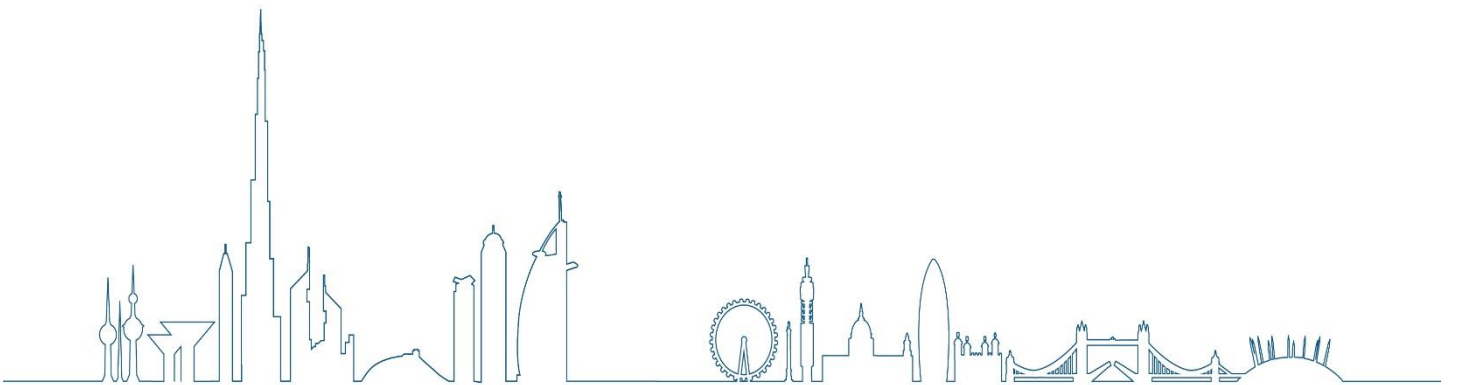


blme

بنك لندن والشرق الأوسط
Bank of London & The Middle East

Bank of London and The Middle East plc
Annual Report and Financial Statements
For the year ended 31 December 2021
Registered number 05897786



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Naming convention and abbreviations:

The expression "the Company" or "BLME" or "the Bank" refers to Bank of London and The Middle East plc which is the principal subsidiary of BLME Holdings Limited ("the Group" or "the Parent Company"). The name of the fellow subsidiary undertaking, Walbrook Asset Finance Limited is shortened to "WAF" or Walbrook."

STRATEGIC REPORT

THE BUSINESS MODEL

The Bank of London and The Middle East plc (the “Bank” or “BLME”) is one of the largest Islamic banks in Europe. BLME aims to become the leading UK provider of Wealth Management solutions to GCC clients, complemented by its market-leading Real Estate Finance services. BLME operates under the ethical principles of Islamic finance. The Bank is authorised by the Prudential Regulatory Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA).

In February 2020, Boubyan Bank (“Boubyan”) successfully increased their stake in BLME Holdings plc to 71.08%. Boubyan has been the largest shareholder since the Bank launched in 2006 with active representation on the Boards of BLME and the Parent Company. The Bank is working closely with Boubyan to exploit the opportunities and synergies this change in ownership brings. The Bank will seek to benefit from Boubyan’s expertise in technology and systems, as well as enhanced client collaboration to bring our products and services to a wider audience across their franchise and build capability and offer products to customers using digital channels.

COVID-19

During 2021, COVID-19 continued to spread, with unexpectedly high spikes in the latter part of the year because of the spread of the Omicron variant. The Bank mobilised decisively to follow Government guidance and successfully implemented remote working as part of its overall business continuity planning - protecting staff and increasing the resilience of the Company. The response from all the team throughout has continued to be impressive.

Not only did our business contingency systems and processes work quickly and well, but we came together to support our clients and each other at a time of considerable uncertainty. Clients have continued to receive excellent service with the impact of the pandemic on service provision being extremely limited. This is a performance of which BLME can be proud, with excellent commitment and collaboration demonstrated across the Company.

BLME’s employees maintained remote working, adhering to the guidelines whilst ensuring that the needs of our clients and the safety of our people remain paramount in our planning. Despite the continuing phases of tiers and lockdowns, morale remains high throughout the Company. We remain focused on the welfare of our people, mindful of the stresses and strains home working can bring. We provide regular communication and engagement with all team members, keeping them included and informed, and taking concrete steps to ensure their continued well-being.

Throughout the year, the Bank has communicated consistently throughout the pandemic about how its operations are affected and our support of the broader community. We have issued many communications to staff around COVID-19 support, outlining the Test and Trace system; and encouraging employees to get vaccinated.

The Bank has not received any support from the Government, has not participated in any of the Government subsidy or loan schemes, has not “furloughed” any staff and has successfully redeployed employees across the Bank to effectively resource and retain our people.

Current economy

Since the yearend there have been a number of macroeconomic events which continue to impact the Bank. Inflation rates are set to reach their highest levels for 40 years as a result of supply shortages as the Global population comes out of the COVID-19 pandemic, exasperated by the war between Russia and Ukraine. These supply shortages have seen supplier costs increasing which have been passed on to retail consumers. Central Banks have been attempting to mitigate inflationary measures by increasing interest rates, with the UK seeing the first increase in interest rates for three years in 2022, in an attempt to manage inflation. The Bank is managing interest rate increases in the short term and is reassessing the rates which will be passed on to customers over time.

Inflationary increases have led to an increase in salaries across the financial services sector and in turn a general increase in staff turnover. The Bank is still assessing the impact to recruitment and retention due to these external pressures but remains confident their competitive remuneration package and benefits will continue to attract and retain key staff.

Nomo

In July BLME launched Nomo, the world's first international Islamic digital banking business. Nomo provides customers in Kuwait and the UK with Sharia'a compliant digital banking via the Nomo app. Nomo will be a core pillar of the next phase of our strategic growth plan aimed at leveraging our digital capability with new products and services to support our customers' financial wellbeing.

Wealth Management

Wealth Management includes the complementary businesses of Private Banking and Real Estate. It provides deposit products, banking services, mortgages, residential and investment property finance targeted towards GCC-based High Net Worth individuals. Wealth Management is the main part of the BLME business that will seek to benefit from closer collaboration with the Boubyan franchise and business model. In 2022 BLME plans to open an office in the Kingdom of Saudi Arabia ('KSA') to help drive our Wealth Management initiative.

Our Private Banking team leverages our Real Estate capabilities to provide a range of solutions that meet the requirements of our High Net Worth Clients in the GCC. Our distribution capabilities in London are supported by our Dubai International Financial Centre ("DIFC") office which is a branch with a retail endorsement providing the perfect base to connect with our clients in the GCC and MENA region.

Real Estate remains the asset class of choice for GCC Wealth Management clients and our Real Estate Investments team offers Sharia'a-compliant investments through in-house capabilities or third parties.

Our Real Estate Finance team 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. Our Real Estate Finance business has strong links to our GCC clients with over a third of the portfolio having ultimate beneficial owners from the region.

Commercial Finance

During 2021 Commercial Finance included the Bank's leasing and specialist assets and syndications business units. This division provides competitive financing solutions to the UK mid-market and supports companies with links to the GCC region. Our clients operate across a variety of sectors and range in size from multinational corporations and family businesses generally earning a minimum operating profit of £1 million, down to UK SMEs requiring small-ticket lease finance. The facilities offered range in size from £25,000 to £20 million with our credit approval process centralised in the London office.

The migration of the leasing assets from the Bank to Walbrook Asset Finance Limited ("WAF" or "Walbrook") was completed by the end of 2021 and Walbrook now operates as a separate Group subsidiary of BLME Holdings Limited.

Unassociated with COVID-19, we made the strategic decision to commence the implementation of an orderly withdrawal from the specialist assets and syndications business unit during 2021.

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.

Despite several interruptions to global economic recovery brought about by COVID-19 variants Treasury continued to ensure liquidity remained readily available to the asset generating business units whilst at the same time also maintaining sound regulatory ratios.

The Fitch A credit rating obtained by BLME during 2021 has already served to provide the Bank with new avenues for sourcing liquidity. The rating has also enhanced existing institutional relationships, such as with those used for hedging longer-term market risks which will require particular attention through 2022 as global Central Banks address higher inflation rates.

2021 saw the welcome introduction of The Bank of England’s Alternative Liquidity Facility and will serve to function as BLME’s primary means of ensuring our stock of HQLA is better positioned to handle intra-day Sterling liquidity requirements.

Marketing

Despite the challenges arising from COVID-19, 2021 saw BLME win a substantial number of awards:

- Best Bank Savings Provider: Moneyfacts Awards
- Best Fixed Account Provider: Moneyfacts Awards
- Best Savings Provider: Savings Champion
- Best Benefits to Support Employees during the Pandemic - Small Employer: Employee Benefits Awards
- Most Innovative Islamic Current Account in the UK: Islamic Retail Banking Awards 2021

Further, BLME currently exercises its marketing across a range of marketing channels such as PR and social media, awards, and strategic alliances. With the new strategic focus on Nomo and Wealth Management, we have not yet upgraded our brand model to reflect this new direction.

Recognizing that BLME is now at the right point in its strategic change to develop this, we agreed to develop a new brand model. And so, the latter part of 2021 saw us go out to market to tender for and select ‘Chaos Design,’ an independent ‘Top 50 UK Creative Agency’ with 18 years’ experience in delivering integrated marketing, to drive this exercise for us in 2022.

STRATEGY AND OBJECTIVES

We are proud of our efforts in delivering steady operating performance. We continue to monitor and manage our costs closely. We want to create sustainable value for all of our stakeholders.

BLME works hard to align our core values with our strategic objectives to ensure that our employees operate in accordance with our risk appetite. Central to our values are the principles of Sharia’a and to support this we maintain a close relationship with our esteemed Sharia’a Supervisory Board. We are very grateful for the support, guidance and advice we receive from our Sharia’a Supervisory Board.

FINANCIAL RESULTS

The financial statements for the year ended 31 December 2021 are shown on pages 27 to 32. The loss after tax for the year amounted to £4.3 million (2020: profit after tax £0.9 million). Below are the highlights of the financial performance for the year and the position as of 31 December 2021.

Key performance indicators - £ million	2021	2020
(Loss) / profit after tax	(4.3)	0.9
Total operating income (excluding credit impairment losses)	33.8	36.8
Total operating expenses	28.5	28.8
Credit impairment losses	12.4	7.5

Total assets	1,549	1,743
Total regulatory capital	230	234

Other performance measures	2021	2020
Pre-tax return on equity	-3.1%	0.2%
Cost income ratio	84%	75%
Non-performing Financing Assets to overall Financial Assets	4.7%	3.4%
Number of depositors	19,722	19,935

SECTION 172(1) STATEMENT

Our Stakeholders

BLME has a diverse and wide range of stakeholders. A priority for the Bank is to positively engage with all our stakeholders ensuring that we maintain mutually beneficial relationships and fulfil our obligations from a regulatory, legal and social responsibility perspective.

BLME operates in a fully Sharia'a-compliant way. As such we do not put money in interest-bearing investments or the tobacco, alcohol or gambling industries. The Bank's engagement with its stakeholders as described below plays an important role in guiding strategy-related and general decision-making by the Board.

The Directors consider, both individually and collectively, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Bank for the benefit of its shareholders, but with regard to all its stakeholders and matters set out in s172 (a-f) of the UK Companies Act 2006. In particular:

Shareholders

The Bank's sole shareholder is BLME Holdings Limited ("the Group" or "the Parent Company"). As such, please refer to the Group's 2021 Annual Report for details on how the Directors engage with the shareholders of the Parent Company.

Customers

Our customers are central to all that we do and we work hard at being a customer-centric bank with customer outcomes a priority. Despite remote working for most of 2021, customers have continued to receive excellent service with the impact of the COVID-19 pandemic on service provision being extremely limited. Our Savings team continued to work remotely to support customers, and our Relationship Management teams remained in regular contact with our clients across our various lines of business. Throughout the year we frequently communicated with our clients about the need to be vigilant and to make them aware of the increased risk of financial scams brought about by the pandemic. Treating customers fairly has remained a major priority and in line with FCA guidance the Bank continued to react in a consistent and fair manner in consideration of customer payment deferral requests.

Suppliers

We rely on our suppliers to help BLME run smoothly, from day-to-day business to our future operations. In order to maintain beneficial and productive relationships with our suppliers BLME frequently reviews supplier relationships and applies rigorous due diligence requirements.

Employees

Our employees are central to our success, and we believe that if we make BLME a great place to work they will feel valued and perform to their highest potential. The Group has unreservedly taken significant steps to ensure our employees feel that they not only work in an open, straightforward, and collaborative environment, but that their

health and well-being is valued and supported. We continue to cultivate an inclusive and diverse workplace where staff are encouraged to act responsibly, take personal accountability, embrace change and put the client at the centre of our business.

BLME promotes a positive working environment where individuals and teams can thrive, and we have adapted this approach over the past year to ensure as much continuity as possible whilst employees work remotely. Group employees have continued access to a 'Well-being Hub' which provides free, confidential advice on healthy living with information and support on areas ranging from exercise and financial advice, through to Cognitive Behavioral Therapy.

We also held regular well-being initiatives such as stress-therapy massages (prior to remote working) and group exercise classes (that have continued throughout remote working) to promote healthy living. We have provided access to staff to have a remote workstation assessment with a qualified physiotherapist. And additionally, the Group provides annual health assessments, gym memberships and private medical insurance, and a number of employees also volunteer as BLME Mental Health First Aiders.

We encourage an open dialogue with our employees, including regular Group-wide question and answer sessions with the Executive Committee and bite-size information & training presentations from teams across the Group. Our appointed 'Conduct Champions' play an important role in raising awareness, communicating expectations and being a source of advice and guidance.

Our monthly staff meetings (or 'Majlis' as they are referred to within the business using an Arabic expression) offer the opportunity for employees to ask questions and submit suggestions as well as recognising colleagues who have embodied our values and collaborative culture into their work. And regular kitchen catch ups, our Isma'a external guest speaker series (Isma'a means to 'listen intently' in Arabic), and virtual social events have helped us keep in touch and keep our focus on promoting good conduct and culture.

We have a diverse workforce and celebrate that through marking cultural festivals and milestones.

Throughout 2021, we issued many internal communications about wellbeing: encouraging employees to take rest breaks and raising awareness about relevant mental health conditions. We asked Conrad Humphreys to speak to our employees about resilience and coping with isolation from his experiences as a British professional yachtsman. We promoted Mental Health Awareness Week in 10-16 May 2021; and in October we hosted an Isma'a session with former England international cricketer, Steve Harmison, who had suffered from depression, in support of World Mental Health Day on 10th October.

In our Employee Engagement Survey 2021 our colleagues' scores produced an Employee Engagement Index of 80%, keeping BLME in the top tier of peer firms. This is despite the intense demands of the strategic work programme during 2021 and the continued challenges of remote working due to the pandemic. 88% of employees surveyed are proud to work for BLME and 76% would recommend it as a great place to work with both scores above the upper quartile external benchmark.

Communities and the Environment

We support operating in a socially responsible manner, and recognise our social, civic, economic, and environmental responsibilities. Our role and positive impact in the community is important to the Group and our stakeholders, and we support building a Corporate Social Responsibility ("CSR") programme that drives positive change for individuals and for society.

Employees at all levels of the Bank are expected to operate in an economically, socially, and environmentally sustainable manner, whilst upholding the Group's values and Sharia'a compliance. We support our employees to volunteer with and raise funds for local communities and charitable causes and, as a bank, we partner with many charities every year.

Over 2021, significant effort has been made in progressing BLME's ESG positioning and messaging to formulate a set of ESG policies and pledges, which have since been published on the BLME website and publicised on BLME's various social media channels.

Regarding our diversity program, we supported the female community via IWD (International Women's Day) 2021, an annual event that celebrates women's achievement and educates on related bias which took place on 8 March. And further, by becoming signatories of the Treasury's Women in Finance Charter, an initiative committed to building a balanced and fair financial services industry.

Our key CSR achievements in 2021 involved collaboration with a broad range of third sector partners: SEO London, WildHearts Group, Change Please, Fat Macy's, Harry Specters, From Babies with Love, Aspiring Heads, Little Gate Farm, Victim Support; and more specifically via the following projects.

A small group of employees also volunteered their time to provide mentorship to students in conjunction with Future Frontiers and SEO London.

In October, in association with Black History Month, we teamed up with Aspiring Heads, a social enterprise created to address the racial disparities in senior leadership within education in the UK.

Also in October, five BLME runners participated in the Royal Parks Half Marathon, in aid of Maggie's Charity, which offers emotional support to people with cancer.

In November our colleagues supported Wrap Up London, which brings together hundreds of volunteers and thousands of other Londoners, who give up their time to donate, receive, sort, and distribute warm coats and distributes them to over a hundred frontline charities, including homelessness organisations, refuges, and family centres.

In December, 18 employees ran 5km through the City of London to raise money for Victim Support as part of the Santa in the City charity run.

In 2021 overall, we demonstrated support for the following CSR organisations and initiatives across our social media platforms, with the intention of encouraging and inspiring other businesses to consider the support they can give: Aspiring Heads, World Mental Health Day, UK Black History Month, National Inclusion Week, International Week of Happiness at Work, Mental Health Awareness Week, Harry Specters (a social enterprise and chocolate company training people with autism), International Women's Day, our internal Virtual Leaders' Lunch, Take Five cybercrime awareness, COP26, Victim Support, Little Gate Farm, Women in Finance Charter, Cyber Security Awareness Month, our own 'Operation Work Well From Home', and the work of From Babies with Love.

OTHER NON-FINANCIAL INFORMATION

Funding

BLME focuses effort to operate within our market and liquidity risk appetite and reviewing funding sources will remain a priority for BLME. We have enhanced our website, responded flexibly to rate changes and remained focused on the

customer experience. We have also built relationships with targeted providers that offer our savings product and manage the application process meaning that we can obtain funds more efficiently.

Conduct Risk

Conduct Risk is a significant risk for all organisations and one which BLME takes very seriously. All staff at BLME receive annual training on conduct alongside regular communication and internal blogs about building a culture based on our values and good conduct.

BLME has appointed Conduct Champions from the front-office business areas who are responsible for overseeing the Bank's approach to conduct and communicating what good conduct looks like and highlighting conduct risk.

Our PROUD values (see Glossary of abbreviations for further information) are central in guiding good conduct and providing a clear purpose to everyone at the Bank. These values are incorporated into all aspects of our operations from recruitment to training. We recognise good conduct that is aligned with our values with awards.

Financial Crime and Anti-Corruption and Anti-Bribery

BLME has heavily invested in building a robust financial crime risk management function with supporting policies and processes alongside regular financial crime training and communications.

All BLME staff including Board members receive annual training on anti-corruption and anti-bribery matters. BLME's core financial crime policies are the Anti-Bribery and Corruption Policy, the Fraud Prevention Policy and Anti-Money Laundering, Counter Terrorism Financing and Sanctions Policy.

We have also invited specialist speakers to BLME ranging from a reformed fraudster to an ethical hacker/ social engineer, who have covered topics including money laundering, cyber-crime and financial crime. These provide our staff with context regarding the risks and examples of real-life experiences. In addition we had two separate guest speakers on the topics of Diversity and Mental Health/Resilience which positively contributes to an open and inclusive culture and we believe ensures our employees feel informed and engaged, thus further protecting our operations from risk.

Human Rights

BLME is a wholly Sharia'a-compliant bank. Accordingly, we value traditional finance principles, and strive to be straightforward, competitive and prudent. We are committed to acting ethically in all our business relationships, as well as complying at all times with laws and regulations applicable to us.

We are committed to ensuring that our supply chain is free from the practice or modern slavery and human trafficking. All current and future relationships with our Suppliers will be managed with this commitment in mind, and we will not knowingly do business with any third party guilty of such practices. Further, we have put in place the appropriate key performance indicators to manage this risk.

Our full statement on modern slavery can be found on our website, pursuant to section 54 of the Modern Slavery Act 2015.

Whistleblowing

The Bank has a Whistleblowing Policy. A whistleblower is a person who raises a genuine concern related to suspected wrongdoing or dangers at work. We support staff who have genuine concerns related to suspected wrongdoing or danger affecting any of BLME's activities to report their concerns to our whistleblowing champion.

PRINCIPAL RISKS AND UNCERTAINTIES

The Bank's principal risks and uncertainties have been highlighted and discussed in detail in Note 37. The impact of other external factors impacting the economy have been discussed in the Directors' report.

RUSSIAN INVASION OF UKRAINE

Following Russia's invasion of Ukraine in February 2022 and the global sanction updates against Russian individuals, entities and financial institutions, the Bank conducted a full review of its client base to identify any relevant relationships. The Bank has no relationships with sanctioned Russian individuals, entities and financial institutions and has no direct credit exposure to Russia or Ukraine.

The Bank has briefed its staff regarding the need for heightened awareness of cyber security threats. The broader consequences of the impact of the war on global markets and economies over the short and medium term remain unclear but currently BLME is not experiencing any significant adverse business impacts.

FUTURE

The completion of the transfer of the lease finance business to Walbrook during 2021 will allow the Bank to focus on delivery of our strategy to focus on wealth management and real estate.

We have a strong team that is fully aligned with our goals and who drive the positive culture and success of the Bank. I want to thank them for their commitment and resilience in 2021. 2022 will be a period of strategic change and the launch of the KSA subsidiary and the continued roll out of Nomo will be key challenges and opportunities.

I would also like to thank the Chairman and the Board for their support. I also look forward to building on our success with the support of Boubyan Bank.

On behalf of the Board

Andrew Ball
Chief Executive Officer
24 June 2022

DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2021.

Principal activities

Bank of London and The Middle East plc ("the Bank" or "BLME") was originally incorporated on 7 August 2006 as United House of Britain plc in the United Kingdom and received FSA authorisation to launch and start trading as a bank in the City of London on 5 July 2007.

BLME is a wholly Sharia'a-compliant bank authorised by the UK's Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. The Bank provides a range of Sharia'a-compliant banking services to businesses and individuals with a strong focus on the UK and the Middle East. The Bank operates a branch in Dubai at the Dubai International Financial Centre (DIFC). The branch has been fully operational since 2018 and in 2019 obtained a retail endorsement. The team continue to build the Bank's brand in the region. BLME Holdings Limited is the parent company of BLME. This was effected pursuant to a Scheme of Arrangement in 2013 which is explained in more detail in Note 33. The results for the year are discussed further in the Bank's strategic report.

Financial results and dividends

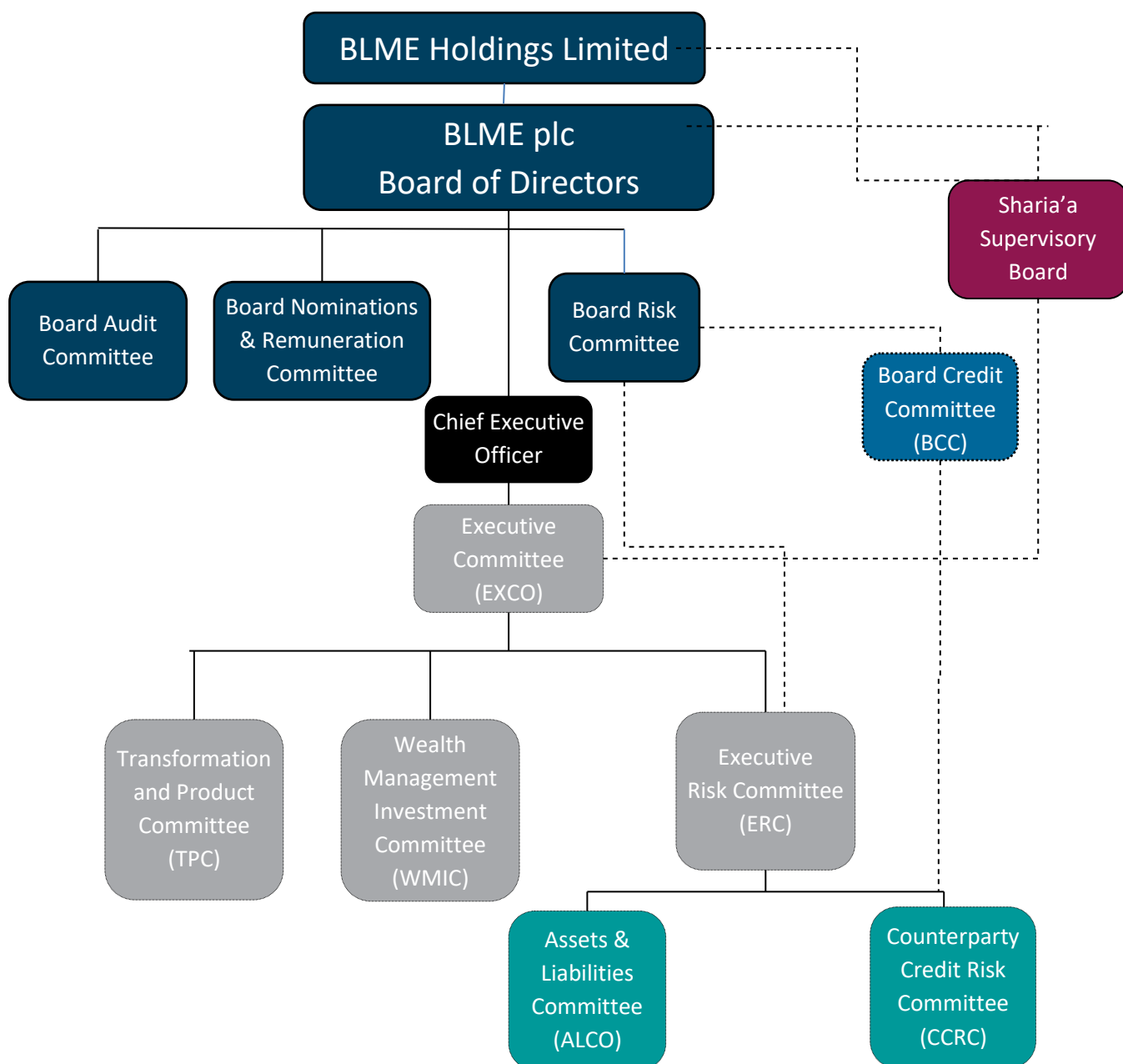
The financial statements for the year ended 31 December 2021 are shown on pages 27 to 32. The Bank's loss after tax for the year amounted to £4.3 million (2020: profit after tax £0.9 million). The Directors do not recommend the payment of a dividend for the year ended 31 December 2021. The results for the year are discussed further in the Bank's strategic report.

The Bank partially sold down its investment in Waterfront Holdings Limited during the year by 4% resulting in a remaining equity investment of 10% (see Notes 29 and 30). In addition, the Bank partially sold down its investment in AQ1 Limited during the year by 4% resulting in a remaining investment of 84%, whilst its investment in Aspenway Limited remains unchanged at 56% (see Note 34).

Corporate governance

The Board considers that good corporate governance is central to achieving the Bank's objectives. To this end, the Board has established a governance framework that sets out procedures, policies and practices that are required by law, regulation and/or best practice guidelines. The framework is also used to determine risk appetite in line with the Bank's defined strategic objectives. Risk appetite adherence is monitored through a formalised process of risk identification, control assessment and performance monitoring. Board and executive committee structures have been implemented, together with clearly defined roles and responsibilities for both the individuals and the committees. These committees oversee the activities of the Bank and help ensure controls are operating as designed. These structures, including individual department business plans, ensure that appropriate financial and human resources are in place to deliver the Bank's strategic objectives. Policies and behavioral standards have been established and reiterated to all staff through regular training programmes, including anti-money laundering and financial crime, the UK Bribery Act, conflicts of interest and treating customers fairly.

Governance structure



BLME Holdings Limited and Bank of London and The Middle East plc (“BLME plc”) operate with mirror image main Board Committees.

For further details on the composition and operation of these Board committees please refer to the Corporate Governance report in the BLME Holdings Limited 2021 Annual Report.

On 28 April 2021 Michael Williams retired from the Board in order to follow best practice independence rules having reached nine years’ service. At the same time Abdul-Salam Mohammed Al Saleh was appointed as Deputy Chairman. Abdullah Al Tuwaijri joined the Board as a Non-Executive Director in June 2021. Abdullah is the CEO – Private, Consumer & Digital Banking at Boubyan Bank and brings over 30 years of banking experience to BLME.

In light of the “comply or explain” corporate governance best practice guidance in the UK that an independent Chair of a board should not serve on a board for more than nine years, the Nominations and Remuneration Committee considered the Bank’s circumstances and made a recommendation to the Board that retaining the services of Adel Abdul Wahab Al-Majed as the non-independent Chair past his nine-year service anniversary in December 2021 would be in the best interest of the Bank.

This recommendation took account of the substantive ongoing strategic change, including the launch of a digital banking business unit and expansion into the GCC, the recent change in ownership of the parent company and also the ongoing COVID-19 pandemic. The Board accepted the Committee's recommendation and accordingly Mr. Al-Majed was retained as Chair of the Board of the Bank for the short to medium term with the position to be reviewed annually.

Directors

The Directors who held office during the year, and their committee memberships and functions as of 31 December 2021, were as follows:

Name and Board/Committee Chairmanships (as of 31 December 2021)	Date of Appointment	Date of Resignation	Board Committee Memberships (as of 31 December 2021)
Adel Abdul Wahab Al-Majed <i>Chair of the Board</i>	6 December 2012		
Abdul-Salam Mohammed Al Saleh <i>Deputy Chair of the Board</i>	26 June 2020		Nominations and Remuneration Credit
Andrew Ball <i>Chief Executive Officer</i>	11 December 2020		Executive
Chris Power Chief Financial Officer and Chief Operating Officer	26 September 2016		Executive
David Williams (Independent) <i>Chair of the Board Risk Committee</i>	15 October 2015		Risk Nominations and Remuneration Credit
Jabra Ghandour	25 March 2016		Audit Credit
Calum Thomson (Independent) <i>Chair of the Audit Committee</i>	1 April 2017		Audit Risk Nominations and Remuneration Credit
Joanne Hindle (Independent) <i>Chair of the Nominations and Remuneration Committee</i>	1 July 2018		Nominations and Remuneration Audit Risk Credit
Bader Abdullah Al Kandari	20 March 2019		Risk
Maged Fanous	23 March 2020		Risk Credit
Abdullah Abdulkareem Al Tuwaijri	18 June 2021		Audit Nominations and Remuneration
Michael Williams (Independent)	2 March 2012	28 April 2021	N/A

In accordance with the Articles of Association of the Company, Adel Abdul Wahab Al-Majed, Chris Power and Calum Thomson are subject to retirement by rotation at the next Annual General Meeting. They will retire by rotation and offer themselves for re-appointment at the 2022 Annual General Meeting.

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

Sharia'a Supervisory Board members

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

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

Financial Risk Management

The Bank has exposure to the following risk categories:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk (including conduct and cyber risk)
- Capital risk

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

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank established a project to manage the transition for those contracts affected. BLME has now successfully transitioned all legacy GBP LIBOR borrowers to Bank of England Bank Rate. BLME placed great importance on communicating these important changes with its borrowers throughout 2021, as well as updating the corporate website which ultimately ensured no objections to the transition from LIBOR were received from our customers.

Having already incorporated use of Bank of England Bank Rate, BLME is now working towards including additional alternative Risk-Free Reference Rates such as Term SONIA into our systems.

Political contributions

The Bank made no political contributions during the year (2020: £nil).

Climate change risk

Please refer to the Directors Report in the BLME Holdings Limited 2021 Annual Report for details on climate change risk.

Carbon reporting

Please refer to the Directors Report in the BLME Holdings Limited 2021 Annual Report for details on carbon emissions reporting under the Streamlined Energy and Carbon Reporting (SECR) framework requirements that were introduced by the UK Government for accounting periods beginning on or after 1 April 2019.

Future developments

The business strategy and prospects for future financial years are included in the Strategic Report on pages 3 to 10. The material business risks are set out in Note 37 from page 83.

Going concern

The Directors have reviewed the business activities and financial position of the Bank and have a reasonable expectation that it has adequate resources to continue in operational existence until 30 June 2023. In making this assessment the Directors have considered a wide range of information about the current and future condition of the Bank including the strategic direction, activities and risks that affect the financial position. This review included an assessment of the impact of the COVID-19 pandemic on the Group's financial statements, liquidity and capital positions, inflation rates in the UK and further macroeconomic conditions including the Russia/Ukraine conflict and subsequent sanctions and the impact of climate change. More information regarding this aspect of the review is outlined in Note 2 (c) on pages 33 and 34.

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

Disclosure of information to auditor

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

Auditor

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

By order of the Board

Peter Bulkeley
Company Secretary
24 June 2022

SHARIA'A SUPERVISORY BOARD REPORT

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

To the Shareholders of Bank of London and The Middle East plc

Assalamu Alaikum wa Rahmat Allah wa Barakatuh.

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

We, the Sharia'a Supervisory Board of BLME have reviewed and monitored the operations, agreements and transactions conducted by BLME through its offices in England and in the Dubai International Financial Centre during the period 1 January 2021 to 31 December 2021 and have reviewed the BLME Annual Report and Accounts for the year ended 31 December 2021. We conducted our reviews to form an opinion as to whether BLME has complied with the principles of the Sharia'a and with specific fatwa rulings and guidelines issued by the Sharia'a Supervisory Board.

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

1. The operations, agreements and transactions entered into and conducted by BLME through its offices in England and in the Dubai International Financial Centre during the year 1 January 2021 to 31 December 2021 and which were reviewed by the Sharia'a Supervisory Board are in compliance with the principles of the Sharia'a.
2. The distribution of profits and the sharing of losses in terms of the investment accounts at BLME are in compliance with the principles of the Sharia'a.
3. All profits generated by BLME during the year 1 January 2021 to 31 December 2021 has been derived from Sharia'a-compliant sources.
4. The Sharia'a Supervisory Board has reviewed all income received from non Sharia'a-compliant sources during the year 1 January 2021 to 31 December 2021 and will oversee BLME's dealings in the disposal of this income in a Sharia'a-compliant manner.

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

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

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

Signed on behalf of the Sharia'a Supervisory Board of Bank of London and The Middle East plc

Sheikh Dr. Abdulaziz Al-Qassar

Chairman

24 June 2022

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In respect of the annual report and financial statements

The Directors are responsible for preparing the annual report and the financial statements in accordance with applicable United Kingdom laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company's financial statements in accordance with UK adopted international accounting standards. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the company financial position and financial performance;
- in respect of the Company's financial statements state whether international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is appropriate to presume that the Company will not continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report and directors' report that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website.

INDEPENDENT AUDITOR'S REPORT

To the members of Bank of London and The Middle East plc

Opinion

We have audited the financial statements of Bank of London and the Middle East plc (the "Bank") for the year ended 31 December 2021 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash flows and the Statement of Changes in Equity and the related notes 1 to 37, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards.

In our opinion, the financial statements:

- give a true and fair view of the company's affairs as at 31 December 2021 and of its loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the Bank's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Bank's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment.
- We obtained management's going concern assessment, for the going concern period which covers a year from the date of signing this audit opinion, 30 June 2023. Within this, the Bank has modelled a number of adverse scenarios in their cash forecasts in order to incorporate unexpected changes to the forecasted liquidity and capital of the Bank.
- We have tested the factors and assumptions included in each modelled scenario for the cash forecast and we have tested the impact of Covid-19 included in each forecasted scenario. We considered the appropriateness of the methods used to calculate the cash forecasts and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriately sophisticated to be able to make an assessment for the entity.
- We reviewed management's reverse stress testing in order to identify what factors would lead to the Bank utilising all liquidity or capital during the going concern period, including the plausibility of management actions available to mitigate the impact of the reverse stress test

- We considered the mitigating factors included in the cash flow forecasts that are within control of the Bank. This includes review of the Bank’s non-operating cash outflows and evaluating the Bank’s ability to control these outflows as mitigating actions if required.
- We assessed the Bank’s going concern disclosures in the Annual Report and Accounts to determine whether they were appropriate and in conformity with the reporting standards.

The results of the above procedures did not identify any changes to management’s going concern assessment. Management maintained a strong focus on liquidity and have recently updated their stress tests and reverse stress test.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank’s ability to continue as a going concern for the period to 30 June 2023 being 12 months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Bank’s ability to continue as a going concern.

Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"> • Improper recognition of income • Adequacy and appropriateness of the allowance for expected credit losses (ECL) under IFRS-9
Materiality	<ul style="list-style-type: none"> • Overall materiality of £2.3m which represents 1% of equity.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Bank. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Bank and effectiveness of controls, including controls and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

Climate change

There has been increasing interest from stakeholders as to how climate change will impact the Bank. The Bank has performed a climate-related risk assessment which is explained on page 14 in the climate change risk section, which form part of the ‘Other information’ rather than the audited financial statements. Our procedures on these disclosures consisted solely of considering whether they are materially inconsistent with the financial statements, or our knowledge obtained in the course of the audit, or otherwise appear to be materially misstated.

The Bank has determined that the climate risk would have immaterial impact on their financial statements in the short term but work on considering the longer-term risks and opportunities is ongoing as explained in note 37 on page 104. Our audit effort in considering climate change was focused on assessing whether the effects of potential

climate risks have been appropriately reflected by management in determining that the impact on the financial statements would be immaterial.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Improper revenue recognition)</p> <p>Income from financing and investing activities: £47.7 million (2020: £55.7 million).</p> <p>Income from fees and commissions: £0.7 million (2020 £1.8 million).</p> <p><i>Refer to the Accounting policies (page 36); and Note 5 of the Financial Statements (page 54).</i></p> <p>The key risks of improper recognition of income arises from:</p> <p>(i) Income recorded from financing and investing activities might not be complete and accurate, and</p> <p>(ii) Fees and commissions can require judgment as to the amount and timing of recognition.</p> <p>The risk level remains unchanged from 2020.</p>	<p>We took the following approach in response to the risk:</p> <ul style="list-style-type: none"> • Obtained an understanding of processes and controls related to revenue recognition and assessed the design and tested the operating effectiveness of the key controls with the assistance, where required, of EY IT audit professionals. • Performed analytical procedures to identify trends and corroborate movements not in line with our expectations. • Recalculated, on a sample basis, the EPR (“Effective Profit Rate”) income recognised across different product classes to ensure it has been calculated in accordance with the underlying transaction documentation and recorded in the appropriate accounting period. We have increased our standard sample sizes to correspond to the higher risk in this area. Our sample included those Property Finance deals where the EPR involved manual adjustments relating to the exit fee. • Agreed, on a sample basis, fees and commissions to supporting transaction documentation and vice versa, and also cash receipts. We have increased our standard sample sizes to correspond to the higher risk in this area. 	<p>We did not identify any evidence of material misstatement in the recognition of revenue, through our audit procedures performed. We have also tested the design and operating effectiveness of the revenue recognition controls, concluding them to be effective.</p> <p>Based on the procedures performed, we have no material findings to report.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<ul style="list-style-type: none"> Performed year end cut-off testing to ensure that revenue was recognised in the correct period. Tested supporting evidence for any adjustments to the accounting records that we have identified that have characteristics that could indicate unusual or inappropriate adjustments. 	
<p>Adequacy and appropriateness of the allowances for expected credit losses (ECL) under IFRS 9</p> <p>Financing arrangements</p> <p>2021: £800.3 million (ECL provision £15.3 million)</p> <p>2020: £819.2 million (ECL provision £14 million)</p> <p>Finance lease receivables</p> <p>2021: £42.8 million (ECL provision £0.06 million)</p> <p>2020: £207.3 million (ECL provision £1.3 million)</p> <p>Off balance sheet exposures</p> <p>2021: £79 million (ECL Provision £0.01 million)</p> <p>2020: £84 million (ECL Provision £0.01 million) Refer to the Accounting policies (page 38); and Note 14 of the Financial Statements (page 59).</p> <p>An allowance for expected credit losses (ECL) represents management's best estimate of the losses that will occur on the</p>	<p>We took the following approach in response to the risk:</p> <ul style="list-style-type: none"> Assessed the design and tested the operating effectiveness of controls within relevant processes focusing on model governance and credit monitoring of financial assets or liabilities, off balance sheet exposures, and ECL. Obtained an understanding of the Bank process for the onboarding (including KYC procedures) and assessed the design effectiveness and tested the operating effectiveness of the key controls. Understood the impact of customer concessions and relief measures on ECL. This included understanding new product terms, conditions and the related ECL impacts of government relief measures. Furthermore, we assessed factors such as collateral values, FTVs, arrears as per new payment structures, industry of the customer and also enquire with management of any potential indicators for increases in credit risk, in order to audit the correct staging. Reviewed the payment deferrals and ensured staging changes in line with Bank policy. Tested the data flow of the underlying records of the Bank's inputs into the 	<p>We challenged the ECL calculation processes and the key assumptions supporting the calculation and based on the result of the procedures performed by our risk modelling and economic advisory specialists, management adjusted weightings in the ECL model to reflect the current market conditions.</p> <p>We are satisfied that management's judgements are reasonable, and that the allowance for expected credit losses are adequate and appropriate.</p> <p>Based on the procedures performed, we have no material findings to report.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>existing exposures at a future date.</p> <p>Management have established a model to estimate the ECL for all stage 1 and stage 2 exposures.</p> <p>For stage 3 exposures that are held at amortised cost, management have performed individual impairment assessments to calculate appropriate ECL.</p> <p>We focussed our testing on financing arrangements, finance lease receivables and off-balance sheet exposures as these are the areas containing greater subjectivity and risk.</p> <p>Given the subjective nature of the calculation of ECL there is heightened risk that the timing and extent of these allowances could be subject to error or to management override.</p> <p>The risk level remains unchanged from 2020 except credit loss on undisclosed leases is no longer included within this key audit matter, because the balance is not material this year.</p>	<p>ECL model for completeness and accuracy.</p> <ul style="list-style-type: none"> • With the assistance of EY model specialists, assessed the ECL model used to calculate ECL for stages 1 and 2. This included analysing governance over the model, and the approach taken by the Bank to monitor inputs and outputs. • With the assistance of the EY economic advisory team, reviewed the ECL model's macroeconomic narratives to ensure they are reasonable given our knowledge of the Bank's portfolio, knowledge of significant macroeconomic events such as COVID-19 and Brexit, and the countries and the industries in which they have exposures. • Performed an overall assessment of the expected credit loss provision levels, by stage, to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices, and the macroeconomic environment. This included benchmarking to peers. • Performed credit file reviews of a sample of financing arrangements allocated as stages 1 and 2 to determine the reasonableness of the staging allocation and to seek to identify any significant increase in credit risk or indicators of impairment not identified by the Bank. We increased our standard sample size to respond to the higher risk in this area. • For assets in stage 3, tested the individual impairment and the evidence supporting the assumptions made by the Bank, by forming an independent view of collateral or exit values, cash flow assumptions, and exit strategies. To respond to the higher risk in this area we lowered our testing threshold. 	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<ul style="list-style-type: none"> • Reviewed the credit files, arrears report, exposures on the watch list, and, where appropriate, collateral arrangements and valuations, as well as publicly available information that we judged to be relevant, in order to corroborate the appropriateness and adequacy of the ECL, focusing on areas where significant estimation is involved. To respond to the higher risk in this area we lowered our testing threshold for items on the watchlist. • For a sample of receivables, ensured the collection of the post year-end payments being paid into the bank accounts of the Bank. • Understood the process followed by the Bank to identify and report impairments on the assets in the portfolio, including monitoring of credit risks and arrears, and ensured this was applied correctly to the portfolio. 	

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Bank to be £2.3 million (2020: £2.4 million), which is 1% (2020: 1%) of net assets. We believe that equity provides us with relevant basis comparing to profits or revenues, because the Bank's profitability is low relative to the balance sheet size, and also our expectation is that the main users of the financial statements, such as the Prudential Regulatory Authority and the immediate and ultimate parent Bank, view capital preservation as the key consideration .

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 50% (2020: 50%) of our planning materiality, namely £1.2m (2020: £1.2m). We have set performance materiality at this percentage due to the number of uncorrected audit differences in the prior year. We conclude that continuing to use the lower testing threshold this year is appropriate.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2020: £0.1m), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Bank and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are Companies Act 2006, Financial Services and Markets Act 2000, Financial Services Act 2012, Capital Requirements Regulation, Markets in Financial Instruments Directives and relevant Prudential Regulation Authority and Financial Conduct Authority regulations.
- We understood how Bank of England and Middle East plc is complying with those frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and UK regulatory bodies, reviewed minutes of the Board, the Executive Committee, the Audit Committee and the Board Risk Committee; and gained an understanding of the Bank's approach to governance demonstrated by the Board's approval of the Bank's risk management framework and governance framework and the internal controls processes.
- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by considering the controls that the Bank has established to address risks identified by the Bank, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance incentives and their potential to influence management to manage earnings.

- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of management, internal audit, and those responsible for legal and compliance matters; as well as focused testing as referred to in the Key Audit Matters section above. In addition, we performed procedures to test the clearance of significant reconciling items on key reconciliations; identify any significant items inappropriately held in suspense; and tested journal entries with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business.
- As the audit of banks requires specialised audit skills, the senior statutory auditor considered the experience and expertise of the audit team to ensure that the team had the appropriate competence and capabilities, and included the use of specialists where appropriate.
- We understood the nature of the Bank's regulatory permissions, its business activities and understood the regulatory control environment in which it operates.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at <https://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters we are required to address

- Following the recommendation from the audit committee we were appointed by the company on 19 May 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods.

The period of total uninterrupted engagement including previous renewals and reappointments is five years, covering the years ending 31 December 2017 to 31 December 2021.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Bank and we remain independent of the company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

*Kenneth Eglinton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
24 June 2022*

INCOME STATEMENT

For the year 1 January 2021 to 31 December 2021

	<i>Note</i>	2021 £000	2020 £000
Income			
Income from financing and investing activities	<i>5a</i>	47,649	55,718
Returns to financial institutions and customers	<i>6</i>	(17,678)	(26,230)
Net margin		29,971	29,488
Fee and commission income	<i>5b</i>	665	1,778
Fee and commission expense	<i>7</i>	(2,417)	(5,175)
Net fee and commission income		(1,752)	(3,397)
Net investment gains	<i>8</i>	763	443
Credit impairment losses	<i>14</i>	(12,451)	(7,455)
Operating lease income		-	6,123
Other operating income	<i>9</i>	4,720	4,088
Share of profit of equity-accounted investees, net of tax	<i>29</i>	98	25
Net operating income		21,349	29,315
Expenses			
Personnel expenses	<i>11</i>	(14,090)	(12,908)
Other operating expenses	<i>13</i>	(13,631)	(9,883)
Operating lease depreciation	<i>22</i>	-	(5,128)
Other depreciation and amortisation	<i>21, 23</i>	(804)	(866)
Total operating expenses		(28,525)	(28,785)
(Loss) / profit before tax		(7,176)	530
Tax credit	<i>15</i>	2,840	382
Loss for the year		(4,336)	912

All of the (loss) / profit for the financial year and the prior year were derived from continuing activities.

The notes on pages 33 to 114 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year 1 January 2021 to 31 December 2021

	2021	2020
<i>Note</i>	£000	£000
Income		
(Loss) / profit for the year	<u>(4,336)</u>	<u>912</u>
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss if specific conditions are met:		
Net losses in fair value of FVOCI debt instruments	(256)	(148)
Income tax credit on other comprehensive income	15 47	22
	<u>(209)</u>	<u>(126)</u>
Items that will not be reclassified subsequently to profit or loss:		
Net gains / (losses) in fair value of FVOCI equity instruments	1	(3)
Other comprehensive income / (expense) for the year net of income tax	<u>1</u>	<u>(3)</u>
Total comprehensive (expense) / income for the year attributable to equity holders of the Company	<u><u>(4,544)</u></u>	<u><u>783</u></u>

The notes on pages 33 to 114 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	<i>Note</i>	2021 £000	2020 £000
Assets			
Cash and balances with banks		112,076	231,486
Due from financial institutions	17	479,210	339,629
Due from customers	17	24,993	34,465
Investment securities	18	59,807	90,835
Financing arrangements	19	800,318	819,162
Finance lease receivables	20	42,755	207,307
Operating lease assets	22	-	-
Property and equipment	21	2,782	3,270
Intangible assets	23	-	-
Other assets	24	11,719	7,326
Current tax asset		934	803
Deferred tax asset	15	13,099	7,495
Investment in joint ventures	29	1,157	1,142
Assets held for sale	30	-	477
Total assets		<u>1,548,850</u>	<u>1,743,397</u>
Liabilities			
Due to financial institutions	25	272,605	185,935
Due to customers	26	1,031,887	1,300,714
Profit rate swaps	10	334	760
Other liabilities	27	14,307	21,727
Total liabilities		<u>1,319,133</u>	<u>1,509,136</u>
Equity			
Share capital	32	48,933	48,933
Share premium	32	140,623	140,623
Capital contribution	33	3,527	3,527
Fair value reserve		(107)	101
Retained earnings		36,741	41,077
Total equity attributable to equity holders of the Bank		<u>229,717</u>	<u>234,261</u>
Total liabilities and equity		<u>1,548,850</u>	<u>1,743,397</u>

These financial statements were approved by the Board of Directors on 24 June 2022 and were signed on its behalf by:

Andrew Ball
Chief Executive Officer

Chris Power
Chief Financial Officer and Chief Operations Officer

Company Registration Number: 05897786

The notes on pages 33 to 114 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year 1 January 2021 to 31 December 2021

	2021	2020
	£000	£000
Cash flows from operating activities		
(Loss) / profit before tax	(7,176)	530
Adjusted for:		
Exchange differences	(12)	332
Fair value (gain)/loss on investment securities	(8)	(232)
Share of profit of equity-accounted investees, net of tax	(100)	(25)
Provision for impairment	12,451	7,455
Depreciation and amortisation	29	5,199
Movements relating to profit rate swaps	-	(854)
IFRS 16 - depreciation and finance charges	878	933
Amortisation of investment securities	257	233
	6,319	13,571
Net increase in operating assets:		
Due from financial institutions	(138,243)	(311,592)
Due from customers	9,594	(20,306)
Financing arrangements	13,336	14,520
Finance lease receivables	159,360	210,667
Operating lease assets	-	33,914
Other assets	(4,206)	8,560
	39,841	(64,237)
Net (decrease)/increase in operating liabilities:		
Due to financial institutions	83,757	(201,668)
Due to customers	(263,860)	386,573
Other liabilities	(9,295)	14,255
	(189,398)	199,160
Corporation tax paid	(2,847)	(4,607)
Net cash (outflow)/inflow from operating activities	(146,085)	143,887
Cashflow from investing activities		
Purchase of property and equipment	(15)	(71)
Purchase of investment securities	-	(37,036)
Sale of investment securities	30,483	57,604
Purchase of interest in assets held for sale	-	(541)
Sale of interest in assets held for sale	485	2,100
Dividend received from joint venture	100	99
Net cash inflow from investing activities	31,053	22,155
Cash flows from financing activities		
Payment of principal portion of lease liabilities	(1,086)	(1,104)
Net cash outflow from financing activities	(1,086)	(1,104)
Net change in cash and cash equivalents	(116,118)	164,938
Cash and cash equivalents at the beginning of the period	231,486	66,746
Exchange differences in respect of cash and cash equivalents	(3,292)	(198)
Cash and cash equivalents at the end of the period	112,076	231,486

The notes on pages 33 to 114 are an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021

	Share capital	Share premium	Capital contribution	Fair value reserve	Retained earnings	Total
	£000	£000	£000	£000	£000	£000
Balance at 31 December 2020	48,933	140,623	3,527	101	41,077	234,261
Loss for the year	-	-	-	-	(4,336)	(4,336)
Other comprehensive income /(expense)						
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	-	-	-	-	-	0
Fair value reserve recycled through income statement	-	-	-	-	-	-
Net change in fair value of equity/debt instruments at FVOCI	-	-	-	(255)	-	(255)
Tax on items transferred directly to equity	-	-	-	47	-	47
Total other comprehensive loss	-	-	-	(208)	-	(208)
Total comprehensive loss for the year	-	-	-	(208)	(4,336)	(4,544)
Contributions by and distributions to owners						
Total transactions with owners	-	-	-	-	-	-
Balance at 31 December 2021	48,933	140,623	3,527	(107)	36,741	229,717

FVOCI – Fair value through other comprehensive income

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

Capital contribution

This is the share-based payment reserve in prior years representing the amortised portion of the fair value of equity instruments issued under the BLME share incentive schemes and accounted for as equity-settled share-based payments. During 2013, the Deferred Annual Bonus Scheme was reclassified back from cash-settled to equity-settled accounting and the obligations under all the BLME share incentive schemes were assumed by BLME Holdings plc for no consideration. This assumption of liability was treated as an injection of equity and was recognised as a Capital contribution in 2013.

The notes on pages 33 to 114 are an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

	Share capital	Share premium	Capital contribution	Fair value reserve	Retained earnings / (losses)	Total
	£000	£000	£000	£000	£000	£000
Balance at 31 December 2019	48,933	140,623	3,527	230	40,165	233,478
Profit for the year	-	-	-	-	912	912
Other comprehensive income / (expense)						
Net change in fair value of equity/debt instruments at FVOCI	-	-	-	(151)	-	(151)
Tax on items transferred directly to equity	-	-	-	22	-	22
Total other comprehensive loss	-	-	-	(129)	-	(129)
Total comprehensive income / (loss) for the year	-	-	-	(129)	912	783
Contributions by and distributions to owners						
Total transactions with owners	-	-	-	-	-	-
Balance at 31 December 2020	48,933	140,623	3,527	101	41,077	234,261

FVOCI – Fair value through other comprehensive income

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

Capital contribution

This is the share-based payment reserve in prior years representing the amortised portion of the fair value of equity instruments issued under the BLME share incentive schemes and accounted for as equity-settled share-based payments. During 2013, the Deferred Annual Bonus Scheme was reclassified back from cash-settled to equity-settled accounting and the obligations under all the BLME share incentive schemes were assumed by BLME Holdings plc for no consideration. This assumption of liability was treated as an injection of equity and was recognised as a Capital contribution in 2013.

The notes on pages 33 to 114 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Bank of London and The Middle East plc is a Company domiciled in the United Kingdom. The address of the Company's registered office is Cannon Place, 78 Cannon Street, London, England, EC4N 6HL. BLME is a wholesale bank involved in investment, commercial finance, private client banking and wealth management. The financial statements of the Bank are presented as at and for the year ended 31 December 2021.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Presentation of financial statements

The Bank has prepared its financial statements in accordance with UK adopted international accounting standards effective for the Bank's reporting for the year ended 31 December 2021.

The Bank has not produced consolidated financial statements as under Section 401 of the Companies Act 2006 consolidated financial statements are not required, the Bank being a wholly owned subsidiary of BLME Holdings Limited which consolidates the financial statements of the Bank as detailed in Note 34. Accordingly these financial statements present information about the Company as an individual undertaking and not about its consolidated group. The Parent's Annual report and financial statements are prepared in accordance with UK adopted international accounting standards in order to qualify for the exemption.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment cover impairment losses on financial assets, fair value measurement, effective profit rate adjustments, deferred taxes and determining the lease term of contracts with renewal and termination options. Refer to Note 3 from page 49 for further detail.

c. Going concern

Accounting standards require the Directors to assess the Bank's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the Directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them.

The Board is required to assess going concern at each reporting period. This assessment includes the Directors reviewing the business activities, financial position and future forecast of the Bank in order to support a conclusion that the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence until 30 June 2023.

This assessment is more difficult currently given the ongoing uncertainties about the impact of COVID-19, the extent and duration of social distancing measures and the impact on the customers to whom the Group provides financing. The level of judgement to be applied has remained increased. As set out below, the Directors have considered three main factors in reaching their conclusions on going concern – liquidity management, preserving capital buffers and reverse stress test assessments. In addition, they considered the broader current macroeconomic and geopolitical conditions including the outlook for inflation, interest rates and climate change.

Liquidity management

The Bank adopts a prudent approach to liquidity management. Balance sheet liquidity remains strong with over £112m of cash as of 31 December 2021 and a Liquidity Coverage Ratio (“LCR”) of 194% compared to the minimum regulatory requirement of 100%. During 2021, the Bank obtained a credit rating of A+ from Fitch which enhanced existing institutional relationships and provided the Bank with new avenues for sourcing liquidity. The Bank diversified its High-Quality Liquid Assets (‘HQLA’) during the latter part of 2021 by using the recently introduced Bank of England Alternative Liquidity Facility.

Preserving capital buffers

As at 31 December 2021 the Bank had £101m of excess regulatory capital over and above the PRA minimum requirements. BLME adopts a cautious approach / risk appetite to the maintenance of internal capital buffers over and above the regulatory banking rules.

Reverse stress test assessments

In June 2022, the Bank performed an updated reverse stress test assessment in advance of signing these 2021 year-end accounts in order to demonstrate that the reverse stress testing scenario articulated in the most recent Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) for capital and liquidity, respectively, remained appropriate; and thus continued to provide comfort that the Bank is adequately capitalised to withstand any adverse impact in the medium term for approximately three years.

Based on the above assessment the directors have a reasonable expectation that the Bank has sufficient capital and liquidity resources to enable it to continue to meet its regulatory capital requirements and continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. The Directors are satisfied that the Bank will be able to continue to meet all its obligations as, and when, they fall due. Accordingly they continue to adopt a going concern basis in preparing these financial statements.

d. Changes in accounting policies and disclosures

New and amended standards and interpretations

The following new standards, amendments or interpretations are required to be applied for an annual period beginning on 1 January 2021 however none are deemed material to the Bank:

- Interest Rate Benchmark Reform – Phase 2 - Amendments to IFRS 9, ‘Financial Instruments’, IAS 39, ‘Financial Instruments: Recognition and Measurement’, IFRS 7, ‘Financial Instruments: Disclosures’, IFRS 4 ‘Insurance Contracts’ and IFRS 16 ‘Leases’
- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16

The Bank has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

e. New standards and interpretations not yet adopted

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

i. Other new and amended standards and interpretations

- Amendments to IFRS 3 'Business combinations' - reference to the Conceptual Framework
- Amendments to IAS 16 'Property, Plant and Equipment' - proceeds before intended use
- Amendments to IAS 37 'Onerous contracts' - costs of fulfilling a contract
- Annual Improvements 2018-2020 Cycle (issued in May 2020) related to IFRS 1 First-time Adoption of IFRS, IFRS 9 'Financial Instruments', IFRS 16 'Leases' and IAS 41 'Agriculture'
- IFRS 17 'Insurance contracts'
- Amendments to IAS 1 'Presentation of financial statements' - classification of liabilities as current or non-current
- Amendments to IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors' - definition of accounting estimates
- Amendments to IAS 1 and IFRS Practice Statement 2 – disclosure of accounting policies
- Amendments to IAS 12 'Income Taxes' - deferred tax related to assets and liabilities arising from a single transaction
- Amendments to IFRS 10, 'Consolidated Financial Statements' and IAS 28, 'Investments in Associates and Joint Ventures' - sale or contribution of assets between an Investor and its Associate or Joint Venture

These new and amended standards and interpretations are either not relevant to the Bank, not expected to have any impact or it is not feasible to determine whether there will be an impact to the Bank's financial statements.

f. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investment securities at fair value through other comprehensive income, foreign exchange forward deals and profit rate swaps, which are stated at their fair value. Financial instruments are recognised on a trade date basis.

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

g. Functional and presentation currency

The financial statements are presented in Sterling, which is also the Bank's functional currency. The method of translation is explained below.

h. Foreign currency

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

Non-monetary assets and liabilities, which are measured at historical cost, are translated into the functional currency at the effective historical rate used on the date of initial recognition. Foreign exchange for non-monetary items measured at fair value is determined at the spot rate at the time the fair value is determined. The associated foreign

exchange differences for non-monetary assets and liabilities go to other comprehensive income or the income statement, depending where the underlying fair value movement of asset or liability was recognised initially.

i. Revenue recognition

i. Murabaha, Wakala, Mudaraba, Sukuk, Ijara, Istisna and Participation Agreement income and expense (please refer to the Glossary of Islamic Finance Terminology on page 113)

Profit rate income or expense is recognised in the income statement throughout the period of the contract using the 'effective profit share' basis. The 'effective profit share rate' is the rate that exactly discounts the estimated future cash payments and receipts through the agreed payment term of the contract to the carrying amount of the financial asset or liability. When calculating the effective profit rate, BLME estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

ii. Fees and commission

Fees and commission which are not recognised on an effective profit rate basis over the life of the financial instruments to which they relate, such as fees for negotiating transactions for third parties, underwriting fees and commission, and non-discretionary asset management fees are recognised in revenue when control of the underlying services are transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. This will normally be at the point when the activity to which the fees and commission relate has been completed.

iii. Financial assets

The Bank classifies its financial assets in the following categories: 'due from financial institutions', 'due from customers', 'financing arrangements' and 'investment securities'. Investment securities are financial assets whose classification and measurement basis is either at amortised cost, fair value through profit or loss or fair value through other comprehensive income. Management determines the classification of financial assets at initial recognition based on the financial asset's contractual cash flow characteristics and the Bank's business model for managing them.

iv. Due from financial institutions and customers and financing arrangements

Due from financial institutions and customers and financing arrangements are financial assets measured at amortised cost as they are held within a business model with the objective of collecting contractual cash flows that are solely payments of principal and yield. Amortised cost is determined using the effective profit share basis. Gains and losses are recognised in the income statement when the asset is derecognised, modified or impaired.

j. Financial Instruments

i) Categories of financial assets

• 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. These include 'Financing Arrangements', 'Due from financial institutions', 'Due from customers' and 'Investment securities' and are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost less impairment losses.

Undrawn finance commitments and letters of credit are commitments under which, over the duration of the commitment the Bank 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 within a business model with the objective of both holding to collect 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. The Bank has an unlisted equity portfolio which it accounts for at fair value through other comprehensive income as they are equity instruments that meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. These investment securities can be either debt or equity non-derivative financial assets. Investment securities classified as equity instruments are measured at fair value through other comprehensive income, where an irrevocable election has been made by management. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss. Dividends on such investments are recognised in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. For debt instruments, gains and losses arising from changes in the fair value are recognised in a separate component of equity. Upon disposal, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to the income statement.

- **Financial instruments at fair value through profit or loss**

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Financial assets with cash flows that are not solely payments of principal and profit are classified and measured at fair value through profit or loss, irrespective of the business model. Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

- **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 Sukuk 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.

ii) Business model assessment

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

The Bank'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 Bank's assessment.

iii) The Solely Payments of Principal and Yield (SPPY) test

As a second step of its classification process the Bank 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 payments 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 Bank 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.

iv) Impairment of financial assets

The Bank uses a forward-looking expected credit loss (ECL) approach. IFRS 9 *Financial Instruments* requires the Bank 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.

• Overview of the ECL principles

The Bank records 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, finance lease receivable contracts and cash and balances with banks (collectively 'financial instruments'). The simplified approach for finance lease receivables has not been adopted. An ECL allowance is also recorded for off-balance sheet credit exposures such as undrawn finance commitments, letters of credit and guarantees where current circumstances indicate that losses may be incurred.

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 Bank's policies for determining if there has been a significant increase in credit risk are set out on page 40.

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 Bank'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 is first advanced, the Bank 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 Bank 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 Bank records a specific provision calculated using a discounted cash flow approach to determine the overall exposure and/or using net exposure after taking into account any collateral. The process to determine whether a customer is in default is explained on pages 87 and 88 in Note 37 Financial Risk Management.

- **The calculation of ECLs**

Financial institutions need to exercise judgement in determining the appropriate number of forward-looking, macroeconomic scenarios that need to be considered in measuring ECL. Most institutions use a central scenario (sometimes referred to as a base case), an upside scenario and a downside scenario with some banks opting for additional scenarios for a more severe downside and/or optimistic upside. Another factor influencing the number of scenarios used by financial institutions is that as a consequence of the COVID-19 pandemic there is less consensus on economic forecasts.

The Bank calculates ECLs based on the weighted outcome of six scenarios (base case, mild upside, upside, stagnation, downturn and severe downturn scenarios) 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 Bank may lose prior to adjustment for collateral. This takes into account the committed facility amount. The same approach has been taken for off-balance sheet credit exposures such as letters of credit and financial guarantees where current circumstances indicate that losses may be incurred.

- **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 are listed in section vi – multi economic scenarios on pages 40 to 42.

When estimating the ECLs, the Bank considers six scenarios (a base case, a mild upturn, an upturn, a stagnation, a downturn and a severe downturn). 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 bank 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 Bank 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 Bank 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%.

The Bank calculates ECLs on an individual basis for all Stage 3 assets, regardless of the class of financial assets. Stage 1 and Stage 2 ECLs are calculated on a collective basis by grouping financial assets based on type of customer which includes banking, property and treasury.

- **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 Bank 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 as described on pages 85 to 87 in Note 37).

- **Default**

Refer to pages 87 and 88 in Note 37 for the definition of default.

v) Forward looking information

Three macroeconomic factors are used for determining the forward-looking projections across all segments of the portfolio – UK GDP, UK Unemployment and UK House Price Index. The selected macroeconomic factors are updated quarterly from reports received by a reputable external source. The macroeconomic projections are then used for deriving the forecast PDs which are subsequently incorporated in the impairment model. Climate risk has been considered when assessing the drivers of impairment but due to the short tenor and diversification of assets is not considered to be a core driver.

vi) Multiple economic scenarios

The Bank carries out six 12 month forward looking stress scenarios per material portfolio. Each stress event is based on the macroeconomic conditions most impactful to each of the Bank’s material portfolios and is taken from published reports by Oxford Economics.

- **Base Case Key Macroeconomic Assumptions for 2022:**

GDP: The UK GDP forecast for 2022 is for output to rebound by 5%. This GDP growth forecast reflects the impact of supply chain disruption and an initial estimate of the effect of the Omicron variant. This also reflects that the “easy” gains from reopening the economy have now been attained and that further growth will likely occur in the context of a tighter fiscal and monetary policy environment. Uncertainty around the base case remains larger than in normal times as it remains dependent on epidemiological developments.

House Price Index (HPI) – As supportive policy measures have been phased out, price momentum is expected to ease over the coming months and to reverse over the course of 2022 resulting in a small fall in house prices in 2022 and 2023. Despite the moderation in prices, this would revert valuations as proxied by Nationwide house price to income merely back to 2015 levels which is still elevated by historical standards. Therefore, overall risks to UK residential property prices remain skewed to the downside.

- **Upside Scenario Assumptions for 2022:**

The upside scenarios are also projected by Oxford Economics and are based on the assumption that a faster normalisation in spending patterns would occur in the UK as new variants of the virus being less deadly or transmissible than is currently feared. As a result, consumer and business confidence could be boosted and this could ease spending and investment constraints whilst large scale monetary and fiscal easing deployed currently could provide a strong additional impetus. In this scenario output rebounds markedly, GDP recovers significantly above its pre-pandemic level already by late 2022 and unemployment would drop precipitously by end of 2022. In response the MPC raises rates even faster than in the baseline scenario pushing Bank Rate at least up to 2% by the end of 2024. In short, upside scenarios reflect a faster recovery from the crisis, permanent damage to capacity is avoided.

- **Downside Scenario Assumptions for 2022:**

The downside scenarios are projected by Oxford Economics and can be seen as an alternative outcome from the current Omicron wave of the pandemic. The downside scenario growth remains much lower than in the base case forecast for the coming years, resulting in a larger long-term scarring of the economy eventually followed by a U-shaped recovery characterised by slower growth, higher unemployment and lower asset prices. In the downside scenarios, UK output sees a return to sustained weakness and recovers only gradually from the pandemic-inflicted recession. The MPC is forced to ease the Bank Rate significantly below inflation levels against the backdrop of rising unemployment.

These scenarios are all based upon Oxford Economics Global Economic model and are probability weighted with respect to where the forecasts sit in the distribution functions of the macroeconomic variables. Given this, the Base Case receives a 50% probability as the macroeconomic variables for the base scenario are taken from the 50th percentile of each of the cumulative distribution functions of the macroeconomic variables. The other five scenarios all receive a probability weighting of 10%, where the Upside Scenario is determined from 5th percentile, the Mild Upside is determined from the 15th percentile, Stagnation is determined from the 75th percentile, the Downside is determined from the 85th percentile and the Severe Downside from the 95th percentile.

Global Risks:

Long Covid: In this scenario the rapid spread of the Omicron variant results in renewed restrictions which cannot then be meaningfully eased due to the emergence of other highly transmissible variants which challenge the effectiveness of existing vaccines. As a result, consumer demand would be weaker in the near-term and financial markets would sell off, despite additional loosening of monetary policy where feasible. Declines in equity prices around the world would be accompanied by spikes in the risk premia on corporate debt and the dollar would appreciate as investors head for safe havens. The subsequent recovery would be more sluggish, as the combination of persistent restrictions, increased risk aversion and long-term scarring weigh heavily on the global economy.

Supply-chain disruption: In this scenario, current supply chain disruptions prove more persistent than assumed in the baseline forecast. Labour and material shortages would persist throughout 2022 and higher commodity and other input prices add to inflationary pressure. Supply proves unable to keep pace with the recovery in demand and higher inflation squeezes real incomes. Investor sentiment deteriorates. Equities fall below baseline and risk premia on corporate debt edge higher. While monetary policy is largely unaffected in the eurozone given the transitory nature of the shock, the Federal Reserve raises policy rates six months earlier than assumed in the

baseline and US yields edge higher. Supply chain disruptions ease significantly from 2023, however. This supports a robust recovery in supply and, fuelled by delayed expenditure, demand.

Return of inflation: Oxford Economics central view is that the inflation outlook remains benign. However, there are clear downside risks associated with a scenario in which financial markets and the real economy are roiled by a marked deterioration in the inflation outlook. Importantly, while this scenario is the result of trends caused by the pandemic, these risks are independent of any particular assumption around public health restrictions and could therefore occur in conjunction with alternative epidemiological assumptions

The baseline forecast assumes a continued recovery in activity over the next year as supply chain disruptions are resolved and pandemic-related restrictions are relaxed. However, the spread of the more transmissible Omicron variant of the virus continues to imply a wider range of possible alternative epidemiological and economic outcomes. Oxford Economics therefore continue to attach more uncertainty than normal to their baseline forecast.

Domestic Risk - Productivity:

The UK's productivity performance since the Global Financial Crisis has been dismal. The Oxford Economics forecast assumes that productivity growth remains well below pre-GFC norms. There is a significant risk that productivity growth regresses again, particularly if social distancing measures are required intermittently over a longer period or current supply chain disruptions have lasting implications, perhaps requiring a greater degree of onshoring. A failure to deliver on the post-Brexit strategy of "Global Britain" could also result in less openness and lower inflows of FDI, dampening productivity growth. But there is also some upside risk if the performance of manufacturing and financial services – which together have accounted for two-thirds of the weaker post-crisis performance – improves, resulting in a boost to the recovery.

Climate Risk: Changing weather patterns and frequent natural disasters have increased environmental concerns. As a result, mitigation and adaptation have become a major priority for policymakers and business leaders. The impact of climate risk has been considered and is not deemed material due to high proportion of assets of with strong energy performance certificates (EPC) and hence low risk to transition climate risk; and low risk to floods as assessed by the UK Environment Agency and as a result a low risk to physical climate risk. This coupled with the short-dated tenor and diversification of assets mitigate any material climate risk exposure to the overall financial statements in the short term and has therefore not been incorporated as a separate scenario.

Details of the scenario weights and macroeconomic assumptions used for 2022 are summarised in Note 14 on page 62.

vii) Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

viii) Offsetting financial assets and financial liabilities

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

ix) Derecognition of financial assets

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

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

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

x) Forbearance

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

- if the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective profit rate of the existing financial asset; or
- if the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective profit rate of the existing financial asset.

Further disclosures on forbearance can be found on pages 95 to 97 in Note 37.

xi) Financial liabilities

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

xii) Determining fair value

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities at an ask price. Where no active market exists for the particular asset or liability, the Bank uses another valuation technique to arrive at the fair value, including the use of prices obtained in recent arms-length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants (see Note 3(b) on pages 49 and 50).

xiii) Derivatives and hedge accounting

Derivatives are recognised initially, and are subsequently re-measured, at fair value. Fair values of over-the-counter derivatives (profit rate swaps and foreign exchange forward deals) are obtained using valuation techniques, including discounted cash flow models provided by internationally known third-party vendors.

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

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments and, if the latter, the nature of the risks being hedged. When derivatives are designated as hedges, BLME classifies them as hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value hedge provided certain criteria are met.

- **Hedge accounting**

As allowed by IFRS 9, this accounting policy continues to apply the hedge accounting requirements of IAS 39 instead of the requirements in Chapter 6 of IFRS 9.

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

- **Fair value hedge**

A fair value hedge relationship exists when the hedged item (or group of items) is a distinctively identifiable asset or liability hedged by one or a few hedging instruments. The only financial instruments hedged for profit rate risk in a fair value hedge relationship by the Bank is fixed rate Sukuk. These hedge relationships are assessed for prospective and retrospective hedge effectiveness on a monthly basis.

Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged assets, liabilities or group thereof that are attributable to the hedged risk. Any gain or loss in fair value relating to the hedged item and hedging instrument is recognised in "Net fair value gains / losses on investment securities".

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

- **Hedge effectiveness testing**

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

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

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

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

k. Collateral and netting

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

- **Collateral**

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

- **Netting**

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

l. Property and equipment

i. Recognition and measurement

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

ii. Depreciation

Property and equipment are depreciated down to their estimated residual value. Depreciation is recognised in the income statement on a straight-line basis over the estimated useful life of each part of an item of property and equipment. Assets leased out under operating leases are depreciated over the shorter of the lease term and their useful lives.

Useful Lives:

- Computer equipment – 3 years
- Office equipment – 3 years
- Fixtures and fittings – 4 years
- Motor vehicles – 4 years
- Leasehold improvements – 4 years

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

m. Intangible assets

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

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

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

n. Impairment of property and equipment, intangible assets and assets leased out under operating leases

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

The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, which is taken as the higher of value in use or fair value less cost to sell. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

o. Operating leases

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

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

p. Finance leases

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charges receivable are allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability.

Hire purchase arrangements are also classified as finance leases as they share the same characteristics as mentioned above.

q. Lessee accounting

Right-of-use assets

The Bank recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term, as follows:

- Buildings 1 to 10 years

Right-of-use assets are subject to impairment. Refer to the accounting policies in Note 2(n) *Impairment of property and equipment, intangible assets and assets leased out under operating leases*.

The Bank's Right-of-use assets are included in Property and Equipment (see Note 21).

Lease liabilities

At the commencement date of the lease, the Bank recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees.

In calculating the present value of lease payments, the Bank uses the incremental financing rate at the lease commencement date if the profit rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of profit and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The Bank's lease liabilities are included in Other Liabilities (see Note 27).

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (i.e., below the pound sterling equivalent of €5,000). Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

r. Employee benefits

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

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

s. Own shares

Own shares previously held by the EBT comprised own shares that had not vested unconditionally to employees of the Bank. In the Bank, own shares were recorded at cost and deducted from retained earnings.

t. Provisions

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

u. Taxation

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

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

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

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

v. Cash and cash equivalents

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

w. Other receivables

Trade and other receivables are stated at their nominal amount less expected credit losses. Refer to Note 2(j)(iv) from pages 38 to 40 for more detail on the forward-looking expected credit loss (ECL) approach.

x. Segmental information

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

y. Investment in subsidiary undertakings

The investment in subsidiary undertakings in the Company's financial statements is stated at the historical cost of investment less impairment. The investment in subsidiary undertakings is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the income statement.

z. Investment in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Bank's investment in its joint venture are accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Bank's share of net assets of the joint venture since the acquisition date.

The statement of profit or loss reflects the Bank's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Bank's OCI. In addition, when there has been a change recognised directly in the equity of the joint venture, the Bank recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Bank and the joint venture are eliminated to the extent of the interest in the joint venture.

The aggregate of the Bank's share of profit or loss of a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

aa. Assets held for sale

The Bank classifies non-current assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the plan to sell the asset and the sale expected to be completed within one year from the date of the classification.

3. USE OF CRITICAL ACCOUNTING ESTIMATES, JUDGEMENTS IN APPLYING ACCOUNTING POLICIES AND ESTIMATION UNCERTAINTY

The below areas involve using a combination of account estimates and judgments in applying policies and estimation uncertainty.

Estimates

a. 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 Bank'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 Bank's internal credit grading model, which assigns PDs to the individual grades.
- The Bank'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 formulae 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.

b. Determining fair values

The Bank's accounting policy on fair value measurements is in accordance with IFRS 13 Fair Value Measurement and is discussed on pages 99 and 100 in Note 37.

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

Level 1: Valuation is based upon quoted market price in an active market for an identical instrument. This category comprises foreign exchange forward deals held at fair value through profit and loss and Sukuk held at fair value through other comprehensive income.

Level 2: Valuation techniques are primarily based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). Valuation techniques are also based on unobservable inputs if they do not have a significant impact on the fair value measurement in its entirety. This category comprises profit rate swaps, which are valued using reference to observable market data such as yield curves, and investments in Sharia'a-compliant funds.

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

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

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

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

Judgements

a. Effective profit rate adjustments

IFRS 9 requires financial instruments to be recognised at the effective profit rate of the asset, which is considered to be the rate that exactly discounts estimated future cash flows through the expected life of the instrument. As the timing of certain cash flows is uncertain, judgement has been applied in estimating all contractual cash flows (profit rate income and fees).

b. Deferred taxes

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that taxable profit will be available in the future against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits, together with future tax planning strategies.

c. Determining the lease term of contracts with renewal and termination options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has the option, under some of its leases to lease the assets for additional terms. The Bank applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Bank included the renewal period as part of the lease term for leases of plant and machinery due to the significance of these assets to its operations. These leases have a short non-cancellable period (i.e., three to five years) and there will be a significant negative effect on production if a replacement is not readily available. The renewal options for leases of motor vehicles were not included as part of the lease term because the Bank has a policy of leasing motor vehicles for not more than five years and hence not exercising any renewal options.

4. SEGMENTAL INFORMATION

The Bank has three operating segments. These are business divisions that offer different products and services and are managed separately based on the Bank's management and internal reporting structure.

Information regarding the results of the Bank's three reportable segments is included in the following two pages. Performance is measured based on net segment contribution as included in the internally generated management information of the Bank 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.

The following table analyses the results of each of the Bank's reportable segments, which are described in the Strategic Report, during the year:

For the year ended 31 December 2021

	Wealth Management £000	Commercial Finance £000	Treasury Division £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	22,253	4,281	3,437	-	29,971
Operating lease income	-	-	-	-	-
Net fee and commission income	391	(2,055)	2	(90)	(1,752)
Net impairment charge	(8,575)	(4,154)	278	-	(12,451)
Net fair value gains	632	-	131	-	763
Share of profit of equity-accounted investees, net of Tax	98	-	-	-	98
Other operating income	1,733	308	12	2,667	4,720
Net operating income	16,532	(1,620)	3,860	2,577	21,349
Directly attributable segment expenses	(3,730)	(1,045)	(1,629)	(2,577)	(8,981)
Operating lease depreciation	-	-	-	-	-
Net segment contribution	12,802	(2,665)	2,231	-	12,368
Common costs not directly attributable to segments					(19,544)
Net operating loss before tax					(7,176)
Reportable segment assets	821,100	74,754	631,912	21,084	1,548,850

£5.7m of the total operating income was derived through the effective profit rate (EPR) model (2020: £8.4m).

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

For the year ended 31 December 2020

	Wealth Management £000	Commercial Finance £000	Treasury Division £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	18,573	9,400	1,515	-	29,488
Operating lease income	-	5,244	879	-	6,123
Net fee and commission income	343	(3,745)	5	-	(3,397)
Net impairment charge	(332)	(6,122)	(1,001)	-	(7,455)
Net fair value gains	(7)	-	450	-	443
Share of profit of equity-accounted investees, net of Tax	25	-	-	-	25
Other operating income	1,729	2,359	-	-	4,088
Total operating income	20,331	7,136	1,848	-	29,315
Directly attributable segment expenses	(3,108)	(1,847)	(2,444)	-	(7,399)
Operating lease depreciation	-	(5,128)	-	-	(5,128)
Net segment contribution	17,223	161	(596)	-	16,788
Common costs not directly attributable to segments					(16,258)
Net operating profit before tax					530
Reportable segment assets	753,164	342,145	636,127	11,961	1,743,397

Entity wide disclosures

Geographical analysis of non-current assets

	31 December 2021 £000	31 December 2020 £000
United Kingdom	27,985	17,970
Channel Islands	1,142	1,142
United Arab Emirates	307	121
Total	29,434	19,233

Non-current assets include operating lease assets, deferred tax assets, profit rate swaps, property and equipment, intangible assets, investment in joint ventures and other assets.

5. INCOME

	2021	2020
	£000	£000
5(a) Income from financing and investing activities		
Due from financial institutions:		
Murabaha income	76	29
Wakala income	7,637	1,787
Finance lease receivables:		
Finance lease income	2,138	5,915
Hire Purchase income	2,525	7,190
Istisna and Ijara income	66	147
Financing arrangements:		
Murabaha income	32,461	37,752
Wakala income	1,818	1,241
Investment securities:		
Sukuk income	928	1,657
	<u>47,649</u>	<u>55,718</u>

	2021	2020
	£000	£000
5(b) Fee and commission income		
Fees - letters of credit and uncommitted facilities	24	761
Management fees	331	910
Other	310	107
	<u>665</u>	<u>1,778</u>

6. RETURNS TO FINANCIAL INSTITUTIONS AND CUSTOMERS

	2021	2020
	£000	£000
Customer deposits	16,121	22,419
Murabaha	275	702
Cost of funding*	190	1,309
Wakala	1,092	1,800
	<u>17,678</u>	<u>26,230</u>

*this represents the cost of managing non-GBP funding incurred by the Bank. This cost arises due to the profit rate differential between the GBP and non-GBP currencies and also the markets factoring economic/political impact on the future exchange rates.

7. FEE AND COMMISSION EXPENSE

	2021	2020
	£000	£000
Agent fees	250	336
Brokerage fee*	424	813
Portfolio management fee paid to a fellow subsidiary**	1,648	4,026
Other fees	95	-
	<u>2,417</u>	<u>5,175</u>

*relates to an introductory fee for Walbrook acquired lease assets on BLME's behalf

**relates to management fees paid to Walbrook Asset Finance Limited

8. NET FAIR VALUE GAINS ON INVESTMENTS

	2021	2020
	£000	£000
Net realised gains on investments	761	499
Net unrealised gains / (losses) on investments	2	(56)
	<u>763</u>	<u>443</u>

9. OTHER OPERATING INCOME

	2021	2020
	£000	£000
Gain on foreign exchange transactions	12	-
Gains / (losses) on leased asset sales	(145)	678
Dividends from subsidiaries	1,732	1,770
Dividend from joint venture	1	140
Managed services recharges from a fellow subsidiary	454	1,500
Recharges from a fellow subsidiary *	2,666	-
	<u>4,720</u>	<u>4,088</u>

* This amount relates to recharges to BB2 Digital and Technology Services Limited as described in Note 35.

10. PROFIT RATE SWAPS

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. PRS may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. If they do not qualify as hedges, they are classified as FVTPL and the Mark to Market movement is recognised in the income statement. The Bank did not have any PRS as at 31 December 2021 (2020: zero), which did not qualify for hedge accounting.

All PRS are over-the-counter derivatives, none of which are settled through a central counterparty. There are no collateral arrangements. The valuation technique used to determine the fair value of the Bank's profit rate swaps is the present value of the estimated future cash flows base on observable yield curves.

The Bank's fair value hedges consist of PRS that are used to protect against changes in the fair value of fixed rate financial instruments due to movements in market rates and to accommodate the Bank's risk management policy. For effective fair value hedges, all changes in the fair value of the PRS and in the fair value of the item in relation to the risk being hedged are recognised in the net investment gains line in the income statement.

The tables below set out derivative assets and liabilities used as fair value hedges.

31 December 2021			Carrying amount	Notional amount
Derivative liabilities	Hedging instrument	Risk	£000	\$000
Profit rate swaps - USD	Profit rate swap	Profit	334	30,725

31 December 2020			Carrying amount	Notional amount
Derivative liabilities	Hedging instrument	Risk	£000	\$000
Profit rate swaps - USD	Profit rate swap	Profit	760	30,725

The profile of the timing of the nominal amounts of the hedging instruments is one PRS for \$15.225m maturing in April 2022 and one PRS for \$15.5m maturing in September 2022. The hedging ratio is 1:1 and the weighted average hedged rate of the PRS for the year was 2.33% (2020: 2.03%).

The tables below set out derivative assets and liabilities that do not qualify for hedges.

31 December 2021			Carrying amount	Notional amount
Derivative liabilities	Hedging instrument	Risk	£000	£000
Profit rate swaps - GBP	Profit rate swap	Profit	-	-

31 December 2020			Carrying amount	Notional amount
Derivative liabilities	Hedging instrument	Risk	£000	£000
Profit rate swaps - GBP	Profit rate swap	Profit	-	-

The total impact on the income statement of the PRS that do not qualify for hedges in 2021 was £Nil (2020: £0.7m) which is recognised in the other operating expenses line in the income statement.

The notional contract amounts of the hedging instruments above indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The following table shows the carrying amount of fair value hedged items in hedge relationships, and the accumulated amount of fair value hedge adjustments in these carrying amounts. The Bank does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amounts disclosed in other notes.

	2021		2020	
	Carrying amount	Fair value hedge adjustments	Carrying amount	Fair value hedge adjustments
Investment securities	£000	£000	£000	£000
Sukuk	22,914	588	23,637	(213)

The carrying amount of debt instruments at fair value through other comprehensive income does not include a fair value hedge adjustment as the hedged asset is measured at fair value. The accounting for the hedge relationship results in a transfer from other comprehensive income to the income statement.

Fair value hedge relationships result in the following changes in value used as the basis for recognising hedge effectiveness for the period:

	2021	2020
	£000	£000
Gains / (losses) on hedging instruments	(628)	425
	588	(213)
Gains / (losses) on hedged items attributable to the hedged risk	<u> </u>	<u> </u>
Hedge effectiveness recognised in the Net investment gains line within the Income Statement	<u>(40)</u>	<u>212</u>

Fair value hedge relationships result in the following changes in value used as the basis for recognising hedge ineffectiveness for the period:

	£000	£000
Gains / (losses) on hedging instruments	<u>36</u>	<u>35</u>
Hedge ineffectiveness recognised in the Other operating expenses line within the Income Statement	<u>36</u>	<u>35</u>

Sources of hedge ineffectiveness can arise from any or all of the following factors:

- differences in timing of cash flows of hedged items and hedging instruments;
- different profit rate curves applied to discount the hedged items and hedging instruments;
- derivatives used as hedging instruments having a non nil fair value at the time of designation; and
- the effect of changes in counterparties' credit risk on the fair value of hedging instruments or hedged items.

11. PERSONNEL EXPENSES

	2021	2020
	£000	£000
Wages and salaries	10,583	10,496
Social security costs	1,404	1,056
Defined contribution pension scheme costs	949	758
Recruitment costs	603	75
Other staff costs	551	523
	<u>14,090</u>	<u>12,908</u>

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

	2021	2020
	Number	Number
Period end	113	89
Average for the period - management	6	7
Average for the period - non-management	95	82

12. DIRECTORS' EMOLUMENTS

	2021	2020
	£000	£000
Directors' emoluments	1,911	1,836
Pension contributions	20	11
	<u>1,931</u>	<u>1,847</u>

The aggregate emoluments of the highest paid Director was £0.8 million (2020: £0.8 million), and pension contributions of £0.01m (2020: £nil) were made on his behalf. Two directors are accruing retirement benefits in respect of a money purchase pension scheme.

During 2020, compensation for loss of office amounting to £0.5 million was expensed in relation to an Executive Director who resigned during that year (2021: £nil). On 11 February 2020, two Executive Directors exercised a total of 5,038,053 share options in connection with the Offer made by Boubyan Bank (2021: none).

13. OTHER OPERATING EXPENSES

	2021	2020
	£000	£000
Advertising and market development	105	96
Board and SSB related expenses	849	467
Communications and IT costs	2,342	1,835
Consultancy	1,332	265
Legal and professional fees	5,605	3,161
Loss on foreign exchange transactions and translation	-	332
Other operating charges	2,512	2,810
Rent and other occupancy costs	886	917
	<u>13,631</u>	<u>9,883</u>

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

	2021	2020
	£000	£000
Auditor's remuneration		
Audit of financial statements pursuant to the legislation		
- Ernst & Young LLP	495	719
Tax Advisory and Compliance Services		
- Ernst & Young LLP	-	-
Other advisory and assurance services		
- Ernst & Young LLP	41	39
	<u>536</u>	<u>758</u>

14. IMPAIRMENTS OF FINANCIAL ASSETS

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

Statement of Financial Position

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2021	Collective	Collective	Specific	
	£000	£000	£000	£000
Cash	20	-	-	20
Financing arrangements	559	1,455	13,275	15,289
Finance lease receivables	12	24	21	57
Operating lease receivables	-	-	-	-
Due from financial institutions	887	5	-	892
Due from customers	18	-	-	18
Investment securities	1	-	-	1
Other assets	-	-	-	-
Total Impairment	1,497	1,484	13,296	16,277

Statement of Financial Position

	Stage 1	Stage 2	Stage 3	Total
As at 31 December 2020	Collective	Collective	Specific	
	£000	£000	£000	£000
Cash	5	-	-	5
Financing arrangements	48	1,630	12,344	14,022
Finance lease receivables	206	1,070	-	1,276
Operating lease receivables	-	-	-	-
Due from financial institutions	1,075	34	-	1,109
Due from customers	2	-	-	2
Investment securities	2	-	-	2
Other assets	-	-	250	250
Total Impairment	1,338	2,734	12,594	16,666

Within Stage 1 and Stage 2 for financing arrangements there is an ECL balance of £Nil relating to off balance sheet letters of credit and guarantees (2020: £nil) and an ECL balance of £15k relating to undrawn commitments (2020: £4k). The Stage 3 balance for other assets of £Nil (2020: £250k) relates to provisions against inventory assets that have been calculated using IAS 36.

Forborne exposures that have not been specifically provided for equates to £Nil (2020: £nil). The Stage 1 and Stage 2 ECLs relating to these forborne exposures is £14k (2020: £nil). Refer to pages 95 to 97 for further details on how the Group monitors its forborne exposure.

Income Statement

	2021	2020
	£000	£000
New and increased provisions (net of releases)	12,884	7,074
Amounts written off during the year (net of write backs)	(433)	381
Total Impairment Loss	12,451	7,455

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

ECL by Stage

	Stage 1	Stage 2	Stage 3	Total
	Collective	Collective	Specific	
	£000	£000	£000	£000
Carrying amount as at 1 January 2021	1,338	2,734	12,594	16,666
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	315	(315)	-	-
Transferred to Stage 2	(2)	2	-	-
Transferred to Stage 3	-	-	-	-
New and increased provisions (net of releases)	(154)	(937)	13,542	12,451
Write-offs from specific provisions	-	-	(12,884)	(12,884)
Foreign currency translation adjustments	-	-	44	44
As at 31 December 2021	1,497	1,484	13,296	16,277
Carrying amount as at 1 January 2020	2,139	1,685	6,551	10,375
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	138	(138)	-	-
Transferred to Stage 2	(202)	202	-	-
Transferred to Stage 3	-	-	-	-
New and increased provisions (net of releases)	(737)	985	6,826	7,074
Write-offs from specific provisions	-	-	(635)	(635)
Foreign currency translation adjustments	-	-	(148)	(148)
As at 31 December 2020	1,338	2,734	12,594	16,666

Exposure by Stage

	Stage 1	Stage 2	Stage 3	Total
	Collective	Collective	Specific	
	£000	£000	£000	£000
Carrying amount as at 1 January 2021	1,585,063	138,414	39,003	1,762,480
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	8,780	(8,780)	-	-
Transferred to Stage 2	(39,642)	39,642	-	-
Transferred to Stage 3	-	-	-	-
New and increased exposure	(110,046)	(69,492)	16,787	(162,751)
Write-backs of specific provisions	-	-	-	-
Write-offs from specific provisions	-	-	(12,775)	(12,775)
Foreign currency translation adjustments	-	-	44	44
As at 31 December 2021	<u>1,444,155</u>	<u>99,784</u>	<u>43,059</u>	<u>1,586,998</u>
Carrying amount as at 1 January 2020	1,476,469	142,975	19,369	1,638,813
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	7,484	(7,484)	-	-
Transferred to Stage 2	(94,099)	94,099	-	-
Transferred to Stage 3	0	-	0	-
New and increased exposure	195,209	(91,176)	22,493	126,526
Write-backs of specific provisions	0	0	(1,164)	(1,164)
Write-offs from specific provisions	-	-	(1,546)	(1,546)
Foreign currency translation adjustments	-	-	(149)	(149)
As at 31 December 2020	<u>1,585,063</u>	<u>138,414</u>	<u>39,003</u>	<u>1,762,480</u>

Contractual amounts outstanding on financial assets of £0.1m that were written off during the reporting period are still subject to enforcement activity (2020: £1.5m).

The total exposure is higher than the total assets due to undrawn credit facilities and off balance sheet commitments.

IFRS 9 model using multiple economic scenarios

When estimating the ECLs, the Bank considers six scenarios (a base case, a mild upturn, an upturn, a stagnation, a downturn and a severe downturn). Each stress event is based on the macroeconomic conditions most impactful to each of the Bank's material portfolios and is taken from published reports by Oxford Economics.

More details regarding these six 12 month forward looking stress scenarios per material portfolio are outlined within the significant accounting policies section of these financial statements (in Note 2 (j) (vi) on pages 40 to 42).

The scenario weights and macroeconomic assumption for 2022 are summarised below:

Scenario Weights	2022 Assumptions					
	Upside 10%	Mild Upside 10%	Base 50%	Stagnation 10%	Downside 10%	Severe Downside 10%
GDP ¹	8.40%	7.00%	5.00%	2.30%	1.10%	-0.80%
HPI ²	7.60%	4.31%	-0.60%	-6.90%	-9.60%	-13.80%

¹ Denotes Core Variables for the three segments

² Denotes the macroeconomic variable for the Property segment

The base case macroeconomic assumption for GDP used in the ECL model for the years from 2023 to 2030 range from 2.7% in 2023 to 1.4% in 2030.

The base case macroeconomic assumption for HPI used in the ECL model for the years from 2023 to 2030 range from a low of -0.5% in 2023 rising to a peak of 3.7% in 2026 and 2027 before falling to 3.4% in 2029 and 2030.

The comparative scenario weights and macroeconomic assumptions for 2021 are summarised below:

Scenario Weights	2021 Assumptions					
	Upside 10%	Mild Upside 10%	Base 50%	Stagnation 10%	Downside 10%	Severe Downside 10%
GDP ¹	15.40%	12.20%	7.10%	3.20%	1.20%	-2.10%
HPI ²	2.00%	-1.30%	0.70%	-11.70%	-14.30%	-18.70%

¹ Denotes Core Variables for the three segments

² Denotes the macroeconomic variable for the Property segment

Exposure by credit rating

	Cash	Due from financial institutions		Due from customers	Finance lease receivables			Financing arrangements			Investment securities	Other assets	Undrawn commitments	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	Stage 1	Stage 1	Stage 2	Stage 1	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 3	Stage 1	
AAA	-	-	-	-	-	-	-	-	-	-	38,614	-	-	38,614
aa+	-	-	-	-	-	-	-	-	-	-	-	-	-	-
aa	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AA-	30,329	-	-	-	-	-	-	-	-	-	-	-	-	30,329
a+	78,710	-	-	-	5,189	-	-	6,090	-	-	-	-	-	89,989
a	3,167	-	-	-	6	-	-	67,323	19,023	-	-	-	-	89,519
a-	224	13,000	-	-	-	-	-	36,964	-	-	-	-	15,532	65,720
bbb+	-	-	-	-	-	-	-	48,890	11,749	-	-	-	630	61,269
bbb	-	-	-	-	14	-	-	122,274	-	-	-	-	6,848	129,136
bbb-	-	-	-	-	1	-	-	318,533	209	-	-	-	553	319,296
bb+	-	-	-	24,939	11	-	-	90,148	26,932	-	-	-	-	142,030
bb	-	-	-	-	37,012	-	-	35,248	16,362	-	-	-	-	88,622
bb-	801	-	-	-	7	-	-	-	2,058	-	-	-	-	2,866
b+	-	463,100	-	-	-	293	-	-	168	-	-	-	-	463,561
b	-	-	4,000	-	-	300	-	-	-	-	-	-	-	4,300
b-	-	-	-	-	-	-	-	-	7,976	-	-	-	-	7,976
ccc+	-	-	-	-	-	-	-	-	-	-	-	-	-	-
ccc	-	-	-	-	-	-	-	-	10,712	-	-	-	-	10,712
d	-	-	-	-	-	-	22	-	-	43,037	-	-	-	43,059
At 31 December 2021	113,231	476,100	4,000	24,939	42,240	593	22	725,470	95,189	43,037	38,614	-	23,563	1,586,998

The total exposure is higher than the total assets due to undrawn credit facilities and off balance sheet commitments.

Exposure by credit rating

	Cash	Due from financial institutions		Due from customers	Finance lease receivables			Financing arrangements			Investment securities	Other assets	Undrawn commitments	Total
	£000 Stage 1	£000 Stage 1	£000 Stage 2	£000 Stage 1	£000 Stage 1	£000 Stage 2	£000 Stage 3	£000 Stage 1	£000 Stage 2	£000 Stage 3	£000 Stage 1	£000 Stage 3	£000 Stage 1	£000
AAA	-	-	-	-	-	-	-	-	-	-	61,808	-	-	61,808
aa+	-	-	-	-	-	-	-	-	-	-	-	-	-	-
aa	-	-	-	-	-	-	-	-	-	-	-	-	-	-
AA-	1,170	-	-	-	-	-	-	-	-	-	-	-	-	1,170
a+	228,784	73,170	-	-	7,674	-	-	3,511	-	-	-	-	1,900	315,039
a	-	-	-	-	30,312	1,235	-	106,783	26,877	-	-	-	1,750	166,957
a-	-	-	-	-	4,277	-	-	26,261	-	-	-	-	2,947	33,485
bbb+	-	-	-	-	7,551	312	-	68,004	-	-	-	-	-	75,867
bbb	-	-	-	-	27,161	2,029	-	103,407	-	-	-	-	486	133,083
bbb-	-	-	-	-	23,661	2,484	-	280,041	4,453	-	-	-	-	310,639
bb+	-	-	-	35,023	26,418	4,246	-	117,772	8,780	-	-	-	-	192,239
bb	-	-	-	-	52,108	10,961	-	25,046	27,114	-	-	-	-	115,229
bb-	-	-	-	-	4,475	501	-	-	10,627	-	-	-	-	15,603
b+	-	260,495	-	-	1,423	2,229	-	-	1,188	-	-	-	-	265,335
b	-	-	7,073	-	1,089	1,800	-	-	24,516	-	-	-	-	34,478
b-	-	-	-	-	556	1,889	-	-	-	-	-	-	-	2,445
ccc+	-	-	-	-	-	100	-	-	-	-	-	-	-	100.00
ccc	-	-	-	-	-	-	-	-	-	-	-	-	-	0
d	-	-	-	-	-	-	-	-	-	38,506	-	497	-	39,003
At 31 December 2020	229,954	333,665	7,073	35,023	186,705	27,786	-	730,825	103,555	38,506	61,808	497	7,083	1,762,480

The total exposure is higher than the total assets due to undrawn credit facilities and off balance sheet commitments.

15. TAXATION

Bank	2021	2020
	£000	£000
UK Corporation Tax		
- current tax for the year	1,889	3,285
- prior year current tax adjustment	828	291
	<u>2,717</u>	<u>3,576</u>
Deferred tax for the year	(5,478)	(3,840)
Prior year adjustment to deferred tax	(79)	(118)
Tax credit in income statement	<u>(2,840)</u>	<u>(382)</u>

The tax credit for the year is higher (2020 tax credit: higher) than the standard rate of corporation tax which is explained as follows:

Bank	2021	2020
	£000	£000
Reconciliation of effective tax rate		
(Loss) / profit for the year before tax	<u>(7,176)</u>	<u>530</u>
(Loss) / profit for the year multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	(1,363)	101
Derecognition of deferred tax related to capital allowances transferred to fellow subsidiary	714	-
Movement in unrecognised deferred tax	(259)	(309)
Tax exempt income	(329)	(336)
Expenses not deductible for tax purposes	91	109
Tax on controlled foreign companies	323	292
Prior year adjustment - current tax	828	291
Prior year adjustment - deferred tax	(79)	(118)
Impact of Share Based Payments	-	(27)
Effect of change in tax rates	<u>(2,766)</u>	<u>(385)</u>
Tax credit in income statement	<u>(2,840)</u>	<u>(382)</u>

The main rate of corporate tax for the year ended 31 December 2021 is 19% (2020: 19%). Legislation was introduced in the Finance Bill 2020 to amend the main rate of Corporation Tax to 19% for financial years 2020 and 2021.

It was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. The Finance No.2 Bill 2021 became substantively enacted on 24 May 2021. As a result, deferred tax assets related to temporary differences which are forecast to unwind on or after 1 April 2023 have been recognised at a corporation tax rate of 25%. Temporary differences that are forecast to unwind before 1 April 2023 have been recognised at a corporation tax rate of 19%.

Tax recognised in other comprehensive income

Bank	2021 £000	2020 £000
Fair value reserve:		
-current tax	-	-
-deferred tax	(47)	(22)
	<u>(47)</u>	<u>(22)</u>

Deferred tax

A deferred tax asset (DTA) is recognised on deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which these can be utilised. The Bank has been profitable in the previous three consecutive years and has forecast taxable profits in future years. Based on the evidence, Management has recognised a DTA as at 31 December 2021 on accelerated depreciation of £12.5m (net) (2020: £7.2m) and other temporary differences of £0.6m (net) (2020: £0.3m).

Movements in deferred tax balances (net)

Bank - 2021	Balance at 1 January £000	Recognised in profit or loss £000	Recognised in OCI/Equity £000	Balance at 31 December £000
Accelerated depreciation	7,178	5,317	-	12,495
Tax losses carried forward	-	-	-	-
Other temporary differences	317	240	47	604
Deferred tax assets	7,495	5,557	47	13,099

Bank - 2020	Balance at 1 January £000	Recognised in profit or loss £000	Recognised in OCI/Equity £000	Balance at 31 December £000
Accelerated depreciation	1,249	5,929	-	7,178
Tax losses carried forward	1,812	(1,812)	-	-
Other temporary differences	1,436	(159)	(960)	317
Deferred tax assets	4,497	3,958	(960)	7,495

Unrecognised deferred tax assets (gross)

Bank	2021 £000	2020 £000
Accelerated depreciation	-	853
Tax losses carried forward	-	-
Other temporary differences	-	-
Deferred tax assets	-	853

16.CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

Bank	1 January 2021	Cashflows	FX Movement	Changes in Fair Value	Other	31 December 2021
	£000	£000	£000	£000	£000	£000
Lease liabilities	4,136	(1,086)	4	296	109	3,459

Bank	1 January 2020	Cashflows	FX Movement	Changes in Fair Value	Other	31 December 2020
	£000	£000	£000	£000	£000	£000
Lease liabilities	5,107	(1,105)	(4)	-	138	4,136

17.DUE FROM FINANCIAL INSTITUTIONS AND CUSTOMERS

Due from Institutions

	0 - 3 months	4 - 12 months	1 - 5 years	Over 5 years	2021
	£000	£000	£000	£000	£000
Commodity Murabaha	-	-	-	-	-
Wakala	19,940	17,221	370,743	72,198	480,102
	19,940	17,221	370,743	72,198	480,102
Provision for impairment					(892)
					479,210
IFRS 9 Stage 1 and 2 ECL					(892)
					(892)

Due from Institutions

	0 - 3 months	4 - 12 months	1 - 5 years	2020
	£000	£000	£000	£000
Commodity Murabaha	73,170	-	-	73,170
Wakala	8,922	6,931	251,715	267,568
	82,092	6,931	251,715	340,738
Provision for impairment				(1,109)
				339,629
IFRS 9 Stage 1 and 2 ECL				(1,109)
				(1,109)

Due from Customers	0 - 3 months	4 - 12 months	1 - 5 years	2021
	£000	£000	£000	£000
Wakala	25,011	-	-	25,011
	25,011	-	-	25,011
Provision for impairment				(18)
				24,993

Due from Customers	0 - 3 months	4 - 12 months	1 - 5 years	2020
	£000	£000	£000	£000
Wakala	34,467	-	-	34,467
	34,467	-	-	34,467
Provision for impairment				(2)
				34,465

18. INVESTMENT SECURITIES

Bank	Listed	Unlisted	2021
	£000	£000	Total
			£000
Fair value through other comprehensive income			
Equity	-	321	321
Sukuk	23,568	-	23,568
Investment in subsidiaries at cost	-	20,873	20,873
Amortised cost			
Sukuk	15,046	-	15,046
	38,614	21,194	59,808
Provision for impairment			(1)
			59,807
IFRS 9 Stage 1 and 2 ECL			(1)
IFRS 9 Stage 3 ECL			-
			(1)

See page 100 in Note 37 for further detail on fair value measurements of investment securities.

Bank	Listed £000	Unlisted £000	2020 Total £000
Fair value through other comprehensive income			
Equity	-	318	318
Sukuk	37,542	-	37,542
Investment in subsidiaries at cost	-	28,711	28,711
Amortised cost			
Sukuk	24,266	-	24,266
	61,808	29,029	90,837
Provision for impairment			(2)
			90,835
IFRS 9 Stage 1 and 2 ECL			(2)
IFRS 9 Stage 3 ECL			-
			(2)

Investment in subsidiaries includes £0.003m in Aspenway Limited and £20.87m in AQ1 Limited (2020: £6.84m in Aspenway Limited and £21.87m in AQ1 Limited).

19. FINANCING ARRANGEMENTS

These tables represent contractual maturities.

Bank	Less than 1 year £000	1 - 5 years £000	Over 5 years £000	2021 Total £000
Murabaha	744,959	70,648	-	815,607
	744,959	70,648	-	815,607
Provision for impairment				(15,289)
				800,318
IFRS 9 Stage 1 and 2 ECL				(2,014)
IFRS 9 Stage 3 ECL				(13,275)
				(15,289)

Refer to Note 14 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

Bank	Less than 1 year £000	1 - 5 years £000	Over 5 years £000	2020 Total £000
Murabaha	738,991	94,194	-	833,185
	738,991	94,194	-	833,185
Provision for impairment				(14,023)
				819,162
IFRS 9 Stage 1 and 2 ECL				(1,679)
IFRS 9 Stage 3 ECL				(12,344)
				(14,023)

20. FINANCE LEASE RECEIVABLES

Bank	2021	2020
	£000	£000
Gross investment in finance lease receivables		
Within one year	921	50,268
One to five years	3,444	60,792
Over five years	1,018	3,090
	<u>5,383</u>	<u>114,150</u>
Hire purchase		
Within one year	15,477	38,505
One to five years	24,242	67,580
Over five years	113	911
	<u>39,832</u>	<u>106,996</u>
Unearned future income on finance leases	(196)	(5,856)
Unearned future income on hire purchase	(2,207)	(6,707)
IFRS 9 Stage 1 & 2 ECL	(36)	(1,276)
IFRS 9 Stage 3 ECL	(21)	-
Net investment in finance leases and hire purchase	<u>42,755</u>	<u>207,307</u>
The net investment in finance leases comprises:		
Within one year	848	46,866
One to five years	3,318	57,892
Over five years	1,006	3,049
	<u>5,172</u>	<u>107,807</u>
The net investment in hire purchase comprises:		
Within one year	14,308	34,527
One to five years	23,163	64,084
Over five years	112	889
	<u>37,583</u>	<u>99,500</u>
Net investment in finance leases and hire purchase	<u>42,755</u>	<u>207,307</u>

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

The risk associated with the underlying asset is mitigated by the mandatory insurance cover taken out by the customer. The Bank also monitors the value of the underlying asset which is provided as collateral to ensure there is sufficient coverage of the exposure.

Refer to Note 14 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

21. PROPERTY AND EQUIPMENT

Bank	Computer Equipment £000	Office Equipment £000	Fixtures & Fittings £000	Buildings £000	Total £000
Cost					
At 1 January 2021	604	78	2,184	4,819	7,685
Additions	15	-	-	302	317
Disposals	-	-	-	-	-
FX differences	-	-	-	(1)	(1)
At 31 December 2021	619	78	2,184	5,120	8,001
At 1 January 2020	532	78	2,184	4,818	7,612
Additions	72	-	-	-	72
Disposals	-	-	-	-	-
FX differences	-	-	-	1	1
At 31 December 2020	604	78	2,184	4,819	7,685
Depreciation					
At 1 January 2021	532	75	2,184	1,624	4,415
Charge for the year	26	3	-	775	804
Disposals	-	-	-	-	-
At 31 December 2021	558	78	2,184	2,399	5,219
At 1 January 2020	530	70	2,176	829	3,605
Charge for the year	2	5	8	795	810
Disposals	-	-	-	-	-
At 31 December 2020	532	75	2,184	1,624	4,415
Net Book Value					
At 31 December 2021	61	-	-	2,721	2,782
At 31 December 2020	72	3	-	3,195	3,270

Buildings relate to right-of-use assets recognised in line with IFRS 16 *Leases* in relation to the Bank's leased premises. See Note 28 for further detail.

22. OPERATING LEASE ASSETS

These operating lease assets arose when the Bank was the lessor in a leasing arrangement.

Bank	At 31					At 31
	December	Additions	Disposals	Transfers	Depreciation	December
	2020	2021	2021	2021	2021	2021
	£000	£000	£000	£000	£000	£000
Gross carrying amount	-	-	-	-	-	-
Less depreciation	-	-	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Provision for impairment						-
						<u>-</u>

Bank	At 31					At 31
	December	Additions	Disposals	Transfers	Depreciation	December
	2019	2020	2020	2020	2020	2020
	£000	£000	£000	£000	£000	£000
Gross carrying amount	49,021	-	(1,010)	(48,011)	-	-
Less depreciation	(9,813)	-	760	14,181	(5,128)	-
	<u>39,208</u>	<u>-</u>	<u>(250)</u>	<u>(33,830)</u>	<u>(5,128)</u>	<u>-</u>
Provision for impairment						-
						<u>-</u>

Transfers in 2020 related to assets transferred to Walbrook Asset Finance Limited a fellow subsidiary undertaking.

The Bank's investment in operating lease assets covered a wide range of equipment types, including transport, commercial vehicles, construction and heavy machinery equipment.

23. INTANGIBLE ASSETS

Bank	2021	2020
Cost	£000	£000
Opening balance	5,643	5,643
Additions	-	-
Disposals	-	-
Closing balance	<u>5,643</u>	<u>5,643</u>
Amortisation and impairment losses		
Opening balance	5,643	5,587
Charge for the year	-	56
Disposals	-	-
Closing balance	<u>5,643</u>	<u>5,643</u>
Net Book Value	<u>-</u>	<u>-</u>

Intangible assets consist of computer licences and software development.

24. OTHER ASSETS

Bank	2021	2020
	£000	£000
Amounts due from fellow subsidiary of BLME Holdings Limited	4,210	-
Amounts due from fellow subsidiary of majority shareholder	2,867	-
Collateral deposits*	1,170	266
Prepayments	961	862
Collateral assets**	-	356
Foreign exchange forward contracts***	698	2,949
Other receivables and assets	1,813	2,893
	11,719	7,326

* Includes cash collateral deposits of £0.03 million (2020: £0.03 million) pledged as security against rental payments on office premises.

** Collateral assets relates to seized assets from customers in default.

*** Foreign exchange forward contracts relates to deal balances with a notional contract amount of £36.2 million (2020: £126m). Further disclosure on the Bank's foreign exchange forward deals is covered in Note 37.

25. DUE TO FINANCIAL INSTITUTIONS

Bank	2021	2020
	£000	£000
Reverse Murabaha	153,139	116,906
Wakala	119,466	69,029
	272,605	185,935

26. DUE TO CUSTOMERS

Bank	2021	2020
	£000	£000
Customer deposits	1,025,857	1,291,308
Security deposits	6,030	9,406
	1,031,887	1,300,714

27. OTHER LIABILITIES

Bank	2021	2020
	£000	£000
Trade payables	82	70
VAT payable	110	4,306
Social security and income tax	389	280
Accruals	8,223	6,873
Collateral advance	81	1,661
Lease liability*	3,459	4,137
Other creditors**	1,963	4,400
	14,307	21,727

*Refer to Note 28 for further detail on lease liabilities recognised in line with IFRS 16.

**Other creditors includes a foreign exchange forward deal balance of £1.7m (2020: £0.6m) with a notional contact amount of £70m (2020: £64m). Further disclosure on the Bank's foreign exchange forward deals is covered in Note 37.

28. LEASES

The Bank has lease contracts for office premises in London and Dubai. Leases of offices have lease terms between 1 and 10 years. The Bank's obligations under its leases are stipulated in the respective lease agreements. Generally, the Bank is restricted from assigning and subleasing its leased assets with the exception of the head office premises in London which does permit subletting by way of an unsecured underletting. Some of the lease contracts include extension and termination options.

The Bank applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for certain leases.

Set out below are the carrying amounts of right-of-use assets (included within property and equipment) recognised and the movements during the year:

	Buildings £000
At 1 January 2021	3,195
Additions	302
Depreciation expense	(775)
Foreign currency translation adjustments	(1)
At 31 December 2021	<u>2,721</u>
	Buildings £000
At 1 January 2020	3,989
Additions	-
Depreciation expense	(795)
Foreign currency translation adjustments	1
At 31 December 2020	<u>3,195</u>

Set out below are the carrying amounts of lease liabilities (included under other liabilities) and the movements during the year:

	2021 £000
At 1 January 2021	4,136
Additions	296
Accretion of finance charges	109
Payments	(1,086)
Foreign currency translation adjustments	4
At 31 December 2021	<u>3,459</u>
	2020 £000
At 1 January 2020	5,107
Additions	-
Accretion of finance charges	138
Payments	(1,105)
Foreign currency translation adjustments	(4)
At 31 December 2020	<u>4,136</u>

The maturity analysis of lease liabilities is as follows:

At 31 December 2021	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Future lease payments (undiscounted)	-	242	777	2,625	-	3,644
Total future finance charges						(185)
Lease liability						3,459

At 31 December 2020	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Future lease payments (undiscounted)	-	241	793	3,388	-	4,422
Total future finance charges						(286)
Lease liability						4,136

Further detail on how the Bank manages its liquidity risk inherent in its financial liabilities is disclosed in section (b) of Note 37.

The following are the amounts recognised in profit or loss:

	2021 £000	2020 £000
Depreciation expense of right-of-use assets	775	795
Finance charge on lease liabilities	109	138
Total amount recognised in profit or loss	884	933

Depreciation expense of right-of-use assets is disclosed in Note 21 while finance charge on lease liabilities is included in rent and other occupancy costs per Note 13.

The Bank had total cash outflows for leases of £1.1m in the year (2020: £1.1 m). The Bank had non-cash additions to right-of-use assets and lease liabilities of £0.3m and £0.3m respectively in the year (2020: £nil and £nil).

The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3 (c) on page 51).

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term:

	Within five years £000	More than five years £000	Total £000
Extension options expected not to be exercised	4,832	-	4,832
At 31 December 2021	4,832	-	4,832

	Within five years	More than five years	Total
	£000	£000	£000
Extension options expected not to be exercised	4,832	-	4,832
At 31 December 2020	4,832	-	4,832

29. INVESTMENT IN JOINT VENTURES

The Bank holds 50% of the voting rights in Waterfront Holdings Limited (“Waterfront”) giving it joint control of the entity. The primary purpose of Waterfront is the ownership of an investment property in Edinburgh in the United Kingdom through its wholly owned subsidiary Waterfront Property Limited.

The Bank holds a 10.13% (2020: 14.18%) equity interest in Waterfront having initially planned to sell all but 10% of its investment. The Bank does not intend to sell the residual excess amount above 10% of 0.13%. Accordingly, 10.13% is accounted for using the equity method (2020: 10%) with no balance (2020: 4.18%) accounted for as an asset classified as held for sale per IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Waterfront is a private entity that is not listed on any public exchange.

The following table illustrates the summarised financial information of the Bank’s investment in Waterfront:

Statement of Financial Position	2021	2020
	£000	£000
Cash and cash equivalents	836	780
Other assets	64	1,119
Investment properties	26,950	25,827
Total assets	27,850	27,726
Other liabilities	595	529
Due to financial institutions	15,840	15,779
Total liabilities	16,435	16,308
Net Assets	11,415	11,418
Bank's share in the Net Assets - 10.13% (2020: 10%)	1,157	1,142

Income Statement	2021	2020
	£000	£000
Revenue	1,577	1,569
Unrealised profit / (loss) on revaluation of investment	121	(573)
Management and advisory fees	(184)	(187)
Murabaha profit expense	(479)	(480)
Other expenses	(54)	(47)
Profit before tax	981	282
Income tax expense	(23)	(31)
Profit for the year	958	251

The joint venture had no contingent liabilities or capital commitments as at 31 December 2021 (2020 – none).

Movements in Waterfront Holdings Limited carrying amounts

	2021	2020
	£000	£000
Opening balance	1,142	1,216
Reclassification from Assets Held for Sale	15	-
Share of profit equity-accounted investees, net of tax	98	25
Dividends received	(98)	(99)
Closing net book amount	1,157	1,142

30.ASSETS HELD FOR SALE

As described in Note 29, the Bank committed to a plan to sell all but 10% of its interest in Waterfront Holdings Limited ("Waterfront"). This is in line with the investment memorandum provided to all eligible prospective investors. Accordingly, historically the excess of the Bank's investment above 10% was presented as an asset held for sale (2020: 4.18%). During the year, the Bank sold 4% of its interest in Waterfront (2020: 17%).

Assets held for sale	£000
Opening balance as at 1 January 2021	477
Amounts sold during the year	(500)
Other movements	38
Reclassification to investment in joint ventures	(15)
Closing balance as at 31 December 2021	-

Assets held for sale	£000
Opening balance as at 1 January 2020	2,575
Amounts sold during the year	(2,100)
Other movements	2
Closing balance as at 31 December 2020	477

There are no cumulative income or expenses included in OCI relating to assets held for sale.

The asset held for sale is included within the Wealth Management reportable segment of the Bank.

31.CONTINGENT LIABILITIES

Except for the cost recharge arrangements described in Note 35 in conjunction with BB2 Digital and Technology Services Limited, there are no contingent liabilities as at 31 December 2021 to be disclosed (2020: none).

32. SHARE CAPITAL AND SHARE PREMIUM

Bank	Number of shares	Share capital £000	Share premium £000
Allotted, called up and fully paid 25p per ordinary share			
At 31 December 2020	195,733,691	48,933	140,623
At 31 December 2021	195,733,691	48,933	140,623

During 2018 the Bank reduced its Share Premium account by £40 million with the resulting credit balance being transferred into Retained Earnings. This was conducted by way of a Special Resolution of BLME passed in accordance with section 283 of the Companies Act 2006 at a general meeting of BLME duly convened and held on 22 August 2018. This process was formally approved by the High Court of Justice in London and became effective on 25 September 2018.

In 2015 the Bank reduced its Share Premium account by £25 million with the resulting credit balance being transferred into Retained Earnings. This was conducted by way of a Special Resolution of BLME passed in accordance with section 283 of the Companies Act 2006 at a general meeting of BLME duly convened and held on 24 November 2015. This process was formally approved by the High Court of Justice in London and became effective on 16 December 2015.

In 2013, as part of the preparation of the BLME Bank for Admission to the Official List of Securities of Dubai Financial Services Authority and Admission to Trading on Nasdaq Dubai, a corporate reorganisation was implemented by means of a Court-approved scheme of arrangement under sections 895 to 899 of the UK Companies Act. Pursuant to the Scheme of Arrangement, BLME's Shareholders exchanged their ordinary shares in Bank of London and The Middle East plc for a beneficial interest in the ordinary shares of BLME Holdings plc.

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

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

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

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

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

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

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

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

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

33. CAPITAL CONTRIBUTION

Bank	2021	2020
	£000	£000
<u>Assumption of share incentive scheme liabilities by parent company:</u>		
Opening balance	3,527	3,527
Equity-settled share-based payment awards	-	-
Tax on items transferred directly to equity	-	-
Closing balance at 31 December	<u>3,527</u>	<u>3,527</u>

Pursuant to a scheme of arrangement under sections 895 to 899 of the UK Companies Act that was implemented on 2 October 2013, all existing options under the Bank of London and The Middle East plc share incentive plans lapsed and replacement options were offered by BLME Holdings plc on substantially the same terms and conditions.

Furthermore, Bank of London and The Middle East plc was relieved of its obligations under the share incentive plans and those responsibilities were assumed by BLME Holdings plc for no consideration.

As this transaction was a non-monetary transaction for no consideration with a parent company, it was in effect additional investment in Bank of London and The Middle East plc by BLME Holdings plc. Therefore Bank of London and The Middle East plc derecognised its share-based payment reserve and recognised a corresponding increase in equity as a contribution from its parent company.

34. PARENT COMPANY AND SUBSIDIARIES

As at 31 December 2021 the Bank's ultimate parent undertaking was Boubyan Bank K.S.C.P, a public shareholding company incorporated in Kuwait and listed on the Kuwait Stock Exchange. The Bank's immediate parent undertaking is BLME Holdings Limited, a limited liability company incorporated in the UK and domiciled in England & Wales. BLME Holdings Limited is the parent undertaking of the largest and the smallest group of undertakings in the UK for which Group consolidated financial statements are drawn up and of which the Bank is a member. Copies of the Consolidated Group financial statements of BLME Holdings Limited can be obtained from the Company Secretary, BLME Holdings Limited, Cannon Place, 78 Cannon Street, London EC4N 6HL.

Below is the list of the subsidiaries directly held by the Bank of London and The Middle East plc.

Principal Subsidiaries	Country of incorporation and principal operations	BLME interest in equity capital	Issued equity capital (£)	Profit for the year (£'000)	Principal business activity	Ultimate parent undertaking	Immediate parent undertaking
Directly held:							
BLME Asset Management Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
BLME Holdco Limited	United Kingdom	100%	£102	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
BLME Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
Global Liquidity Solutions Limited	United Kingdom	100%	£1	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
MKL Construction Equipment Finance Limited	United Kingdom	60%	£1,000	889	Leasing	Boubyan Bank K.S.C.P.	BLME plc
Renaissance Property Finance Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
Renaissance Trade Finance Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
AQ1 Limited	Jersey	84%	£24,870,010	262	Investment Holding Company	Boubyan Bank K.S.C.P.	BLME plc
Aspenway Limited	Jersey	56%	£5,021	146	Investment Holding Company	Boubyan Bank K.S.C.P.	BLME plc

The registered office address for all subsidiaries incorporated in the United Kingdom is:

Cannon Place, 78 Cannon Street, London, EC4N 6HL

AQ1 Limited: Fifth Floor, 37 Esplanade, St Helier, Jersey JE1 2TR, Jersey

Aspenway Limited Ltd: 26 New Street, St Helier, Jersey JE2 3RA, Jersey

The Board of BLME Holdings Limited has agreed to guarantee the liabilities of MKL Construction Equipment Finance Limited, registered company number 09019700, in order that it qualifies for the exemption available under Section 479C of the Companies Act 2006 in respect of the requirement for an audit of its annual financial statements for the year ended 31 December 2021. The liabilities of MKL Construction Equipment Finance Limited at the year-end was £246,832.

35. RELATED PARTIES

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

	Relationship	2021 £000	2020 £000
Boubyan Bank K.S.C.P	Majority shareholder		
Wakala placement		260,900	187,434
Wakala deposit taking		321,426	389,213
Participation deposit		28,144	75,181
The Public Institution for Social Security *	Shareholder		
Reverse Murabaha		300,081	269,737
NBK SAKP, Bahrain Branch	Branch of a fellow subsidiary of majority shareholder		
Reverse Murabaha		128,078	69,260
Commodity Murabaha		-	7,753
Exchange of deposit (receivable)		-	33,455
Exchange of deposit (payable)		-	55,667
NBK International PLC	Fellow subsidiary of majority shareholder		
Reverse Murabaha		-	37,653
Commodity Murabaha		-	50,000
National Bank of Kuwait	Parent of majority shareholder		
Commodity Murabaha		143,781	5,000
Walbrook Asset Finance Limited	Fellow subsidiary of BLME Holdings Limited		
Wakala placement		231,475	282,129
Foreign currency transactions		2,310	-
Working capital facility		29,752	117,771
Portfolio management and agency fees		2,222	1,962
Overhead charges for managed services		454	1,500

* The Public Institution for Social Services is not a related party under IAS 24.11

As at 31 December 2021, Boubyan Bank K.S.C.P held an economic interest of 71.08% of the Parent Company's voting shares (2020: 71.08%).

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

Included within:	2021 £000	2020 £000
Due to financial institutions		
Reverse Murabaha	-	109,737

As at 31 December 2021, The Public Institution for Social Security held 7.5% (2020: 7.5%) of the Parent Company's voting shares and its Chief Investment Officer (Liquid Investment Sector) is a member of the Parent Company's board and the Company's board.

All deposits with related parties (outstanding balances that are classified as *due to financial institutions*) are treated as interbank deposits. They are dealt using the standard wholesale template Wakala / Commodity Murabaha documentation i.e., the same treatment that would be applied for any other interbank deposit. There are no collateral arrangements in relation to these.

The amounts outstanding with related counterparties as at 31 December were as follows:

	Relationship	2021 £000	2020 £000
Boubyan Bank K.S.C.P.	Majority shareholder		
Cash and balances with banks			
Nostros		222	710
Due from financial institutions			
Wakala placement		13,002	-
Due to financial institutions			
Wakala deposit taking		-	23,575
Financing arrangements			
Participation deposit*		-	14,412
NBK SAKP Bahrain Branch	Branch of a fellow subsidiary of majority shareholder		
Due to financial institutions			
Reverse murabaha		43,174	-
Exchange of deposit		-	-
NBK International PLC	Fellow subsidiary of majority shareholder		
Due to financial institutions			
Reverse murabaha		-	7,163
Walbrook Asset Finance Limited	Fellow subsidiary of BLME Holdings Limited		
Wakala deposit taking		461,099	292,884
Working capital facility		2,000	-
Other assets		4,210	-
Other liabilities		-	1,261
MKL Construction Equipment Finance Limited	Subsidiary		
Other assets		193	-

*This arrangement is on an arm's length basis. No collateral has been provided with respect to this arrangement.

The above related party balances are unsecured, and settlement occurs in cash. The Company funds Walbrook Asset Finance Limited through block and working capital facilities and is committed to continue to make these facilities available for the foreseeable future.

The Company has an agreement in place with BB2 Digital and Technology Services Limited ("BB2 TechCo"), a fellow subsidiary of Boubyan Bank K.S.C.P., to be reimbursed for all costs incurred in the development and related expenditure of Nomo until the business unit becomes profitable. Upon Nomo becoming profitable, the Company will reimburse BB2 TechCo for all development costs incurred through a recharge which is capped by the annual profits generated by Nomo. Once those costs have been fully recuperated by BB2 TechCo, 45% of annual net profits generated by Nomo will be paid to BB2 TechCo as part of a commercial agreement.

The total amount to be reimbursed to BB2 TechCo and the repayment period cannot be reliably measured due to uncertainty over the timing and quantum of profitability. Furthermore, repayment is contingent on the Nomo business

unit being profitable. Cost recharged to BB2 TechCo as of 31 December 2021 are £2,666,891. If Nomo did not come to profitability there would be no overall cost to the Company.

BB2 TechCo is a member of the BLME Holdings Limited VAT group registration with HMRC. During the year the Company made payments to HMRC in respect of BB2 TechCo amounting to £198,862 (2020: £Nil). As of 31 December 2021 there was a VAT related balance of £198,862 due to the Company from BB2 TechCo (2020: £Nil).

As of 31 December 2021 there was a balance of £1,567 due to the Company from BB2 TechCo in respect of marketing incentives (2020: £Nil).

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

	2021	2020
	£000	£000
Key management emoluments *	1,478	1,299
Bank contributions to pension plans	20	11
	<u>1,498</u>	<u>1,310</u>

* Key management emoluments includes other long-term benefits of £0.15m (2020: £nil).

Details of five Directors who sold their shares in the parent company in 2020 in conjunction with the cash offer by Boubyan Bank K.S.C.P., is disclosed in the Director’s report of BLME Holdings Limited.

36.SUBSEQUENT EVENTS

The Directors are not aware of any matters or circumstances that have occurred since the end of the financial year that have significantly affected or may significantly affect the operations of the Bank, the results of those operations or the state of affairs of the Bank in subsequent financial years.

37. FINANCIAL RISK MANAGEMENT

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

- credit risk
- liquidity risk
- market risk
- operational risk (including cyber and conduct risk)
- capital risk

The following presents information about the Bank’s exposure to each of the above risks, the Bank’s objectives, policies and processes for measuring and managing these risks, and the management of capital.

The Bank’s strategic business objectives include the following:

- Expansion of its presence in the Gulf Cooperation Council (GCC) states and the Middle East;
- Continued development of a digital banking offering; and
- Continue to reduce exposure to capital intensive and non-strategic business lines.

Risk management framework

The Bank's risk management framework ("RMF") provides the foundation for ensuring that business 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 Bank'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 – the process of determining risks that could potentially prevent BLME from achieving its goals and objectives;
- Risk assessment – a careful examination and quantification of the impact and likelihood of potential events;
- Risk mitigation – a strategy to prepare for and reduce the adverse effects and exposure to risks and their likelihood of occurrence. Risk mitigation is achieved through establishing 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;
- Assurance – assurance and advice are provided by the Bank's Third Line of Defence where the Internal Audit function provides the Board with independent, objective assurance or advice whether the risk management, control and governance processes are adequate and operating in line with expectations. Additional assurance is provided by external audit; and
- Monitoring and reporting – the Second Line of Defence is responsible for monitoring the operation of the controls and adherence to risk direction and limits.

The RMF provides the necessary discipline to oversee risks comprehensively through the Bank and in line with the Board Risk Appetite, and the overall strategy.

The constituting elements of the RMF are:

- Sharia'a principles;
- BLME governance;
- Business strategy, vision, values and culture;
- Risk appetite;
- Risk management approach;
- Policies and procedures;
- Infrastructure; and
- Training, remuneration and rewards.

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 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 Bank are described below, together with details of how these risks are managed. Quantitative information indicates the amounts of such risks at the reporting date. The amounts at the reporting date are indicative of the amounts of such risks which have been experienced throughout the year.

Impairment of Financial assets

- **Customer Classifications – Normal, Watchlist and Asset Recovery Unit**

BLME operates a 3-step customer classification system:

- Normal
- Watchlist
- Asset Recovery Unit

Counterparties are classified in these categories based on a set of Judgemental Trigger Events (Early Warning Indicator's) which once triggered will require escalation.

Normal

Normal customer classification are those for which no adverse material credit information has been identified and does not trigger either Watchlist or ARU classification.

As part of the Normal customer classification the First Line of Defence ('1LOD') have ongoing primary responsibility, supported by the Second Line of Defence ('2LOD'), for identifying any Early Warning Indicator's from judgemental trigger events for consideration of a transfer to either Watchlist or ARU.

Watchlist

Watchlist classification is for customers that require increased Credit oversight due to connection concerns. Watchlist classified names would typically exhibit one or more Judgemental Trigger Events. Additionally, any customer with a currently granted item of Forbearance requires mandatory Watchlist classification (unless classified as ARU).

These **Judgemental Trigger Events** (Early Warning Indicator's) include, but are not limited to:

- Weak or weakening financial performance (including existence of a Red (14-17) rating or deterioration to an Orange (11-13) rating)
- Unpaid VAT, PAYE, NI or Tax
- Loss or death of key manager
- Non-payment of scheduled profit or capital, albeit wider consideration of the exceptional circumstances caused by the COVID-19 pandemic is discussed in further detail later in this note
- Covenant or other such documented condition breach including collateral values and profit rate covenants
- Obligor's sources of recurring income are no longer available to meet BLME finance payments
- Concerns about the obligor's future ability to generate stable and sufficient cash flows
- Negative shareholder's funds
- Legal action by other creditors (incl. CCJs)
- Other banks requesting collateral
- Auditor's qualification
- Non-respect of important commitments
- Regular payment problems
- Improper use of credit lines
- Request for consolidation or renegotiation of credits
- Known or suspected reputational or regulatory damage
- Fraud
- Delayed project progress
- External market considerations, i.e. credit spreads, credit ratings and sector risks

Notwithstanding the above, the Credit department would reserve the right to recommend that any name is elevated to Watchlist status. Furthermore, depending on mitigating circumstances Credit can recommend to CCRC that any name is removed from the Watchlist.

As part of this process where counterparties show judgemental trigger events and are not considered to warrant transfer to Watchlist details of why are to be documented and reported where appropriate to CCRC with the client remaining under Normal classification.

The Bank's Credit Watchlist is maintained by the Credit Risk Management department and is subject to monthly presentation to CCRC.

Recommendations for Watchlist classification may be made by the relevant business area (1LOD) or Credit Managers (2LOD) with acceptance to Watchlist approved by Head of Credit Risk Management and ratified by CCRC.

Removal criteria from Watchlist would either be:

- On a downgrade to ARU classification
- All obligations to the Bank being extinguished
- On an upgrade to Normal classification – where no currently granted forbearance and no Judgemental Triggers are evident over a suitable recovery period. The recovery period requires to be a minimum of 3 months and would usually see evidence of at least all of:

- 2 satisfactory covenant tests
- 3 monthly payments/2 quarterly payments being made
- 3 months of satisfactory financial information.

A recommendation for removal from the Watchlist can be made from the relevant business area (1LOD) or Credit Managers (2LOD) with removal being approved by Head of Credit Risk Management.

Asset Recovery Unit (ARU)

ARU classified cases are those where BLME are or could be faced with a non performing exposure (NPE) situation and specialist intensive care is required either to:

- Restructure exposure with a view to returning to normal status
- Restructure exposure with a view to achieving a bank/customer consensually managed exit of the connection
- Recover assets/realise security to pay outstanding finance.

ARU classification occurs as a result of:

- Mandatory Default trigger criteria being met
- Judgemental Trigger(s) being met and the customer being considered to be in a distressed situation
- A Normal/Watchlist designated connection which has previously been ARU designated and is currently on the Forbearance Register either requesting/requiring further forbearance or having a 30 days past due position

It is possible that Judgemental triggers are evident however if the customer is not considered to be distressed (e.g. minor covenant breach that will be reset/waived) ARU classification is not considered appropriate.

Responsibility for identifying ARU cases primarily sits with the 1LoD. Review and Challenge is provided by the 2LoD. ARU classification is finally approved by CCRC after recommendation by either Head of Credit Risk Management, ARU designated Credit Manager (2LOD) or automatically if Mandatory Default Triggers are met.

Appointment of administrators/receivers

Where Bank customers experience financial distress, the Bank will work with the client to try to find a consensual way forward. However, in some circumstances this may not be possible and in order to protect the Bank's position it may be deemed necessary to take appropriate measures to protect the Bank's position, for example by appointing an insolvency practitioner to take possession of property subject to the Bank's security. The Bank will also ensure that any decisions to appoint are only taken through the appropriate governance, with the Legal department engaged as required to support the appointment of the relevant professionals by the Bank.

In taking any action, the Bank is mindful to comply with all laws and regulations which apply to it and the activities it is undertaking. In particular, the Bank is mindful of its responsibilities and ensuring that we deliver the right outcome for the customer and ensure that any vulnerable customers are dealt with appropriately for their circumstances. As part of this process we maintain appropriate policies in place to ensure these cases are dealt in a suitably sensitive manner and support these with staff training.

● **Definition of Default**

The presence of three Judgemental Trigger Events is considered sufficient to prompt a Basel II default classification however as an element of judgement is required, materiality requires to be taken into

consideration when assessing and therefore by definition a default rating does not necessarily require to be assigned. BLME defines default in line with EBA guidance for Non Performing Exposures in that a counterparty is considered to be in default if any of the following Mandatory Default Trigger Events occur:

- BLME considers that the obligor is 'Unlikely to Pay' its credit obligations to the institution through contractual cash flows, the parent undertaking or any of its subsidiaries in full, without recourse by the institution to actions such as realising security.
- The obligor is more than 90 Days Past Due on any material (over €500) equivalent credit obligation to the Bank.

It is considered that the following are strong indicators of an 'Unlikely to Pay' defined position and, under any of these circumstances, classification of a default position is highly likely to be seen:

- Placement of any credit obligation onto non-accrued status (profit no longer recognised by BLME as accrued income).
- A credit loss event associated with any obligation of the obligor occurs, such as recognition of the requirement for a Stage 3 provision, proposed distressed debt restructuring that would involve the forgiveness or postponement of principal/ profit/fees or the sale of the debt/asset at a discount.
- The obligor has filed for bankruptcy or similar protection from creditors where this would avoid or delay payment of any of the obligations to BLME.
- Any other situation where the bank considers that the financed part is unlikely to pay its credit obligations in full without recourse by the bank to actions such as realising security.

Additionally a combination of smaller factors (Judgemental Trigger Events – see in Watchlist section above) may also lead to a determination that the obligor would fall into the 'Unlikely to Pay' default category.

- **Internal rating and PD estimation process**

Probabilities of Default are owned by the Risk department and are approved by CCRC and ERC. These are regularly reviewed by Risk in line with the agreed formula for their calculation. All amendments to the methodology require ERC approval.

BLME Internal Credit Ratings follow a numerical scale (1-20) and are equated to ECAI ratings in accordance with the BLME Internal Credit Ratings Masterscale as follows:

	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	

It is the responsibility of the 1LOD to propose counterparty Credit ratings/changes to Credit Ratings with 2LOD responsibility to analyse, challenge, recommend and/or approve (as appropriate). 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. Customers with a BLME Internal Credit Rating greater than 17 are considered to be in default.

When determining a BLME Credit risk grade, various rating sources are used which are subject to the following hierarchy:

1. ECAI (Moody's, and Fitch only) long-term issuer rating
2. Moody's Creditedge rating (to be mapped to BLME Internal rating)
3. Moody's RiskCalc
4. Moody's Commercial Real Estate Model
5. Manual Rating

- **BLME Provisioning Guidelines**

Provisions are applied to all counterparty exposures and, based on IFRS 9 guidelines, are designated as 3 different stages:

Stage 1 and Stage 2 provisions are calculated automatically via internally managed Risk Systems. Stage 3 provisions are raised on connections that have been designated ARU status. Stage 3 provisions are calculated by the Business Unit (1LoD) and overviewed/recommended by Credit Risk Management (2LoD) to CCRC for approval.

Stage 1 & 2 IFRS 9 Model is owned by the 2LoD as per Prudential Risk with 2LoD being responsible for definition, accuracy and documentation of the Models.

For an instrument to be assigned to Stage 2 it must have experienced, since origination, a downgrade of 3 notches if it had the best rating (AAA to A-), 2 notches if it had ratings BBB+ to BB- and 1 notch if it had the worst ratings (B+ to C).

An instrument is also assigned to Stage 2 if it is 30 days past due, with no wider evidence of Significant Increase in Credit Risk.

An instrument is assigned to Stage 3 if it is listed as default and included in the bank's ARU list with other individually impaired connections. See further detail below.

ARU designated connections (and related Stage 3 provisions) are reported via an individual Facility Loss Reserve (FLR) template completed by the 1LoD and reviewed by the 2LoD for presentation to CCRC (unless individual Departmental Sub Policies allow otherwise):

- when there is a newly designated customer with ARU status
- for minimum quarterly review
- where a material deterioration in circumstances is seen
- where a material change to the provision level is considered appropriate
- when removal of ARU status is being proposed

There are legacy relationships within ARU currently where no 1LoD history or connection is available and these accounts will continue to be managed by the 2LoD until resolution.

When calculating Provision levels the following requires to be taken into consideration:

- Amount outstanding
- Profit already received from the customer but not taken into BLME P&L
- Cash expected to be received from customer payments, asset sales and rental income
- Other cash income expected
- All costs through to full payment/write off
- Timings of expected cash receipt/cost payment timings
- Assumptions supporting the above

A minimum of 2 sensitivity calculations are required to be undertaken on a Discounted Cash flow Analysis basis. Once individual sensitivity calculation provision figures have been undertaken, these are weighted (totalling 100%) to account for 'likeliness of occurring'. The final provision amount is calculated on a probability weighted approach.

- **Transfers between stage categorisation**

Once an asset has been moved from Stage 1 to Stage 2 there is no minimum 'cure' period before the asset can be moved back to Stage 1. There is no minimum 'cure period' before an asset can be moved from Stage 3 to

Stage 2 as defaulted assets are reviewed on a case-by-case basis. However, assets that have been upgraded from Stage 3 to Stage 2 require a minimum recovery period of three months before it can be upgraded to Stage 1.

For facilities that are classified as Watchlist, the Bank's policy does not dictate a specific credit risk rating after moving the asset from the Watchlist (Stage 2) back to Normal (Stage 1) and the rating is agreed on a case by case basis. As long as the asset is removed from the Watchlist and back to Normal, it is automatically classified as Stage 1. Recommendations for Watchlist classification can be made by the 1LoD or 2LoD with the acceptance to Watchlist approved by Head of Credit Risk Management and ratified by CCRC. The Watchlist is maintained by the Credit Risk Management Department and is subject to monthly presentation to CCRC.

a. Credit risk

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

i. Management of credit risk

The Bank manages credit risk by the use of Risk Appetite Statement, Portfolio Limits and Key Risk Indicators ("KRIs") within the Bank's Credit Risk Management Policy. These sector and business based expressions of credit risk appetite provide guidance on the acceptable level of credit exposure by counterparty rating, country and sector, including the adequacy of collateral. Credit risks are monitored on a daily basis and regularly re-assessed for creditworthiness.

The Board Credit Committee is a sub-committee of Board Risk Committee (BRC) established to review and agree decisions made by the CCRC that are outside of stated risk appetite and/or meet other escalation criteria. A separate Credit Risk Department, accountable to the CCRC, is responsible for oversight of the Bank's credit risk, including:

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

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

The Bank also employs a credit grading system, to facilitate monitoring of the quality of the overall portfolio and individual segments.

ii. Exposure by Statement of Financial Position line

The tables below present the Bank's exposure to credit risk on balance sheet financial instruments as at 31 December 2021, before taking account of any collateral held or other credit enhancements. The amounts at the current reporting date are indicative of the amounts at risk throughout the year.

Bank	2021	2020
	£000	£000
Cash and balances with banks	112,076	231,486
Due from financial institutions		
Murabaha	-	73,170
Wakala	479,210	266,459
Due from customers	24,993	34,465
Investment securities	59,807	90,835
Financing arrangements	800,318	819,162
Finance lease receivables	42,755	207,307
Other assets (Foreign exchange forward deals)	698	2,949
Total credit exposure	1,519,857	1,725,833

The Bank had no letters of credit or guarantees outstanding as at 31 December 2021 (2020: none). The Bank has a credit exposure to £79m in undrawn commitments (2020: £84m).

iii. Exposure by country of the financed counterparty

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

Bank	2021	2020
	£000	£000
GCC countries		
Kuwait	20,448	155,791
Qatar	5,156	5,933
Saudi Arabia	42,421	66,017
United Arab Emirates	11,372	16,624
EEA countries		
Ireland	-	752
United Kingdom	1,374,641	1,400,115
Other countries		
Jersey	20,873	28,711
New Zealand	-	730
Switzerland	-	-
USA	44,946	51,160
Total credit exposure	1,519,857	1,725,833

iv. Exposure by economic sector

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

Bank	2021	2020
	£000	£000
Financial services		
GCC financial institutions	51,871	182,453
UK financial institutions	615,591	523,013
Other financial institutions	65,505	79,553
Mining and quarrying	-	1,652
Manufacturing	1,568	12,234
Real estate	547,992	560,497
Transportation and storage	19,383	31,505
Government	-	14,384
Wholesale / Retail	-	28,065
Commodities	-	-
Energy	5,156	7,587
Construction	84,665	153,328
Education	-	-
Buy to let mortgages	120,299	93,871
Others	7,827	37,691
Total credit exposure	1,519,857	1,725,833

v. Credit risk quality

The Bank's credit quality and direct investments are managed by CCRC and the Assets & 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 table below shows the breakdown of credit quality as at 31 December 2021. Of the total portfolio 10% (31 December 2020: 17%) was directly rated by at least one of the ECAI, with 90% (31 December 2020: 83%) using internal ratings.

For counterparties not rated by the major ECAI the Bank determines underlying counterparty credit quality by use of rating agency systems including Moody's CreditEdge, Moody's RiskCalc and Moody's Commercial Real Estate Models and its internal credit rating procedures. These procedures assess in combination, the financial and managerial strength, business model robustness, collateral value and availability and the sector and geography of the counterparty concerned. Following this assessment an internal rating is allocated.

Bank

At 31 December 2021	Neither Past Due Nor Impaired								Total
	ECAI Rating		BLME Internal Rating		Ungraded	Past due but not impaired	Individually Impaired		
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade					
£000	£000	£000	£000	£000	£000	£000	£000	£000	
Cash and balances with banks	112,076	-	-	-	-	-	-	-	112,076
Due from financial institutions	-	-	12,115	467,095	-	-	-	-	479,210
Due from customers	-	-	-	24,993	-	-	-	-	24,993
Investment securities									
FVOCI									
Government debt securities	-	-	-	-	-	-	-	-	-
Other Investment securities	23,567	-	-	321	-	-	-	-	23,888
AC									
Government debt securities	-	-	-	-	-	-	-	-	-
Other Investment securities	15,046	-	-	-	20,873	-	-	-	35,919
Financing arrangements	-	-	573,219	167,074	-	30,262	29,763	-	800,318
Finance lease receivables	-	-	5,097	37,212	4	420	22	-	42,755
Other assets (Foreign exchange forward deals)	698	-	-	-	-	-	-	-	698
Profit rate swaps	-	-	-	-	-	-	-	-	-
Total credit exposure	151,387	-	590,431	696,695	20,877	30,682	29,785	-	1,519,857

Bank

At 31 December 2020	Neither Past Due Nor Impaired								Total
	ECAI Rating		BLME Internal Rating		Ungraded	Past due but not impaired	Individually Impaired		
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade					
£000	£000	£000	£000	£000	£000	£000	£000	£000	
Cash and balances with banks	231,486	-	-	-	-	-	-	-	231,486
Due from financial institutions	-	-	73,134	266,495	-	-	-	-	339,629
Due from customers	-	-	-	34,465	-	-	-	-	34,465
Investment securities									
FVOCI									
Government debt securities	-	-	-	-	-	-	-	-	-
Other Investment securities	37,540	-	-	318	28,712	-	-	-	66,570
AC									
Government debt securities	-	-	-	-	-	-	-	-	-
Other Investment securities	24,265	-	-	-	-	-	-	-	24,265
Financing arrangements	-	-	580,736	158,517	-	41,403	38,506	-	819,162
Finance lease receivables	-	-	83,641	99,414	22,786	1,466	-	-	207,307
Other assets (Foreign exchange forward deals)	2,947	-	2	-	-	-	-	-	2,949
Profit rate swaps	-	-	-	-	-	-	-	-	-
Total credit exposure	296,238	0	737,513	559,209	51,498	42,869	38,506	-	1,725,833

The Bank's cash balances, amounts due from financial institutions and customers, investment securities and derivative financial instruments were neither past due nor impaired as at 31 December 2021 and 31 December 2020.

Analysis of past due amounts and impairments

Bank	Financing arrangements		Finance Leases	
	2021 £000	2020 £000	2021 £000	2020 £000
Neither past due nor impaired	740,294	751,597	42,334	205,841
Past due but not impaired	30,262	41,403	420	1,466
Gross exposure associated with impairment provision	43,037	38,506	22	-
Less: allowance for impairments	(13,275)	(12,344)	(21)	-
Total	800,318	819,162	42,755	207,307
Past due but not impaired	£000	£000	£000	£000
Past due up to 30 days	4,455	29,997	88	81
Past due 30 to 60 days	24,081	1,558	89	101
Past due 60 to 90 days	96	9,848	73	273
Past due over 90 days	1,630		170	1,011
Total	30,262	41,403	420	1,466

The past due but not impaired balances as at 31 December 2021 include £26.0 million (2020: £41.4 million) relating to four real estate transactions (2020: five) where the facility balances are lower than the collateral values. The Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

An analysis of impairments is provided in Note 14 "Impairment of financial assets".

Forbearance

BLME assist customers in financial difficulty through modification of terms or agreements where identified financial difficulty could otherwise prevent satisfactory payment. Such agreements may be initiated by the customer or BLME.

Forbearance classification

Forbearance:

- is a concession granted to a counterparty for reasons of financial difficulty that would not be otherwise considered by BLME. A concession is provided on a transaction basis.
- can be provided to any current classification of customer (Normal, Watchlist, ARU).
- is considered to be granted when, BLME, for reasons pertaining to the actual, imminent or perceived financial stress of a customer, allows, grants or restructures facilities on terms that are outside of its current financing appetite when considered against the credit risk of the customer.
- For clarity, positive identification of a customer being in financial difficulty is a prerequisite to Forbearance being granted. This does not necessarily mean that any granting of facilities that fall outside of BLME acceptable financing parameters constitutes Forbearance. Agreement to Forbearance does not necessarily convey a necessity for a Stage 3 impairment.
- Forbearance would typically be evident where the concession(s) agreed positively impact the ability of the customer to service finance obligations or avoid recognising a default and risk mitigation/structural enhancement(s) are of benefit to the Bank in return for that concession.

A concession refers to either of the following actions:

- A modification of the previous terms and conditions of a contract that the obligor is considered unable to comply with due to its financial difficulties in order to allow for sufficient finance serviceability that would not have been granted had the obligor not been in financial difficulty.
- A total or partial refinancing of a stressed exposure contract that would not have been granted had the obligor not been in financial difficulty.

Examples of a concession includes:

- A difference in favour of the obligor between the modified and the previous terms of the contract.
- Modification of a contract that includes more favourable terms than other obligors, with a similar risk profile, could have obtained from BLME.

Modification of a contract that:

- is currently classified as non-performing; or
- would have been classified as non-performing if the modification was not undertaken; or
- results in a total or partial cancellation of the exposure by means of a write-off.

Bank approval of the use of embedded forbearance clauses for an obligor already classified as nonperforming or who would be considered to be non-performing without the use of those clauses.

Examples of Forbearance include but are not limited to:

- A reduction of current contractual profit rate or other fees for the sole purpose of maintaining performing finance status with no other improvement to terms of benefit to the Bank
- Non-enforcement of a material covenant breach impacting the obligors ability to meet BLME financial obligations
- Converting a fully or partially amortising facility to bullet payment at maturity (with no other improvement to terms or benefit to the Bank) for the sole purpose of avoiding a payment default due to the customer's inability to meet amortisation.
- Extension in maturity date for a Property Development or Project Finance facility that gives an effective contractual term longer than the underlying project contract being financed
- Any release of a material security interest without receiving appropriate value by way of payment/alternate security offered or other improvement in terms available to the Bank commensurate with the value of the security released.

Monitoring

Forborne classified positions are to be monitored closely. If not already subject to Watchlist/ARU classification, new positions should be immediately classified as either Watchlist or ARU, as appropriate, as at the date of Forbearance. Individual connections that have a current Forbearance classification will be reviewed/assessed on a monthly basis by the Credit Department.

Forbearance Exit

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

- The contract is considered as performing after an analysis of the financial condition of the obligor showed it no longer met the conditions to be considered as non-performing.

- A minimum 2 year probation period has passed from the date the forbore exposure was last considered as performing
- Regular payments of more than an insignificant aggregate amount of principal and profit have been made during at least the last half of the probation period.
- None of the Bank's exposure to the obligor is more than 30 days past due at the end of the probation period.

Forbearance Register

Forbearance decision approvals are taken by the Head of Credit Risk Management or higher credit sanctioning authority. The BLME's forbearance register is maintained by the Credit Risk Management department (2LOD) and is included within the monthly Watchlist report to CCRC for oversight. It is 1LOD responsibility to ensure that appropriate internal systems record Forbearance. 2LOD are responsible for overview of the internal system Forbearance list. The Audit Committee also reviews reports on Forbearance activities.

Based on the credit exposures existing as at 31 December 2021 there had been three instances (2020: nil):

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

The carrying value as at 31 December 2021 of exposures relating to forbore counterparties with no specific impairment charge was £16.3 million, which represents 1.0% of the Bank's total assets (2020: £nil and 0.0%). The Stage 1 and 2 ECLs relating to these forbore exposures is £14k (2020: £nil).

- **Allowance for impairment**

The Bank has established a policy to monitor impairment events that could lead to losses in its asset portfolio. This policy covers specific loss events for individual significant exposures as well as for events that relate to collective losses on Banks of homogenous assets that have yet to be identified and assessed individually for impairment. The Bank writes off a balance (and any related allowances for impairment) when the Credit Risk Department determines that the balance is uncollectible. This determination would be reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that the counterparty can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

vi. Collateral

The Bank monitors the market value of its collateral on an on-going basis which, dependent upon the collateral type, can vary from monthly to yearly. The Bank uses external valuers to perform independent valuations of assets. These valuations are reviewed and challenged by management and, where applicable, corroborated with internal estimations. In calculating collateral value, the Bank considers factors such as asset condition, market environment, ease of liquidation and the interdependency between the financed party and collateral.

Financial assets or non-financial assets obtained by the Bank by taking possession of collateral held as security against financing arrangements and finance leases and held at the year-end are disclosed within Note 24 Other Assets on page 73.

Bank	2021	2021	2020	2020
	On balance sheet exposure	Collateral	On balance sheet exposure	Collateral
	£000	£000	£000	£000
Cash and balances with banks	112,076	-	231,486	-
Due from financial institutions	479,210	467,407	339,629	260,495
Due from customers	24,993	25,011	34,465	34,467
Investment securities	59,807	-	90,835	-
Financing arrangements	800,318	782,613	819,162	750,542
Finance lease receivables	42,755	37,367	207,307	198,091
Other assets (Foreign exchange forward deals)	698	-	2,949	-
Total credit exposure	1,519,857	1,312,398	1,725,833	1,243,595

As at 31 December 2021, collateral represented 86% (2020: 72%) of the Bank's total credit exposure.

Bank analysis of collateral	2021	2020
	£000	£000
Plant and equipment	529,696	504,276
Property	782,702	737,495
Raw materials/ finished stock	-	-
Cash	-	1,824
Financial guarantees	-	-
Total credit exposure	1,312,398	1,243,595

In addition, the Bank holds financial guarantees of £Nil (2020: £60.5 million) against financing arrangements.

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

As at 31 December 2021, 88% (2020: 94%) of the Bank's property financing exposure had an average financing-to-value ratio equal to or less than 70%.

vii. Fair value of financial assets and liabilities

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

Bank	Note	Fair value hierarchy	2021	2021	2020	2020
			Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Cash and balances with banks		1	112,076	*	231,486	*
Due from financial institutions	i	2	479,210	475,420	339,629	338,517
Due from customers	i	2	24,993	24,898	34,465	34,311
Investment securities	ii, iii	See next table**	59,807	59,807	90,835	90,835
Financing arrangements	iii	3	800,318	793,111	819,162	814,781
Finance lease receivables	iii	3	42,755	42,251	207,307	206,287
Other assets (Foreign exchange forward deals)	iv	2	698	698	2,949	2,949
Due to financial institutions	iii	3	272,605	272,025	185,935	185,904
Profit rate swaps liability	ii	2	334	334	760	760
Due to customers	iii	3	1,031,887	1,025,344	1,300,714	1,293,683
Other liabilities (Foreign exchange forward deals)	iv	2	-	-	-	-

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

** Investment securities not included in the table below are accounted for as financial assets at amortised cost.

Notes

- i. These assets represent short term liquidity; the majority of these assets have an average residual life of less than one month and a maximum individual residual maturity of 6 months. The assets are placed with banks with an average credit rating of A. On this basis, carrying value reflects fair value.
- ii. Fair value represents independent external valuation or last trade.
- iii. For financial assets and financial liabilities measured at amortised cost, the fair value has been estimated by calculating the present value of future cash flows associated with each deal using a risk-adjusted discount rate, which is an unobservable input.
- iv. For other assets and liabilities held at amortised cost, fair value is approximately equal to carrying value.

Valuation of Financial Instruments

The Bank's fair value measurement techniques can be found in Note 3 on pages 49 and 50.

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

Bank	2021	2021	2021	2021
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment securities	15,045	-	21,194	36,239
Profit rate swaps (liability)	-	334	-	334
Foreign exchange forward deals (assets)	-	698	-	698
Foreign exchange forward deals (liabilities)	-	-	-	-

Bank	2020	2020	2020	2020
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment securities	37,540	-	29,029	66,569
Profit rate swaps (liability)	-	760	-	760
Foreign exchange forward deals (assets)	-	2,949	-	2,949
Foreign exchange forward deals (liabilities)	-	-	-	-

During the year, there were no transfers between Level 1 and Level 2 fair value measurements (2020: none), and no transfers into or out of Level 3 fair value measurements (2020: none). Transfers between levels occur at the date of the event or change in circumstances that caused the transfer.

The level 3 investment securities' market value is determined by using prices and other relevant information generated by market transactions involving the individual security and/or identical or comparable securities.

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.

Bank	2021	2020
Investment securities	£000	£000
Balance at 1 January	29,029	27,747
Total gains / (losses) recognised in:		
- profit or loss*	467	741
- other comprehensive income**	-	-
Purchases	1,000	541
Sales***	(9,302)	-
Balance at 31 December	21,194	29,029

* this amount is included in "net investments losses" in the income statement

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

***sales relate to the partial sell down of the Bank's investment in AQ1 Limited during the year (from 88% to 84%) and the disposal of B&Q Castleford by Aspenway Limited.

The reconciliation for investment securities is included in Note 18 on pages 68 and 69.

Bank	2020	2020	2020	2020
	Fair value	Fair value	Financial	Total
	through	through	assets at	
	profit and	other	amortised	
	loss	comprehensive	cost	
		income		
Assets	£000	£000	£000	£000
Cash and balances with banks	-	-	231,486	231,486
Due from financial institutions	-	-	339,629	339,629
Due from customers	-	-	34,465	34,465
Investment securities:				
Sukuk	-	37,613	24,254	61,867
Equity	-	318	-	318
Investment in subsidiaries	-	-	28,650	28,650
Financing arrangements	-	-	819,162	819,162
Finance lease receivables	-	-	207,307	207,307
Other assets (foreign exchange forward deals)	2,949	-	-	2,949
Total financial assets	2,949	37,931	1,684,953	1,725,833

	Fair value	Fair value	Financial	2020
	through	through	liabilities	Total
	profit and	other	at amortised	
	loss	comprehensive	cost	
		income		
Liabilities	£000	£000	£000	£000
Due to financial institutions	-	-	185,935	185,935
Due to customers	-	-	1,300,714	1,300,714
Profit rate swaps	760	-	-	760
Other liabilities (Foreign exchange forward deals)	-	-	-	-
Total financial liabilities	760	-	1,486,649	1,487,409

b. Liquidity risk

Liquidity risk is the risk that the Bank 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 Bank has sufficient liquidity to meet its liabilities as and when they fall 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 Bank's activities.

The Treasury Division is responsible for monitoring the liquidity profile of financial assets and liabilities, including projected cash flows from current and future business. This area maintains a portfolio of short-term money market assets and marketable securities and seeks to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis in accordance with guidelines issued by ALCO and approved by Board Risk Committee.

Overall, the management of liquidity risk is conducted in accordance with the Bank's Liquidity Risk Management Policy and its annual ILAAP, as required by the PRA. Included in the Recovery Plan is BLME's Contingency Funding Plan that details actions during a liquidity stress.

Over and above regulatory liquidity, ALCO establishes its own liquidity performance measures and PRA guidelines. These include a series of early warning triggers and management data on liability stability (i.e. the likelihood of deposits being withdrawn), liability diversification, reserve liquidity and projections of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). As at 31 December 2021, the Bank held £1,304 million (2020: £1,487 million) of term deposits and held £nil (2020: £nil) of secondary market assets.

The Bank monitors both wholesale and retail funding as part of its Executive Risk Appetite Statement to ensure that its funding sources are adequately diversified.

Residual contractual maturities of financial assets

Bank	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2021 Total £000
Cash and balances with banks	112,076	-	-	-	-	112,076
Due from financial institutions	19,006	1,020	19,373	422,803	42,291	504,493
Due from Customers	-	25,118	-	-	-	25,118
Investment securities	21,212	266	243	38,581	-	60,302
Financing arrangements	49,432	44,089	156,638	571,411	2,354	823,924
Finance lease receivables	1,534	2,754	12,055	27,686	1,131	45,160
Other assets (Foreign exchange forward deals)	354	-	344	-	-	698
	203,614	73,247	188,653	1,060,481	45,776	1,571,771

Bank	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2020 Total £000
Cash and balances with banks	231,486	-	-	-	-	231,486
Due from financial institutions	80,275	1,978	5,969	269,855	-	358,077
Due from Customers	-	-	5,184	29,498	-	34,682
Investment securities	29,028	12,331	992	51,316	-	93,667
Financing arrangements	95,949	10,942	154,452	574,479	2,133	837,955
Finance lease receivables	7,856	14,595	65,046	128,372	4,001	219,870
Other assets (Foreign exchange forward deals)	2,164	785	-	-	-	2,949
	446,758	40,631	231,643	1,053,520	6,134	1,778,686

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

None of the Bank's assets have been pledged as collateral apart from cash collateral deposits of £0.03 million (2020: £0.03 million) pledged as security against rental payments on the Bank's premises and £Nil (31 December 2020: £nil) of cash held as deposits with financial institutions related to foreign exchange forward deals and profit rate swaps.

The relatively short-dated tenor and diversification of our assets mitigates any material climate risk exposure to the overall financial statements in the short term. However, work to further review the longer-term risks and opportunities posed by climate change remains ongoing at present.

Residual contractual maturities of financial liabilities

Bank	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2021 Total £000
Due to financial institutions	142,437	48,433	82,304	-	-	273,174
Due to customers	80,813	82,019	576,891	318,113	610	1,058,446
Profit rate swaps	-	-	334	-	-	334
Other liabilities (Foreign exchange forward deals)	623	1,109	-	-	-	1,732
	223,873	131,561	659,529	318,113	610	1,333,686

Bank	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2020 Total £000
Due to financial institutions	162,528	14,669	8,830	-	-	186,027
Due to customers	135,866	-	380,851	786,187	30,852	1,333,756
Profit rate swaps	-	-	-	760	-	760
Other liabilities (Foreign exchange forward deals)	-	-	-	-	-	-
	298,394	14,669	389,681	786,947	30,852	1,520,543

The tables above show the contractual, undiscounted cash flows of the Bank'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 significant High Quality Liquid Assets ("HQLA") – in line with CRR requirements as implemented in the UK by the Prudential Regulation Authority – of £68.6 million as at 31 December 2021 (2020: £61.8 million). These HQLA holdings have been greater than the regulatory liquidity requirement throughout the year (unaudited).

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

Bank	2021 £000	2020 £000
Highly liquid securities (included in HQLA)	38,614	61,806
Bank of England Alternative Liquidity Facility	30,000	-
Other cash and cash equivalents	82,076	231,486
Total	150,690	293,292

As at 31 December 2021, there are no limitations on the use of the liquidity reserves held by the Bank (2020: none).

c. Market risk

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

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

Disclosures on the impact of replacing IBORs with alternative risk-free reference rates has not been included as they are not material as the Bank only has two US dollar denominated PRS that are designated as fair value hedges and does not undertake any cash flow hedging. Furthermore, both expire well before the anticipated end to USD LIBOR.

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 Bank manages such risks through the use of time-based limits that measure the profit rate sensitivity to changes in profit rates.

As at 31 December 2021, the Bank's net profit rate sensitivity to profit and loss on its fixed and variable rate assets and liabilities, and its capital and reserves, as measured by the discounted value of a one basis point change in market rates, was £10,945 (2020: £3,945). The impact of an increase / decrease of 100 basis points in profit rates at the statement of financial position date, subject to a minimum rate of 0%, would be as follows:

	At 31 December 2021		At 31 December 2020	
	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000
Increase in profit & loss	-	1,727	-	858
Decrease in profit & loss	1,615	-	674	-
Increase in off-balance sheet	85	-	311	-
Decrease in off-balance sheet	-	86	-	318

The method used to calculate the sensitivity is under the Present Value of a Basis Point (PV01) shift and a 100bp (PV100) shift, both positive and negative, under the standardised approach. The assessment is computed via the "Quantitative Risk Management (QRM)" tool.

A PV01 is calculated by taking the difference between Assets and Liabilities in the Banking Book (Nostro accounts are not included), presented as the increase/decrease in Profit and Loss, whilst also considering FX and Profit Rate Swaps (PRS), presented as the increase/decrease in Off-Balance Sheet. Following the guidance of the Basel Committee, the metric is calculated by applying shocks to interest rates at a number of different time buckets. A non-parallel (tent-like) shock is applied for the PV01 and a parallel shock is applied for the PV100.

The Bank uses the following time buckets where the shocks are applied to:

- 1 month
- 2 month

- 3 month
- 3-6 months
- 6-12 months
- 1-2 years
- 2-3 years
- 3-5 years
- 5-7 years
- 7-10 years
- 10+ years

The PV01/100 values the sensitivity of instruments up to the date the instrument reprices. Similarly to how a fixed income instrument is valued, the Present Value (PV) of all future cash flows up to the repricing date for an instrument is calculated. In addition, the PV is calculated under each shock scenario and the sensitivity is taken as the difference between the base PV (no shocks) and the shocked PV. The difference between assets and liabilities is also taken to determine whether the Bank is more asset or liability sensitive to interest rates. The sum of these differences amounts to the net reported PV01. The PV100 is derived under the same approach, however the shift is parallel throughout the whole curve.

The PV01/100 is also calculated for the Off-Balance sheet (FX and PRS) under the same approach.

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 positions and stop loss limits to ensure that positions and revaluation results are subject to independent daily monitoring and reporting to senior management.

	At 31 December 2021	At 31 December 2020
	£000	£000
Resultant foreign exchange revaluation (loss) / gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	50	27
	Year to 31 December	Year to 31 December
	2020	2019
	£000	£000
Net foreign exchange gain / (loss) for the year	11	(332)

iii. Equity price risk

The Bank has limited exposure to equity price risk and the sensitivity risk is not currently significant in relation to the overall results and financial position of the Bank.

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 Policy is built around the three lines of defence model. This Policy has been approved and is periodically reviewed by the Risk Committees of the Board.

Senior Management ensures the identification and assessment of operational risk through a Risk and Control Self-Assessment ("RCSA") process. . Operational Risk events, issues and near misses are also reportable and are centrally tracked to ensure appropriate action is taken and issues remediated. All staff are responsible for reporting, managing and escalating operational risk as part of their role. All identified operational risks, issues and events are discussed at the monthly Executive Risk Committee meeting and reported to the Board Risk Committee.

With the introduction of the Nomo digital banking business unit in 2021, the bank's operational risk and governance framework was expanded and enhanced and continues to develop as Nomo grows. The launch of Nomo introduces the beginnings of a change in the group risk profile, with new risks in Payments & Cards, Outsourcing and Third Party Management, together with increasing risks in fraud, compliance and data protection. The operations across the bank has continued without impact despite the Covid 19 pandemic and has not hindered the launch or operation of the new digital offering. Activities have also taken place in order to meet the new Operational Resilience requirements in 2022, which will enable a smooth transition.

Basel III requires Pillar 1 capital to be retained for operational risk, which the Bank has calculated to be £4.7 million using the Basic Indicator Approach (2020: £5.9 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. At 31 December 2021 and throughout the year the Bank complied with the capital requirements that were in force as set out by the Prudential Regulation Authority ("the PRA") (unaudited). The PRA adopted the Basel III requirements with effect from 1 January 2014.

The Bank's regulatory capital position as at 31 December was as follows:

	2021	2020
Audited	£000	£000
Tier 1 Capital - CET1		
Ordinary Share Capital	48,933	48,933
Share Premium	140,623	140,623
Capital Contribution	3,527	3,527
Fair Value reserve	(107)	101
Retained earnings	36,741	41,077
Total Tier 1 capital	<u>229,717</u>	<u>234,261</u>
Unaudited		
Deductions from Tier 1 Capital		
Intangible assets	-	-
Others	-	-
Total Tier 1 capital after deductions	<u>229,717</u>	<u>234,261</u>
Tier 2 capital	-	-
Total Tier 2 capital	<u>-</u>	<u>-</u>
Total Tier 1 and Tier 2 capital	229,717	234,261
Deductions from Tier 1 and Tier 2 Capital	NIL	NIL
Total regulatory capital	<u>229,717</u>	<u>234,261</u>

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

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

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

The following table shows both the Bank's overall minimum capital requirement and capital adequacy position under Pillar 1 at 31 December:

	2021	2020
	£000	£000
	(unaudited)	(unaudited)
Pillar 1 capital requirements		
Credit risk	70,095	95,903
Market risk - foreign currency PRR	112	349
Counterparty risk capital component	41	67
Operational risk	4,674	5,886
Total Pillar 1 capital requirement	<u>74,922</u>	<u>102,205</u>
Total regulatory capital in place	229,717	234,261

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

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

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

The Bank will continue to prudently employ capital and maintain appropriate capital adequacy, liquidity and leverage ratios. BLME reported to the PRA ratios above the minimum requirement throughout 2021. The capital planning process continues to incorporate these measures.

GLOSSARY OF ABBREVIATIONS

AED	Arab Emirate Dirham
AFS	Available-for-Sale
AGM	Annual General Meeting
ALCO	Assets & Liabilities Committee
AML	Anti-Money Laundering
Basel	Basel Accord or Basel Standards
BB2 TechCo	BB2 Digital and Technology Services Limited
BCC	Board Credit Committee
BLME	Bank of London and The Middle East plc
BLMEH	BLME Holdings Limited
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 & COO	Chief Financial Officer & Chief Operating Officer
CGs	Commercial Guidelines
CIC	Change Implementation Committee
CMA	Saudi Arabian Capital Market Authority
CRD IV	Capital Requirements Directive IV
CRM	Customer Relationship Management
CSR	Corporate Social Responsibility
DFSA	Dubai Financial Services Authority
DIFC	Dubai International Finance Centre
EBT	Employee Benefit Trust
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EU	European Union
EXCO	Executive Committee
EY	Ernst & Young LLP
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GCC	Gulf Cooperation Council
GDPR	General Data Protection Regulation
HTM	Held to Maturity
HQLA	High-Quality Liquid Assets
IAS	International Accounting Standards
IASB	International Accounting Standards 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
KSA	Kingdom of Saudi Arabia
KYC	Know Your Customer
LAB	Liquid Asset Buffer
LGD	Loss Given Default
LLP	Limited Liability Partnership
LOD	Lines of Defence
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
Nomo	Digital banking business unit of BLME
NPE	Non Performing Exposure
OCI	Other Comprehensive Income
ORC	Operational Risk Committee
PC	Product Committee
PDA	Premier Deposit Account
PIFSS	Public Institution for Social Security
PRA	Prudential Regulation Authority
PROUD	<p><i>Passionate</i> - Our people are passionate about their job and the company and are driven to achieve our aspirations and those of our clients.</p> <p><i>Resilient</i> - We are resilient and agile. Challenges and set-backs create opportunities to develop solutions together.</p> <p><i>Open</i> - We build open and straightforward relationships. Our products and services are transparent and fair.</p> <p><i>United</i> - We believe success is achieved through our diversity, collaboration and honest communication.</p> <p><i>Doing the right thing</i> - We do the right thing by our clients, people, shareholders and the wider community.</p>
PRR	Position Risk Requirement
PRS	Profit Rate Swap
PVO1	Present Value of 1 basis point
RMF	Risk Management Framework
RRP	Recovery Resolution Plans
RSCA	Risk Control Self-Assessment
SCV	Single Customer View
SE	Structured Entities
SIC	Standard Interpretations Committee of the IASB
SICR	Significant Increase in Credit Risk
SMEs	Small and Medium-sized Enterprises
SM&CR	Senior Managers and Certification Regime

SSB	Sharia'a Supervisory Board
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
WAF	Walbrook Asset Finance Limited
Walbrook	Walbrook Asset Finance Limited
WMIC	Wealth Management Investment Committee

GLOSSARY OF ISLAMIC FINANCE TERMINOLOGY

Murabaha	A Murabaha contract is a deferred sale of goods at cost plus an agreed profit mark-up under which one party purchases goods from a supplier and sells the goods to another party at cost price plus an agreed mark-up. The delivery of the goods is immediate whilst payment is deferred. Murabaha has a variety of applications and is often used as a financing arrangement, for instance for working capital and trade finance.
Commodity Murabaha	A Commodity Murabaha contract (a subset of Murabaha) is often used as a liquidity management tool by financial institutions. The Commodity Murabaha is today the mainstay of the Islamic interbank short term liquidity market. In these transactions the commodity, usually a London Metal Exchange base metal, is sold on a deferred basis with a mark-up. The mark-up is close to conventional money market levels.
Wakala	Wakala means agency and is often used in an arrangement where one party (the principal) places funds with another (the agent). The agent invests funds on the behalf of the principal for an agreed fee or profit share.
Ijara	An Ijara is a contract allowing the granting of the right to use an asset by one party to another which equates to the leasing of an asset in return for rental payments. Ijara is typically used for medium to long term financing of real estate, equipment, machinery, vehicles, vessels or aircraft.
Mudaraba	A Mudaraba is a partnership contract in which a capital owner (Rab al Mal) enters into a contract with a partner (Mudarib) to undertake a specific business or project. The Mudarib provides the labour or expertise to undertake a business or activity. Profits are shared on a pre-agreed ratio but losses are borne by the Rab al Mal unless negligence of the Mudarib is demonstrated.
Musharaka	An agreement under which the Islamic bank provides funds which are mingled with the funds of the business enterprise and others. All providers of capital are entitled to participate in the management but not necessarily required to do so. The profit is distributed among the partners in predetermined ratios, while the loss is borne by each partner in proportion to his/her contribution.
Sukuk	Sukuk (also referred to as Islamic bonds) are certificates that reflect ownership in an underlying asset. Profits are calculated according to the performance of the underlying asset or project. Sukuk are usually issued by Structured Entities ("SE") which are set up to acquire and to issue financial claims on the assets. Such financial claims represent a proportionate beneficial ownership for a defined period when the risk and the return associated with cash-flows generated by the underlying asset are passed to the Sukuk holders. Sukuk are commonly used as funding and investment tools.
Istisna	An Istisna contract is usually used for construction finance. The asset is not in existence at the start of the contract and is built or manufactured according to detailed specifications defined by the client, and delivered at the agreed date and price. Payment is deferred. Istisna contracts are commonly applied in project finance, construction finance and pre-export finance where the bank acts as an intermediary between the producer and the ultimate client.
Profit rate swaps	A profit rate swap is a contract between two parties where each counterparty agrees to pay either a fixed or floating rate denominated in a particular currency to the other counterparty providing a means of exchanging fixed rate profit rate risk for floating rate risk – or vice versa.
Participation agreement	A participation agreement is an agreement executed between the relevant SE and the Bank. The main objective of this agreement is to facilitate the required funding to enable the SE to acquire leased assets or investment property and to convey the beneficial ownership of the 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.
Zakat	Zakat is 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 recognized authority

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