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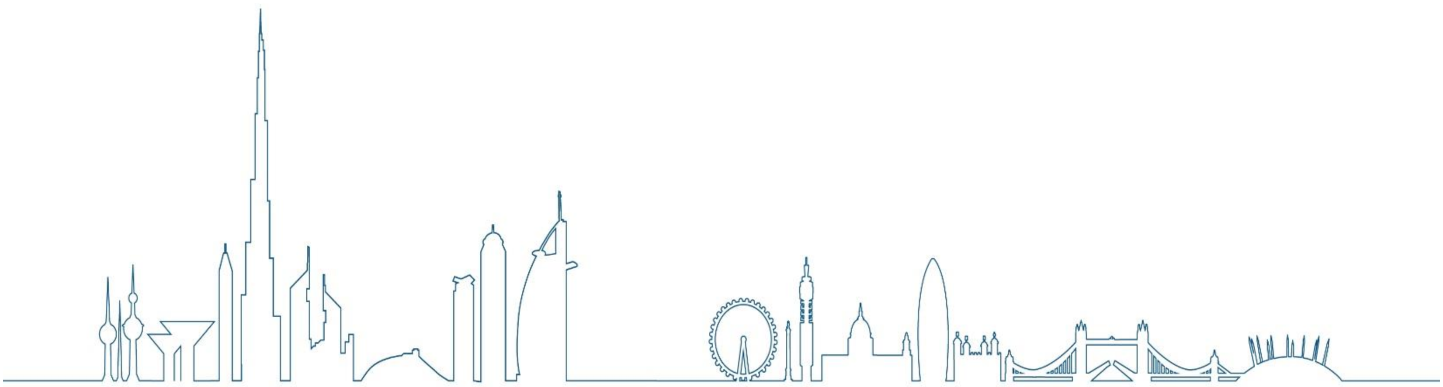
Bank of London & The Middle East

BLME Holdings Limited
Annual Report and Financial Statements
For the year ended 31 December 2022

Registered number 08503102



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CHAIRMAN'S STATEMENT

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

Dear Shareholders

BLME has a core strategic focus on GCC clients complemented by real estate finance services, real estate investments, private banking, wealth management and digital banking products. In December 2022, BLME announced the opening of a new office in Brook Street, Mayfair which marked a significant moment in its growth strategy, providing GCC clients with improved access to the wealth management team. The office provides a flagship location for BLME's GCC clients to meet with their BLME contacts and an opportunity for clients to visit prospective real estate investment opportunities.

As part of its evolving business model, BLME is in the final stages of opening an office in the Kingdom of Saudi Arabia ('KSA') with a newly established KSA subsidiary to be operating under a Saudi Arabian Capital Market Authority ('CMA') licence. The CEO of our KSA subsidiary is also responsible for the existing BLME Dubai branch in the DIFC. Having one regional leader across both the DIFC and KSA provides us with a 'one-team' approach, strengthening our client relationship model in the GCC.

During 2022, BLME's digital banking business unit ('Nomo') concentrated on developing Sharia'a compliant products to roll out via the Nomo application to its customer base which currently is predominantly in Kuwait. The Nomo product set has advanced rapidly, with Android, Apple Pay, Multi-Currency and Mortgage capability in place and we are in advanced talks with business partners in the GCC to fuel our expansion plans outside the Kuwait market.

In February 2023, Nomo announced an innovative new partnership with Abu Dhabi-based banks ADCB and Al Hilal to bring digital UK banking to UAE nationals and residents. The partnership will see the launch of the Sharia-compliant ADCB-Nomo and Al Hilal-Nomo banking apps, giving customers based in the UAE instant access to UK-based multi-currency current accounts, savings and mortgages from their smartphone.

The strategic progress made during 2022 is not yet reflected in the financial results as the business model is evolving as the Group progresses the divestment of strategically non-core businesses built up prior to the change in ownership in 2020. In June 2022 a decision was taken to implement a controlled wind-down of the leasing business, a process that is expected to take approximately three to four years. The 2022 results include a number of exceptional costs associated with this strategic decision.

Notwithstanding this, I am strongly encouraged by the progress and achievements during the year which are part of our journey to become the go to Islamic bank in the UK for GCC customers. I am confident we have strengthened our foundations for sustainable growth in the future with a core strategic focus on wealth management and the GCC.

I would like to close by thanking our employees and my fellow Board members for their support and hard work during 2022. My thanks too for the continued guidance of our esteemed Sharia'a Supervisory Board.

Adel Abdul Wahab Al-Majed
Chairman
06 April 2023

Naming convention and abbreviations:
The expression "the Group" refers to BLME Holdings Limited and its subsidiaries. BLME Holdings Limited ("the Company" or "the Parent Company") is the immediate parent company.
The name of the principal subsidiary, Bank of London and The Middle East plc is shortened to "BLME" or "the Bank" in narrative text. The name of the main Leasing subsidiary, Walbrook Asset Finance Limited is shortened to "WAF" or Walbrook."

CHIEF EXECUTIVE OFFICER'S STATEMENT

2022 has been a challenging year. Our strategic ambitions are bold, and we believe we have the capability and credibility to deliver on these ambitions whilst continuing to be a great place to work. This year has demanded lots of dedication, growth, and focus across the Group's business units. The pace of change is remarkable for an organisation of our size and we are progressing well against the five year strategic plan. There have been global and local events and activities which impact our business. Together we have had to weather the UK political instability, sterling volatility, rising inflation and interest rates, and patiently wait out for the final phase of the COVID pandemic to pass.

Despite the significant change agenda, we have increased our flow of new business opportunities from the GCC to grow the portfolio across Real Estate and Wealth Management. BLME has benefitted from increased collaboration with Boubyan Bank and is a key part of the Boubyan Group strategy. Our Private Banking team is based in our new office in Mayfair, aligning us to the needs of our clients and being closer to them when they travel to London.

We have merged our back-office operations functions into one team supporting the whole of BLME including the Nomo digital banking business unit. This initiative will deliver better service outcomes, safer processes and allow us to build scale whilst keeping a close eye on our efficiency ratio.

Nomo is a core pillar of the next phase of our strategic growth plan, and the product development focus throughout 2022 is now progressing into monetising the business unit in 2023 as we seek to develop GCC partnerships with a focus on partners in GCC countries, other than Kuwait, who do not have a London presence. For example, the new partnership with ADCB and Al Hilal which was announced in February 2023 builds on Nomo's presence in the GCC region by offering a suite of UK and international banking products for UAE citizens and residents. ADCB is a market leader in GCC banking when it comes to excellence, security and innovation, and it is a hugely exciting prospect to be partnering with them.

Our Real Estate Finance team has continued to develop with clear focus on a comprehensive offering for the UK market with an emphasis on developing the proportion of the portfolio financing nationals from the GCC countries. BLME's recent London real estate deals include a refinancing of a £14.8 million facility against 24 apartments at Goodman's Fields, a luxury mixed-use development in central London, and a £42 million deal to finance Lancelot Place in Knightsbridge. The Lancelot Place development provided five luxury townhouses, located less than a hundred meters from the world-renowned Harrods department store. Financing for the development was agreed with five investors from the GCC. The Real Estate finance business unit is going into 2023 with a strong pipeline.

BLME's Real Estate Investment team has sourced and co-invested in a landmark office building occupied by the National Crime Agency in Warrington acquired for £40.6m and completed in January 2023. The building is fully let to the UK Government on a long lease and the transaction highlights increasing market interest in commercial property outside of London with office spaces in the North of England proving attractive for investors based in the GCC. We will continue to leverage our Real Estate Finance and Real Estate Investment experience with a clear focus on building relationships with HNW GCC clients as well as supporting our UK client base.

BLME continues to set high standards and to provide market leading products for its clients. These standards are recognised by the industry, with the Leaders in Fintech Awards awarding BLME Nomo the accolade of Most Innovative Islamic Bank of the Year. In addition, BLME was winner of Real Estate Wealth Management Solutions Provider by World Business Outlook and Nomo won Fintech of the Future at the Banking Tech Awards.

Financial Performance

The underlying results of the Bank remain resilient and in line with the strategic set up plan. Total consolidated operating income (excluding credit impairment losses) increased from £51.7m in 2021 to £65.1m in 2022. The Group reports a loss after tax of £5.8m, compared with a £7.8m loss after tax for 2021. Total credit impairment losses for 2022, amounted to £13.2m compared with £23.4m in 2021. The Group's Balance Sheet increased marginally in 2022 to £1.63 billion from £1.57 billion in 2021 with the Group maintaining its healthy liquidity position.

The Group Board had explored a sale of its non-strategic leasing business during 2021 and 2022 but due to unfavourable market conditions the process did not result in a disposal. In June 2022 the Group Board decided to implement a controlled wind-down of the leasing business. The leasing business continues to trade, and the portfolio will be run down in an orderly fashion, a process that is expected to take approximately three to four years. The Group loss for the year includes exceptional operating costs of £2.9m and a credit impairment loss of £1.75m both related to the strategic closure of the leasing business.

Risk Management

The BLME risk management framework expanded during 2022 with the establishment of a first line risk team. The operational risk framework was updated accordingly to align and support the business to identify risks and ensure that all key operational risks are captured and managed. As the digital banking business unit develops there has been a strong focus on new product development governance and operational risk reporting. The separate Nomo Risk Committee helps ensure that all identified operational risks, issues and events within the digital banking business unit are managed and reported into the Executive Risk Committee.

The Group has maintained healthy liquidity and capital ratios well in excess of regulatory requirements throughout the reporting period. We continue to monitor market conditions and political and economic developments, ensuring that we maintain and continue to enhance our robust risk management framework.

Outlook

This coming year will see ongoing strategic change as we prepare to scale our digital banking arm Nomo through our product proposition and partnerships in GCC countries outside Kuwait; build out Wealth Management including launching our office in Saudi Arabia; further develop our Real Estate led proposition; accelerate growth in Real Estate Financing and Mortgage Finance; and overall drive even more efficiency by working smarter.

On 31 July, the FCA's new consumer protection rules will come into force. The rules set higher and clearer standards of consumer protection across financial services and require firms to act to deliver good outcomes for customers. This closely aligns with our PROUD values of doing the right thing by our customers and providing open and straightforward banking solutions, and as an FCA regulated bank, we are looking at what more we can do to deliver even better services and products for our clients.

I am very proud of our staff performance in 2022 amid some challenging circumstances. Their resilience and hard work give me great hope for the prospects of the Bank. I would like to thank them, our Board, and our clients for their support and I look forward to a 2023 in which we will meet its challenges and opportunities together.

Andrew Ball
Chief Executive Officer
06 April 2023

THE BOARD AND EXECUTIVE MANAGEMENT

Adel Abdul Wahab Al-Majed – Chairman

Adel is the Non-executive Chairman of the Board of BLME Holdings. He has around 40 years of experience in banking. He is currently Group Chief Executive Officer and Vice-Chairman of the Company's owner group, Boubyan Bank K.S.C.P, having previously held the position of Chairman. Adel is currently a Board member of Kuwait Banking Association and is a Board member of the Kuwait Institute of Banking Studies. From 1980 to 2009 Adel worked for National Bank of Kuwait where he held a number of positions including Deputy Chief Executive Officer and General Manager – Consumer Banking Group. Adel graduated from the University of Alexandria with a bachelor's degree in accounting and attended various executive management development programs at various universities, including Harvard, Wharton, Stanford, and other reputable institutions.

Executive Directors

Andrew Ball – Chief Executive Officer

Andrew has more than 30 years of global experience in the Financial Services sector, specialising in Private and Retail Banking services. In 2020 Andrew stepped into the role of CEO. Having worked at BLME as Head of Wealth Management and Head of Business since 2015, he is uniquely placed to lead the Group as it continues to sharpen its focus on wealth management and real estate as its core offerings. Andrew's motive continues to be creating the best possible outcome for clients. He believes success is achieved through focusing on the Group's values, maintaining good governance and continuing to grow positive culture. In doing so, the BLME team remain empowered to provide exceptional expertise and service to our valued clients. Andrew is also a member of the Board of Directors of Walbrook Asset Finance Limited. Before joining BLME in 2015, Andrew was Head of Strategy and Head of Retail Banking at International Bank of Qatar (IBQ). He began his career with Lloyds Bank in 1989, working onshore in the branch network as well as in the Offshore Banking Group in the Channel Islands before moving to Citibank International PLC where he held several roles including Head of Sales and Distribution. In 2004 Andrew joined National Bank of Kuwait as Head of Affluent Sales, after which he worked at Al Khaliji where he held several senior positions including Group Head of Consumer Banking and Head of Premium and Business Banking.

Chris Power – Chief Financial & Chief Operating Officer

Chris has more than 35 years of global experience in Banking and Financial Services, specialising in Financial Control, Operations, Internal Audit and Risk. In January 2020 Chris was promoted to Chief Finance Officer and Chief Operating Officer having worked at BLME since September 2015. Chris is also a member of the Board of Directors of Walbrook Asset Finance Limited and Walbrook Construction Equipment Finance Limited. Chris was an integral leader in BLME's strategy refresh in 2016 and driving the related projects to turn the Bank around. Chris was also instrumental in the planning and execution of the Group's share buy-back program in 2018 and the delivery of the acquisition by Boubyan Bank in February 2020. Chris is a graduate of the London School of Economics, qualified as a chartered accountant in 1986, is a fellow of the Institute of Chartered Accountants in England & Wales and holds an MBA.

Before joining BLME in 2015, Chris was Group Finance Director of the Board of CLS Group Holdings AG ("CLS"), the world's foreign exchange settlement utility. He began his career with Deloitte in London before moving to Hong Kong and progressing to Senior Manager and heading up the Hong Kong Banking and Securities Group. Chris joined the ABN AMRO Banking Group in 1994, where he held various senior control, compliance, finance and operations positions whilst working in Hong Kong, Thailand and Brazil. This culminated in Chris heading up the control function for South America and joining ABN AMRO's Top Executive Group as a Corporate Executive Vice President, prior to joining CLS in 2008 as Chief Financial Officer and then being promoted to the main Board.

Non-executive Directors

Abdul-Salam Mohammed Al Saleh (Deputy Chairman)

Abdul-Salam joined the Board of BLME Holdings as a Non-executive Director in June 2020. He is a member of the Nominations and Remuneration Committee and is a member of the Board of Directors of Walbrook Asset Finance Limited. Abdul-Salam is Chief Executive Officer – Corporate Banking, Financial Control, Treasury and Legal Affairs of Boubyan Bank, which he joined in October 2012, and Chairman of Boubyan Takaful Insurance Company. Abdul-Salam has more than 34 years of banking experience. He worked for 18 years at National Bank of Kuwait, where he gained experience in Financial Control and Corporate Banking; and his last position was the head of Domestic Corporate Banking. Prior to joining Boubyan Bank, he worked for over 7 years for National Bank of Abu Dhabi as the Regional Manager of its branch in Kuwait. Abdul-Salam received his bachelor's degree in Finance from Kuwait University and has attended various executive management development programs over the course of his career.

David Williams (Independent)

David Williams joined the Group in October 2015 as an Independent Non-Executive Director and Chairman of the Risk Committee. David was appointed as Chairman of Walbrook Asset Finance Limited and of Walbrook Construction Equipment Finance Limited in October 2021. He is a senior credit risk professional with over 30 years of experience in international banking operating at executive and board level in the Middle East, Europe and Asia. Over a career with Barclays PLC his executive roles included Wholesale Credit Risk Director of the Barclays Group and Chief Credit Officer at Barclays Capital. David was a Non-executive Board Director of LCH Clearnet Group Ltd. David is a former British Army officer and is currently Chairman of veterans charity Haig Housing Trust and Deputy Chairman of Care for Veterans.

Jabra Ghandour

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

Calum Thomson (Independent)

Calum Thomson joined the Board of BLME Holdings in April 2017 as Chairman of the Audit Committee and a member of the Risk Committee, the Nominations Committee and the Remuneration Committee. Calum is a chartered accountant with 30 years of experience in the Financial Services industry including 21 years at Deloitte LLP, specialising in the Financial Services sector. During his career at Deloitte, he led the global and UK asset management groups. His experience includes clients in the Middle East, Malaysia, UK and the US covering wealth and investment management, private banking, private equity and the General Insurance Markets. Calum is a Non-executive Director and Audit Committee Chair of The Diverse Income Trust plc, AVI Global Trust plc, Baring Emerging EMEA Opportunities plc, abrdn Private Equity Opportunities Trust and Ghana International Bank plc; and Trustee and Chairman of Tarbat Historic Trust, and Trustee and Honorary Treasurer of Suffolk Wildlife Trust. In addition, he is an independent Non-executive Director of Schroder Pension Management Ltd and a Non-executive Director of Schroder Unit Trusts Ltd.

Joanne Hindle (Independent)
Joanne Hindle joined the Board of BLME Holdings as an Independent Non-executive Director in July 2018. She chairs the Nominations and Remuneration Committee and sits on the Audit and Risk Committees. She has over 30 years of experience in the financial services industry having held both executive and board level positions. Over her career Joanne has been Corporate Services Director at Unum Limited and Director of Pensions Development at NatWest Life. Amongst her portfolio of non-executive board positions, Joanne was Chairman of Shepherd's Friendly Society until June 2021 and served on the board as a Non-Executive Director and chair of their remuneration committee until June 2022. In addition, Joanne is Chairman of Stafford Railway Building Society, Chairman of Co-op Funeral Plans Ltd and a Trustee of La Serenissima Limited. She was a legal and compliance consultant for AXA Assistance until December 2019 and formerly was Chairman of Holmesdale Building Society.

Bader Abdullah Al Kandari
Bader Abdullah Al Kandari joined the Board of BLME Holdings as a Non-executive Director in March 2019. He is a member of the Risk Committee. He is an experienced investment professional. He began his career in 2004 at the Kuwait Fund for Arab Economic Development and held a senior position at Al-Mal Investment Company. Bader is currently Chief Investment Officer- Liquid Investments at Kuwait's Public Institution for Social Security. Prior to this position he was Investment Global Manager at Dimah Capital from 2012 until 2015. Bader has an MBA and is Vice Chairman of Boursa Kuwait and Vice Chairman of Wafra International Investment Company, Kuwait.

Maged Fanous
Maged Fanous joined the Board of BLME Holdings in March 2020. He is a member of the Risk Committee. Maged is also a member of the Board of Directors of Walbrook Asset Finance Limited and BB2 Digital and Technology Services Limited. Maged is the Group Chief Risk Officer of Boubyan Bank. He has over 34 years' experience in risk management, treasury and financial regulations working with a number of central banks and financial institutions in the UK, Asia and the Middle East. Before joining Boubyan Group in 2018, he was the lead partner of the Risk and Regulatory practices of Ernst & Young in the UK and MENA. Prior to this, he was the lead partner of the Finance and Performance Management (FPM) of Accenture's UK/Ireland. Maged holds a bachelor's degree in accounting from Cairo University.

Abdullah Abdulkareem Al Tuwaijri
Abdullah joined the Board of BLME Holdings as a Non-executive Director in June 2021. He is a member of the Audit Committee and the Nominations and Remuneration Committee. Abdullah is Chief Executive Officer – Consumer, Private, and Digital Banking of Boubyan Bank, which he joined in December 2011, Chairman of Boubyan Capital Investment Company and Chairman of BB2 Digital and Technology Services Limited. Abdullah has more than 33 years of banking experience, including 23 years at National Bank of Kuwait. During his time with NBK, he held different leadership roles in retail banking in Kuwait and London. Abdullah received his bachelor's degree in Finance from Kuwait University and attended several executive development programs at Harvard Business School, INSEAD, and other reputable institutions.

GROUP STRATEGIC REPORT

THE BUSINESS MODEL

BLME Holdings Limited (the "Company") operates as the holding company of The Bank of London and The Middle East plc ("BLME" or "the Bank") which 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 comprehensive 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 the Company to 71.08%. In June 2021 the Company delisted from the Nasdaq Dubai stock exchange and in July 2021 was reregistered as a private limited company. Boubyan currently have a 71.65% holding in the Company as they continue to offer to purchase shares from minority shareholders.

Boubyan has been the Company's largest shareholder since the Bank launched in 2006 with active representation on the Boards of BLME and the Company. The Group is working closely with Boubyan to exploit the opportunities and synergies this change in ownership brings. The Group 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 to build capability and offer products to customers using digital channels.

COVID-19

COVID-19 remained a threat to global business during 2022 with the Omicron variant becoming the dominant strain worldwide forcing new lockdowns in China. The vaccination programme in the United Kingdom is an ongoing mass immunisation campaign that has been successful in reducing the impact of the disease on UK businesses.

The Group continues to use remote working as part of its overall business continuity planning – protecting staff and increasing the resilience of the Group. Flexible hybrid working has been operating successfully for almost a year now with most employees attending the office in person three days per week.

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 Group.

The Group has not received any support from the UK Government, has not participated in any of the Government subsidy or loan schemes, nor "furloughed" any staff. Instead, it has successfully redeployed impacted employees across the Group to effectively resource and retain our people. The Group did not receive any payment deferral requests from customers during 2022 as a consequence of COVID-19.

Current economy

During 2022 there have been a number of macroeconomic events which continue to impact the Group. UK inflation rates have reached 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 with energy bills being particularly badly affected.

Central Banks have been attempting to mitigate inflationary measures by increasing interest rates, with the UK seeing the Bank of England raising the base rate eight times during 2022 from 0.25% to 3.5% in an attempt to manage inflation (and it has been raised again during 2023 to a current level of 4.25%). The Group is managing interest rate increases in the short term and has regularly reassessed and increased the rates passed on to customers.

Inflationary increases have led to an increase in salaries across the financial services sector and in turn a general increase in staff turnover. The Group regularly assesses 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

Nomo is a new business unit of BLME, soft launched in July 2021, that aims to provide customers with seamless, secure, and Sharia-compliant digital banking. Nomo provides account holders access to a suite of state-of-the-art banking products, including daily banking across multiple currencies, simple wealth management solutions, and home financing products, all managed via the Nomo App. Nomo is in its infancy and 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. Nomo had a product development focus throughout 2022 and is now progressing into monetising the business unit in 2023 as we seek to develop GCC partnerships with a focus on partners in GCC countries, other than Kuwait, who do not have a London presence.

Wealth Management

Wealth Management includes the Group's 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 Group's business that is benefitting from closer collaboration with the Boubyan franchise and business model. In the first half of 2023 BLME plans to open an office in the KSA to help drive our Wealth Management initiatives.

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. BLME's 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. The 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

Commercial Finance includes the Group'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 across a variety of sectors.

Following a strategic review and separation process, the Board decided to explore a sale of its leasing business during 2021. Due to unfavourable market conditions in 2022, the sale process did not result in a disposal. In June 2022 the Group Board made the decision to exit the leasing business. The leasing business will continue to trade, and the portfolio will be run down in an orderly fashion, a process that is expected to take approximately three to four years.

A strategic decision was taken in 2021 to commence the implementation of an orderly withdrawal from the specialist assets and syndications business line.

Treasury

The Treasury division manages the Group's capital, liquidity and funding, ensuring that the Group operates within its market and liquidity risk appetites. To this end Treasury ensures funding sources are diversified and at cost-effective rates. During 2022 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 Group has intentionally increased the level of retail funding during 2022 as part of managing the cost of funds and reducing depositor concentration risk. The Bank of England's Alternative Liquidity Facility serves as BLME's primary means of ensuring its stock of HQLA is better positioned to handle intra-day Sterling liquidity requirements.

Marketing

During 2022 the Group developed a variety of new go-to-market material to support its sales teams and the wider growing business. This included designing communications plans to support the strategic wind-down of the Leasing business and to promote our new KSA office as well as designing a website to support the KSA business launch.

BLME also won the following awards during 2022:

- Real Estate Wealth Management Solutions Provider: World Business Outlook
- Best International Sustainable Financial Services Provider: UK Finance Awards
- Most Innovative Islamic Bank of the Year (Nomo): Leaders in Fintech Awards
- Fintech of the Future (Nomo): Banking Tech Awards

Beyond this, the Group continues to exercise its business-as-usual marketing across all channels.

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.

The Group 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 2022 are shown on pages 46 to 55. The loss after tax for the year amounted to £5.8 million (2021: loss after tax £7.8 million).

Below are the highlights of the financial performance of the group for the year and the position as of 31 December 2022.

Key performance indicators - £ million	**2022**	**2021***
Loss after tax	(5.8)	(7.8)
Consolidated total operating income (excluding credit impairment losses)	65.1	51.7
Consolidated total operating income (excluding credit impairment losses and Nomo business unit costs recharged to BB2 TechCo – see Note 36)	56.4	49.0
Consolidated total operating expenses	59.9	43.4
Consolidated total operating expenses (excluding exceptional leasing costs)	57.0	43.4
Consolidated total operating expenses (excluding exceptional leasing costs and Nomo business unit costs recharged to BB2 TechCo - see Note 36)	48.6	40.8
Credit impairment losses	13.2	23.3
Total assets	1,634	1,571
Total regulatory capital	227	237

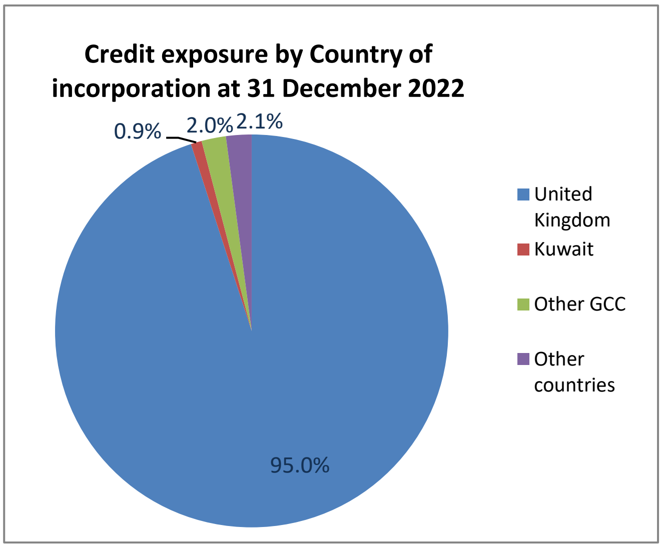
Other performance measures	**2022**	**2021***
Pre-tax return on equity	-3.4%	-6.2%
Cost income ratio	90.8%	81.1%
Cost income ratio (excluding exceptional costs)	85.6%	81.1%
Cost income ratio (excluding exceptional costs and Nomo business unit costs recharged to BB2 TechCo - see Note 36)	70.8%	75.4%
Non-performing Financing Assets to overall Financial Assets	5.7%	4.7%
Number of depositors	21,966	19,722

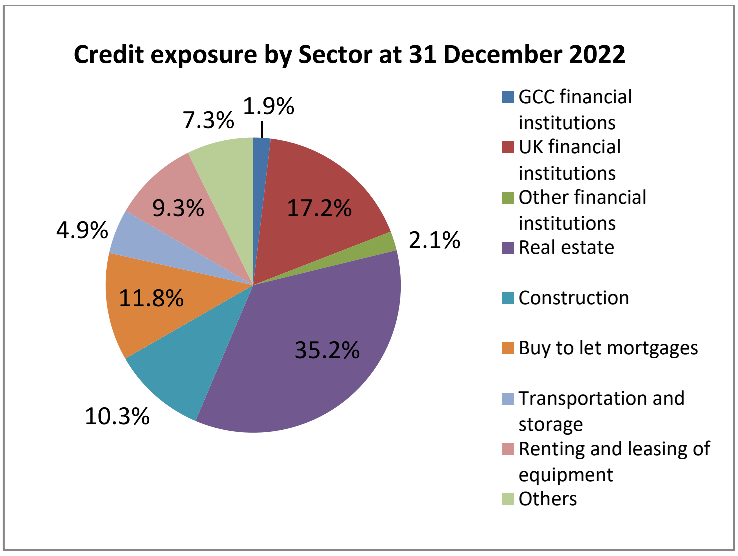
**The year to 31 December 2021 consolidated income statement has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

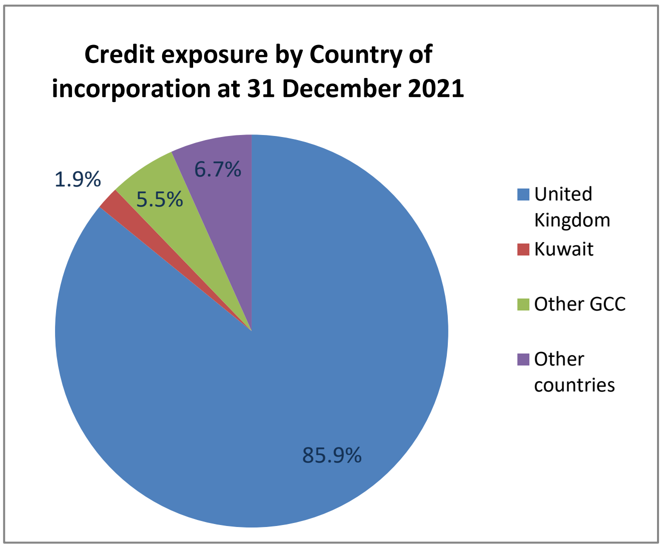
The underlying results of the Group remain resilient and in line with the strategic set up plan. Total consolidated operating income (excluding credit impairment losses) increased from £51.7m in 2021 to £65.1m in 2022. The Group reports a loss after tax of £5.8m, compared with a £7.8m loss after tax for 2021. Total credit impairment losses for 2022, amounted to £13.2m compared with £23.4m in 2021. The Group's Balance Sheet increased marginally in 2022 to £1.63 billion from £1.57 billion in 2021 with the Group maintaining its healthy liquidity position. The Group loss for the year includes exceptional operating costs of £2.9m and a credit impairment loss of £1.75m both related to the strategic closure of the leasing business.

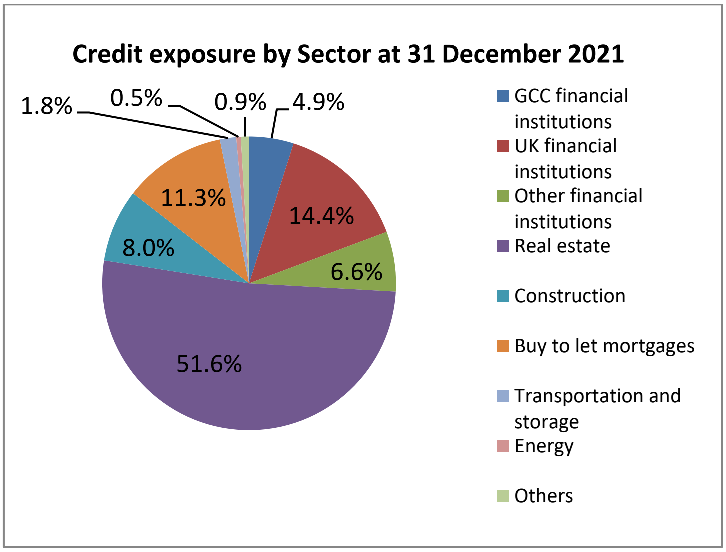
The Parent Company reports a profit for the year of £59.0m (2021: loss £33.4m). The profit arises as a result of a £67.9 million reversal of previous impairment charges related to the investment in BLME. Further details can be found in Note 19.

The charts below show the credit exposure by country of incorporation and by sector. Further details can be found in Note 37.









GROUP NON-FINANCIAL INFORMATION STATEMENT

Our Stakeholders

The Group has a diverse and wide range of stakeholders. A priority for the Group 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 Group'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 Group 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.

Shareholders

We appreciate the support and patience our Shareholders have shown over the years and we understand how important it is to communicate openly and engage with them. As of 31 December 2022, Boubyan Bank owned 71.18% of the Group. We remain open to ongoing dialogue with minority shareholders and sharing our annual reports.

Customers

Our customers are central to all that we do and we work hard at being a customer-centric bank with customer outcomes and treating customers fairly a priority.

Customer service and delivering good outcomes is the platform on which we will build and drive better quality business and demonstrate a clear and differentiated value proposition. This is at all levels of our organisation, so whatever our role, we try to 'think customer.'

In 2022 the Nomo digital banking business unit of BLME introduced a Customer Satisfaction Survey for customers who come through to the Nomo Customer Services team via phone or email. This allows us to dip test customer sentiment and ensure that we are providing the right level of service. Customers can input anecdotal commentary as well as simply put down a score, so it's very useful in providing recognition for a job well done or providing thoughts for training or product/process development.

Nomo also launched a new 'Voice of the Customer' forum which brings together customer feedback - be that through phone calls, emails, social media, customer research, complaints, and front-line colleague feedback. Through this forum, Nomo tracks themes and trends to drive continuous improvement. This can be through improving operational processes and procedures or working closely with technical squads to create customer journeys with less friction points. Underlying Voice of the Customer has been the establishment of a small Customer Excellence team - the focus of which is to be proactive and fleet of foot when it comes to addressing any customer-centric goals.

The Bank has a project in place to ensure that BLME's products and services meet the FCA's new Consumer Duty requirements prior to the deadline of 31 July 2023. Consumer Duty sets higher and clearer standards of consumer protection across financial services and requires authorised firms such as BLME to put their customers' needs first.

Consumer Duty includes:

- A new Consumer Principle that requires firms to act to deliver good outcomes for retail customers;
- Cross-cutting rules requiring firms to act in good faith, avoid causing foreseeable harm, and enable and support customers to pursue their financial objectives; and
- Four Outcomes rules requiring firms to ensure consumers receive communications they can understand, products and services meet their needs and offer fair value, and the support they need.

Suppliers

We rely on our suppliers to help the Group run smoothly, from day-to-day business to our future operations. In order to maintain beneficial and productive relationships with our suppliers the Group 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 offer a wide range of internal channels to share ideas and information with our staff. We share weekly announcements which enable a blend of HR messaging and knowledge sharing between teams. 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 our monthly digital 'CEO Insights' and regular in-person strategy updates (or 'Ruya' as they are referred to within the business using an Arabic expression meaning Vision) enable ExCo to update staff on strategic matters and business progress.

Our people agenda and initiatives continue to be strong and have a highly positive impact on colleagues. We continue to receive positive feedback on this aspect of BLME. In 2022 we have had eight promotions within the business and five fathers who took paternity leave.

On benefits, following research and feedback we moved our PMI provider to Vitality; we reintroduced office masseur, Walk-in Backrub post-pandemic; launched an Employee Referral Scheme and a Workplace Nursery Scheme; we entered into creative partnerships with the National Theatre and Shakespeare's Globe; introduced 3-Year Service, Deal of the Year and Najm (star) awards; provided Bring Me Lockers to let staff receive personal deliveries to the office; enhanced our Maternity, Paternity and Adoption Leave policies; launched electronic payslips; and enhanced our Breakfast Bar selection.

And, as we do every year, we held a substantial number of staff gatherings and fundraising activities to support our charitable partners and to mark various cultural points throughout the year including Chinese New Year Celebration, Shrove Tuesday Breakfast, several charity bake sales, Charity Abseiling Event; Eid lunch; BLME Charity Challenge Walk in The Lake District, Tug of War Charity Event, BLME's 15th Birthday Celebration; Support for Ukraine Morning Tea; Easter celebrations and competitions; Moneyfacts Awards Dinner; Rosh Hashanah Afternoon Tea; BLME Paniyiri (Greek festival); Black History Month; Arab Banker's Association Iftar Dinner; Diwali lunch; Santa in the City Run; KidCo (re-introduced post-pandemic); Winter Coat Collection for Wrap Up London; team football; Yoga in the Boardroom Sessions and local lunch venue discounts.

In our Employee Engagement Survey 2022 our colleagues' scores produced an Employee Engagement Index of 84% (up from 80%), keeping BLME in the top tier of peer firms. This year's theme was around wellbeing, and that score also increased which was very positive as we've worked hard to deliver in this space.

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.

As signatories of HM Treasury's Women in Finance Charter, BLME submitted its Annual Update to the Treasury in September. When we signed up to the Charter in September 2021, BLME had 42% female representation in our general employee population. A year later, and with a 52% increase in the number of employees, we are pleased to report that we have increased this representation by 2% to achieve 44% of women in our workforce. As of 30 September 2022, we have a 32% female representation in senior management which is a 1% increase on the previous year. We believe we are on track to meet our Charter target of 50% female representation across all employees by the end of 2025. We also believe we are on track to achieve our Charter target of 35% of senior management roles are filled by women by end of 2025.

Our community related sponsorships and other community engagement activities for the year 2022 included Maggie's Abseiling Event; BLME Charity Challenge Walk in The Lake District, Tug of War Charity Event; Support for Ukraine Morning Tea; Maggie's Santa in the City Run; Winter Coat Collection for Wrap Up London; sponsorship of five teachers for Leadership Development Course; sponsored training and kit costs for a girl's football team; used catering from Fat Macy's and Luminary Bakery (both social enterprises who provide training and employment opportunities for people from disadvantaged backgrounds); and placed food orders with Harry Specters, who provide employment opportunities for people living with autism.

OTHER NON-FINANCIAL INFORMATION

Funding

The Group focuses effort to operate within our market and liquidity risk appetite and reviewing funding sources remains a priority for the Group. We have enhanced the Savings section of our website, responded flexibly to rate changes and remained focussed 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 the Group takes very seriously. All Group staff receive annual training on conduct alongside regular communication and internal blogs about building a culture based on our values and good conduct. The Group has appointed Conduct Champions from the front-office business areas who are responsible for overseeing the Group'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 Group. 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

The Group 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 Group staff including Board members receive annual training on anti-corruption and anti-bribery matters. The Group'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.

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 of 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 Group 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 the Group's activities to report their concerns to our whistleblowing champion.

PRINCIPAL RISKS AND UNCERTAINTIES

The Group’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

Further to Russia’s invasion of Ukraine during the year and the global sanction updates against Russian individuals, entities and financial institutions, the Group conducted a full review of its client base to identify any relevant relationships. The Group has no relationships with sanctioned Russian individuals, entities and financial institutions and has no direct credit exposure to Russia or Ukraine.

The Group 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 the Group is not experiencing any significant adverse business impacts.

FUTURE

We have a strong team that is fully aligned with our goals and who drive the positive culture and success of the Group. I want to thank them for their commitment and resilience in 2022.

2023 will be a period of ongoing strategic change and the launch of the KSA subsidiary and the expansion of Nomo remain key challenges and opportunities.

I would also like to thank the Chairman and the Board for their ongoing 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
06 April 2023

DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2022.

Principal activities

BLME Holdings Limited ("the Company") was incorporated in the United Kingdom on 24 April 2013 and its principal activity is to act as a holding company for Bank of London and The Middle East plc ("the Bank" or "BLME") and its subsidiaries including Walbrook Asset Finance Limited ("Walbrook"). The insertion of the Company as a holding company of the Bank was effected pursuant to a Scheme of Arrangement in 2013. The Company and its subsidiaries are collectively referred to as "the Group". Following on from the acquisition by Boubyan in 2020, the Company was delisted from the Nasdaq Dubai stock exchange on 17 June 2021. The Company was formerly registered as a public limited company and was reregistered as a private limited company on 21 July 2021.

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.

On 21 December 2022 the Ministry of Commerce in the Kingdom of Saudi Arabia issued the Company Registration Certificate for BLME Capital Company, a Single Shareholder Closed Joint Stock Company which is 100% owned by the Bank.

On 24 January 2023 the Bank completed a transaction to acquire an office building in Warrington occupied by the National Crime Agency for £40.6m. This property was sourced by the Real Estate Investment team for sell down to High Net Worth investors in the GCC.

Financial results and dividends

The financial statements for the year ended 31 December 2022 are shown on pages 46 to 55. The consolidated Group loss after tax for the year amounted to £5.8 million (2021: loss after tax £7.8 million). The result for the stand-alone company, BLME Holdings Limited, for the year was a profit of £59.0 million (2021: £34.0 million profit). The Directors do not recommend the payment of a dividend for the year ended 31 December 2022 (2021: £Nil). The results for the year are discussed further in the Group's strategic report.

In June 2022 the board of BLME Holdings Limited took the decision to wind down its leasing businesses. The leasing businesses will continue to trade in an orderly fashion during the wind down and realise the assets and meet their obligations as they fall due, a process that is expected to last a number of years.

Directors and Directors' interests

The Directors who held office during the year, and their committee memberships and functions as of 31 December 2022, were as follows:

Name and Board/Committee Chairmanships (as of 31 December 2022)	**Date of Appointment**	**Date of Resignation**	**Board Committee Memberships** (as of 31 December 2022)
Adel Abdul Wahab Al-Majed *Chair of the Board*	26 April 2013		
Abdul-Salam Mohammed Al Saleh *Deputy Chair of the Board*	26 June 2020		Nominations and Remuneration
Andrew Ball *Chief Executive Officer*	11 December 2020		Executive
Chris Power *Chief Financial Officer*	26 September 2016		Executive

David Williams (Independent) *Chair of the Board Risk Committee*	15 October 2015		Risk Nominations and Remuneration
Jabra Ghandour	25 March 2016		Audit
Calum Thomson (Independent) *Chair of the Audit Committee*	1 April 2017		Audit Risk Nominations and Remuneration
Joanne Hindle (Independent) *Chair of the Nominations and Remuneration Committee*	1 July 2018		Nominations and Remuneration Audit Risk
Bader Abdullah Al Kandari	20 March 2019		Risk
Maged Fanous	23 March 2020		Risk
Abdullah Abdulkareem Al Tuwaijri	18 June 2021		Audit Nominations and Remuneration

As a private limited company, BLME Holdings Limited is not required to hold an annual general meeting each year and its directors are not required to retire by rotation and a new director appointed by the Board does not need to be re-appointed by the shareholders at a general meeting.

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

The Directors who held office on 31 December 2022 had the following beneficial interests in the ordinary shares of the Company at the end of the year.

Name	Class of share	Number of shares held of 31 December 2022	Number of shares held of 31 December 2021
Adel Abdul Wahab Al-Majed	Ordinary 25p	1,000,000	1,000,000
Andrew Ball	Ordinary 25p	Nil	Nil
Chris Power	Ordinary 25p	Nil	Nil
David Williams	Ordinary 25p	Nil	Nil
Calum Thomson	Ordinary 25p	Nil	Nil
Jabra Ghandour	Ordinary 25p	Nil	Nil
Joanne Hindle	Ordinary 25p	Nil	Nil
Bader Abdullah Al Kandari	Ordinary 25p	Nil	Nil
Maged Fanous	Ordinary 25p	Nil	Nil
Abdul-Salam Mohammed Al Saleh	Ordinary 25p	Nil	Nil
Abdullah Abdulkareem Al Tuwaijri	Ordinary 25p	Nil	Nil

Chairman's other significant commitments

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

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

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

Sharia'a Supervisory Board members

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

- Sheikh Dr. Abdulaziz Al-Qassar (Chairman)
- Sheikh Dr. Esam Khalaf Al-Enezi
- Sheikh Dr. Mohammed Daud Bakar
- Dr. Mohammad Al-Barrack (from December 2022)

Dr. Mohammad Al-Barrack was the Sharia'a Consultant to the SSB during 2022 and was appointed as a member in December 2022. Sulaiman Zaki Al Othman will replace him as the Sharia'a Consultant to the SSB in 2023.

Financial Risk Management

The Group 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 Group manages these risks is provided in Note 37.

Political contributions

The Group made no political contributions during the year (2021: £nil).

Climate change risk

The Group continues to build its approach to climate risk, with positive steps taken during 2022 to incorporate this important topic into the wider risk management framework that spans all of the Bank's functions.

Overall the Bank has made further progress in embedding the requirements set out within the Policy Statement PS11/19 'Enhancing Banks and Insurers approaches to managing the financial risks from Climate Change' in the following areas:

A Climate Change Roadmap has been created, stipulating action points with timelines and assigning responsibilities under all the above areas.

A series of scoring metrics at a customer level for both Transition and Physical Risk were initiated in order to build a picture of the Bank's exposure to Climate Change Risk (Physical and Transition Risks)

- **Transition risks** arise from the adjustment towards a net-zero economy, which will require significant structural changes to the economy. Changes in policy, technology and shifting consumer preferences and interpretations of the law could prompt a reassessment of the value of a large range of assets. In turn, this will give rise to credit risk. The resultant risks would be more pronounced in the case of a sudden adjustment and could, dependent on scale, be a source of financial instability.
- **Physical risks** arise from changes in the long-term climate and the increasing severity and frequency of weather events. Physical risks can damage property and other infrastructure, disrupt business supply chains, impact human working conditions and health and, more broadly, can lead to internal displacement and conflict. This reduces asset values, results in lower profitability for companies, damages public finances, and increases the cost of settling underwriting losses for insurers. Indirect effects on the macroeconomic environment, such as lower output and productivity, exacerbate these direct impacts.

These scoring metrics will further develop and get embedded into both Risk Appetite and Risk Reporting through 2023 to start to utilise climate scenarios to understand our risk profile further and define climate change risk mitigation strategies.

It is expected that the Bank will start exploring data and methodologies available that will assist with measuring and reporting Scope 1, 2 & 3 emissions.

Credit risk policy has been updated to reflect climate change risk considerations and the Bank will consider the merits of implementing a standalone Climate Change Policy as we continue to develop our understanding of underlying risks, technical capabilities evolve, and methodologies develop and become more standardised.

Carbon reporting

The Group's direct business impact on the environment is limited with the main carbon footprint relating to office premises, which are modern and energy efficient, with the majority of staff being based out of our Cannon Place Head Office in central London. The Group does not have any company cars or fleet vehicles and there is minimal use by the Group's employees of personal or hire cars for business purposes.

The Group consumed more than 40,000 kWh of energy during the year and is therefore above the threshold for 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. SECR is relevant for the Group as BLME meets two out of three of the size criteria to be classified as a large unquoted company.

The Group actively engages with the managing agents at its Cannon Place Head Office premises on a variety of efficiency measures. BLME's facilities manager attends quarterly Green Team meetings organised by the managing agents, where energy efficiency measures are discussed and KPIs regarding electricity, gas and water usage and waste recycling are discussed. The Cannon Place sustainability team have chosen to use an npower Business Renewable product for its supply of electricity. This contract is REGO (Renewable Energy Guarantees of Origin) backed as 100% renewable electricity and meets the quality criteria of the GHG Protocol (2015) for reporting zero carbon emissions.

The Group's has chosen an intensity ratio of using tC02e (tonnes of carbon dioxide equivalent) per £ millions of income as being the most relevant carbon emissions intensity metric for its business type. The emissions details below have been calculated using the utility bills' details for the building and taking account of the floorspace occupied by BLME.

The Group's UK energy consumption for calendar year 2022 was 364,403 kWh (2021: 366,772 kWh), which includes natural gas and electricity consumption. The energy consumed resulting from the purchase of electricity by the Group for its own use was 285,100 kWh (2021: 260,152 kWh).

The Group's carbon emissions for calendar year 2022 was 14.48 tCO2e(2021: 19.53 tCO2e).

The Group's intensity metric for calendar year 2022 was 0.22 tCO2e/£ millions of income (2021: 0.38 tCO2e/£ millions of income).

Future developments

The business strategy and prospects for future financial years are included in the Group Strategic Report on pages 8 to 15. The material business risks are set out in Note 37 Financial Risk Management from page 110.

Going concern

The Directors have reviewed the business activities and financial position of the Group and have a reasonable expectation that it has adequate resources to continue in operational existence until 30 April 2024. In making this assessment the Directors have considered a wide range of information about the current and future condition of the Group including the strategic direction, activities and risks that affect the financial position. 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) © on pages 57 and 58.

For these reasons the consolidated financial statements of the Group and parent Company have been prepared on a going concern basis.

Disclosure of information to auditor

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

Auditor

The Company has dispensed with the requirement to hold an Annual General Meeting. In accordance with Section 489 of the Companies Act 2006 the board will reappoint Ernst & Young LLP as auditors during the course of the year.

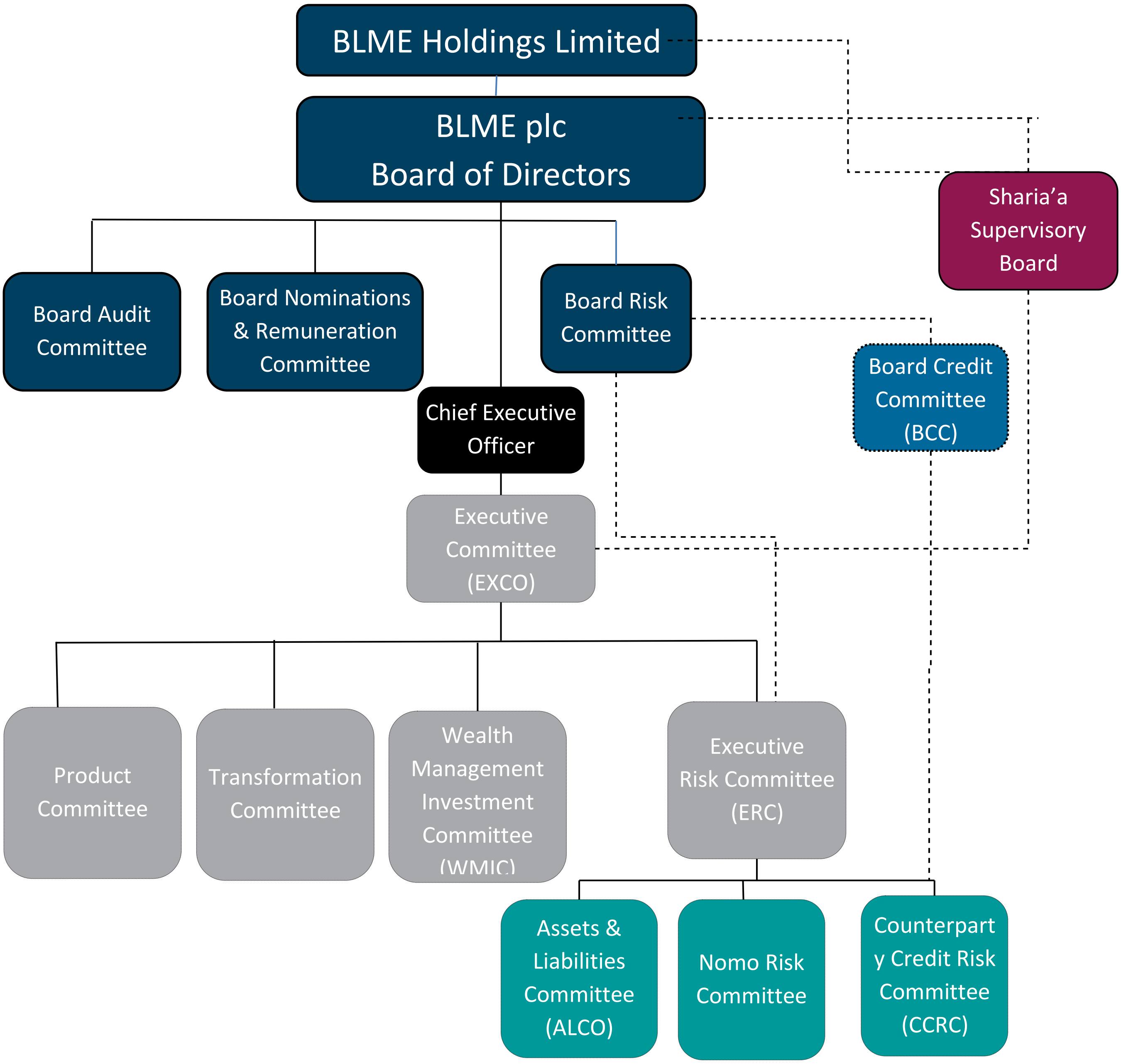
By order of the Board

Peter Bulkeley
Company Secretary
06 April 2023

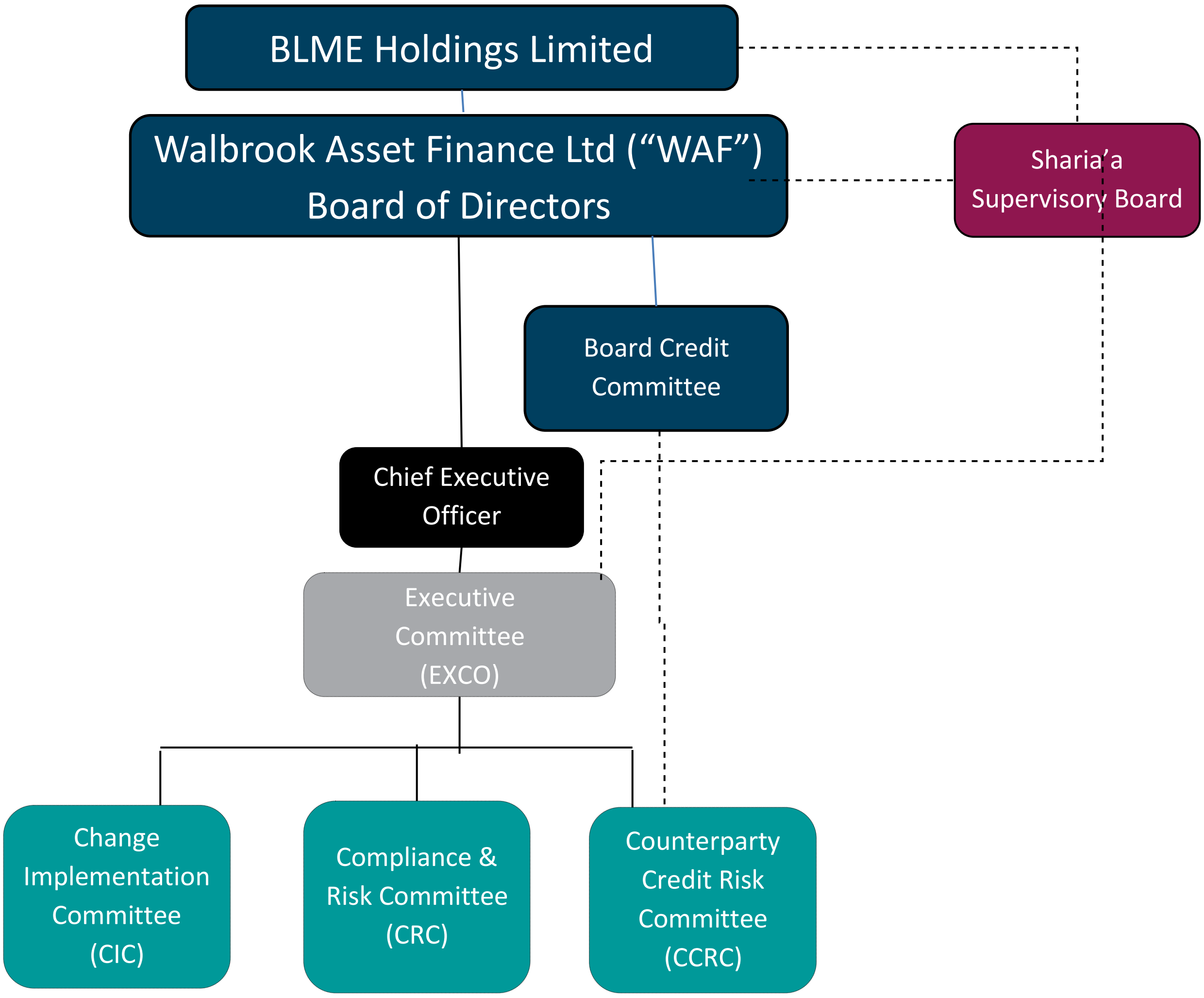
CORPORATE GOVERNANCE REPORT

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

Committee structure for governance of the Banking subsidiary



Committee structure for governance of the Group's main Leasing subsidiary



The Board of Directors

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

As of 31 December 2022 the Board of Directors comprised two Executive Directors:

- Andrew Ball – Chief Executive Officer
- Chris Power – Chief Financial Officer

and nine Non-executive Directors, including the Non-executive Chair:

- Adel Abdul Wahab Al-Majed – Non-executive Chair
- Abdul-Salam Mohammed Al Saleh – Deputy Chair
- Calum Thomson – Chair of Audit Committee (Independent)
- David Williams – Chair of Risk Committee (Independent)
- Joanne Hindle – Chair of Nominations and Remuneration Committee (Independent)
- Jabra Ghandour
- Bader Abdullah Al Kandari
- Maged Fanous
- Abdullah Abdulkareem Al Tuwaijri

The appointment of Directors is considered by the Board Nominations and Remuneration Committee and ratified by the Board. Non-executive Directors are appointed for three-year renewable terms, which may be terminated by giving three months' notice. All the Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring compliance with Board procedures and applicable regulations. Independent professional advice is available to the Directors at the Group's expense where they judge it necessary to discharge their duties as Directors.

Board Meetings

The Board of Directors meets at least quarterly and has a defined agenda of matters reserved for its decision. The Board is responsible for the overall Group strategy, setting the risk appetite, approval of major capital expenditure projects and consideration of major financing matters. The Directors discharge their duties within a framework of controls relating to the assessment and management of risk.

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

Board Committees

The Board has delegated to the Committees of the Group the responsibility to review and make recommendations to the full Board. The Board Committees operate within clearly defined terms of reference.

Board and Committee meetings attendance record for 2022

	Board			**Nominations and Remuneration Committee**			**Audit Committee**			**Risk Committee**		
	Regular meetings attended	Ad hoc meetings attended	Meetings eligible to attend	Regular meetings attended	Ad hoc meetings attended	Meetings eligible to attend	Regular meetings attended	Ad hoc meetings attended	Meetings eligible to attend	Regular meetings attended	Ad hoc meetings attended	Meetings eligible to attend
Executive Directors												
Andrew Ball	4	1	5									
Christopher Power	4	1	5									
Non-executive Directors												
Adel Abdul Wahab Al-Majed	4	1	5									
David Williams	4	1	5	5	2	7				4	1	5
Jabra Ghandour	4	1	5				4	1	6			
Calum Thomson	4	1	5	5	2	7	4	3	7	4	1	5
Joanne Hindle	4	1	5	5	2	7	4	2	6	4	1	5
Bader Abdullah Al Kandari	4	1	5							4	1	5
Maged Fanous	4	1	5							4	1	5
Abdul-Salam Mohammed Al Saleh	4	1	5	5	2	7						
Abdullah Abdulkareem Al Tuwaijri	4	1	5	5	2	7	4	2	6			

Of the five board meetings held during the year, four were regular meetings and one was an ad hoc meeting. The approval of the 2021 Annual Report and Financial Statements and the approval of the 2022 ICAAP, ILAAP and RRP were covered in regular scheduled Board meetings during 2022. Other topics considered at ad-hoc Board meetings included the Group's implementation of the Wealth Management business strategy. The Executive Directors regularly attend the meetings of the three Board Committees as guests.

Board Audit Committee

The Board Audit Committee is chaired by Calum Thomson (FCA) and comprises Joanne Hindle, Jabra Ghandour and Abdullah Abdulkareem Al Tuwaijri. The independent chair has a casting vote.

The Committee's main responsibilities include to review any reports from management, the internal auditor, and the external auditor regarding the internal control systems implemented throughout the Group, along with consideration of the Annual Report and Financial Statements. The Committee also oversees the relationships and provides input into the planning of the internal and external auditors; and makes recommendations to the Board on the appointment of the auditors and the audit fee. The Board considers that the members of the Board Audit Committee possess recent and relevant financial experience. The Audit Committee has unrestricted access to the Group's auditors. The external auditor, Ernst & Young LLP (EY), provided limited non-audit services in addition to the provision of audit services. Further details regarding the fees paid to EY for these services are included in Note 12 on page 82.

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

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

More information regarding the Group's Audit Committee's functions and activities is included in the Audit Committee report on pages 29 to 31.

Board Risk Committee

The Board Risk Committee (BRC) is chaired by David Williams and comprises Bader Abdullah Al Kandari, Joanne Hindle, Calum Thomson and Maged Fanous.

BRC is responsible for the oversight of the risk profile of the Group and for providing guidance, advice and recommendations to the Board on credit, market, liquidity and operational risks with a view to re-enforcing a culture that encourages good stewardship of risk. Within this mandate it reviews risk levels in consideration of the Group's overall risk appetite, market conditions and business strategy. It also reviews the Group's Internal Capital Adequacy Assessment Process (ICAAP), Individual Liquidity Adequacy Assessment Process (ILAAP) and Recovery and Resolution Planning Process (RRP) and assesses the adequacy of stress testing and risk policies.

Ultimate responsibility for risk rests with the Board which, with advice and recommendations from BRC, approves the risk appetite for each major class of risk in line with the Group's business model and strategic priorities and also approves the annual ICAAP and ILAAP.

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

Board Nominations and Remuneration Committee

The Board Nominations and Remuneration Committee is chaired by Joanne Hindle and comprises David Williams, Calum Thomson, Abdul-Salam Mohammed Al Saleh and Abdullah Abdulkareem Al Tuwaijri.

The Board Nominations and Remuneration Committee is responsible for matters relating to the composition of the Board, including the appointment of new Directors, and making recommendations to the Board as appropriate. The Committee is also responsible for overseeing the annual performance evaluation of the Board, its principal Committees and the Chairman. The Board Nominations and Remuneration Committee identifies qualified candidates to be Directors, through a robust and prudent process, with the use of external consultants as necessary.

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

More information regarding the Group's Board Nominations and Remuneration policy is included in the Nomination and Remuneration report on pages 32 and 33.

Chair and Chief Executive

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

a. The Non-executive Chair, Adel Abdul Wahab Al-Majed, is responsible for the leadership of the Board, ensuring effectiveness in all aspects of its role, reviewing the Board's agenda and conducting Board meetings, and ensuring effective communication with Shareholders and the conduct of Shareholders meetings.

b. Executive management is led by the Chief Executive Officer (CEO), Andrew Ball, who has been delegated responsibility by the Board for the day-to-day management of the Group within the control and authority framework set by the Board. The CEO is supported in managing the business by the Chief Financial Officer (CFO), Chris Power, who acts as the Deputy CEO.

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

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 Group's circumstances and made a recommendation to the Board that retaining the services of Adel Abdul Wahab Al-Majed as the non-independent Chair would be in the best interest of the Group.

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

Board balance

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

During the year ended 31 December 2022, two of the Directors were Executive Directors and three were Non-executive Directors who were considered by the Company to be independent.

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

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

Information and professional development

The Board is supplied in a timely manner with information in a form, and of a quality appropriate to enable it to discharge its duties. The Company Secretary is responsible for ensuring the Directors receive accurate, timely and clear information, which is provided by operational management and enhanced or clarified where necessary. Professional development and training for the Board is monitored by the Board Nominations and Remuneration Committee as part of the annual performance evaluation review. In addition the Continued Professional Development (CPD) of the individual Directors are assessed by the Chair as part of the annual fit and proper assessment and compliance with the Senior Managers and Certification Regime.

Board effectiveness review

An external effectiveness review of the Board was completed during 2022 by a specialist consultancy firm with no connections with the Group. This independent review consisted of a review of board papers; confidential interviews with all Directors; confidential interviews with selected executives who have significant interaction with the Board and its Committees; and observation of a committee meeting and a Board meeting. A draft report was issued at the end of 2022 with no major findings or concerns raised. The report will be discussed and finalised with the Board during the first quarter of 2023 and an action plan will be instigated to cover the recommendations.

Financial reporting

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

Internal control

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

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

As the first line of defence, management design and perform the control function. They are then periodically tested independently through the Compliance Monitoring Plan and by the Risk department providing a second line of defence. They are monitored and assured by thorough reviews conducted by internal audit acting as the third line of defence. The findings of these reports and subsequent tracking of the remedial actions required are monitored by the appropriate internal committees and by the Audit Committee to ensure all open action points are closed and the adequacy of all systems and controls are maintained.

Relations with Shareholders

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

SHARIA’A SUPERVISORY BOARD REPORT

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

To the Shareholders of BLME Holdings Limited

Assalamu Alaikum wa Rahmat Allah wa Barakatuh.

The management of the Group is responsible for ensuring that the Group 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 the Group. It is the responsibility of management to implement the decisions of the Sharia’a Supervisory Board.

We, the Sharia’a Supervisory Board of BLME Holdings Limited, have reviewed and monitored the operations, agreements and transactions conducted by the Group through its offices in England and in the Dubai International Financial Centre during the period 1 January 2022 to 31 December 2022 and have reviewed the BLME Holdings Limited Annual Report and Accounts for the year ended 31 December 2022. We conducted our reviews to form an opinion as to whether the Group has complied with the principles of the Sharia’a and with specific fatwa rulings and guidelines issued by the Sharia’a Supervisory Board.

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

1. The operations, agreements and transactions entered into and conducted by the Group through its offices in England and in the Dubai International Financial Centre during the year 1 January 2022 to 31 December 2022 and which were reviewed by the Sharia’a Supervisory Board are in compliance with the principles of the Sharia’a.
2. The distribution of profits and the sharing of losses in terms of the investment accounts at the Group are in compliance with the principles of the Sharia’a.
3. All profit generated by the Group during the year 1 January 2022 to 31 December 2022 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 2022 to 31 December 2022 and will oversee Group’s dealings in the disposal of this income in a Sharia’a-compliant manner.

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

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

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

Signed on behalf of the Sharia’a Supervisory Board of BLME Holdings Limited

Sheikh Dr. Abdulaziz Al-Qassar
Chairman
06 April 2023

AUDIT COMMITTEE REPORT

Statement from the Chairman of the Board Audit Committee

The Audit Committee met seven times during 2022.

In a meeting held on 22 June 2022, the Committee received and reviewed the results report from the external auditor on the annual audit of the Annual Report and Financial Statements for the year ended 31 December 2021 and recommended the approval of these to the Board.

The Group uses an outsourced model for its internal audit needs having appointed BDO LLP as its internal audit partner. BDO presents an annual internal audit plan for each calendar year to the Committee for review and approval and subsequent updates are agreed by the Committee throughout the year. During 2022, the Committee received and reviewed a total of seventeen individual BDO review reports.

Audit Committee Members
Calum Thomson – Chair
Joanne Hindle– Deputy Chair
Jabra Ghandour
Abdullah Al Najran Al Tuwaijri

Audit Committee Guests
EY – (external auditor)
BDO – (internal audit)
David Williams – INED
Chief Executive Officer
Chief Financial Officer
Chief Operating Officer
Chief Compliance Officer & Chief Risk Officer
MLRO

Role of the Audit Committee

The Audit Committee's main functions are:

- To monitor the financial reporting process and integrity of the Annual Report and Financial Statements of the Group by reviewing and challenging, where necessary the actions of the management, its significant judgements, applicability of the accounting standards adopted, and estimates contained within the financial statements and the Group's accounting policies.
- To monitor the effectiveness of the Group's internal financial controls and risk management systems including the effectiveness of the internal audit function. The Committee reviews and approves the annual internal audit plan, ensuring it utilises the Group's Operational Risk Register. The Committee is presented with regular reports showing management responses on delivering recommended changes.
- To meet the independent external auditor of the Group to review their proposed Audit Plan and the subsequent Audit Report and to assess the effectiveness of the audit process, the nature of the non-audit work and the levels of fees paid in respect of both audit and non-audit work.
- To make recommendations to the Board in relation to the appointment, re-appointment or removal of the external auditor, and to negotiate their remuneration and terms of engagement on audit and non-audit work.
- To monitor and review annually the external auditor's independence, objectivity, effectiveness, resources and qualifications.

To ensure it fulfils its responsibilities under its terms of reference the Committee establishes an annual agenda. The Committee also reviews reports received from management on key business areas, with particular emphasis on compliance (including financial crime and compliance monitoring).

2022 activity

- The Committee reviewed the Internal Auditor's risk assessment and provided input into the internal audit annual plans for 2022 and 2023.
- The Committee reviewed each internal audit review report issued during the year and the key findings were discussed with Internal Audit during Committee meetings. The Committee evaluated the risk and control framework of those areas considering the reports and recommendations and did not note any critical weaknesses in the Group's internal controls.
- Internal Audit issued seventeen reports for the Committee to review in 2022. The reports covered the following activities:
    - SWIFT Customer Security Programme self-attestation assurance review
    - Regulatory Reporting – FINREP and COREP

    - Credit Risk Management (Second Line)
    - Dubai Branch
    - Climate Change Risk Management
    - Walbrook Asset Finance – Financial Crime Customer Due Diligence
    - Intra Group Services Agreement
    - Dear CEO Letter: Retail Banks Gap Analysis
    - Single Customer View Process
    - Compliance Monitoring Management (Second Line)
    - Conduct Risk Management Framework
    - Cyber Security
    - Operational Resilience
    - Outsourcing and Third-Party Management
    - Stress Testing Approach and Methodology
    - Model Governance Arrangements
    - Project and Change Management
- In addition to reviewing individual internal audit review reports, the Committee was kept up to date on the status of action taken by management to address the findings raised by Internal Audit. This included Committee approval of any extensions to original implementation dates (as requested by management).
- The Committee reviewed regular quarterly updates from the Chief Compliance Officer including access to Compliance Monitoring Reports issued during the year.
- The Committee reviewed and challenged the level of impairments including IFRS 9 Stage 1, 2 and 3 provisions and the IFRS 9 model assumptions throughout the year.
- The Committee had a detailed review of the financial statements including the appropriateness of the accounting policies adopted for the recognition of income, allowance for expected credit losses as required by IFRS 9 and the valuation of the Company's investment in its subsidiaries and recommended that the financial statements be approved by the Board.
- In addition to the regular annual program of activities, the Committee covered various other matters facing the Group during the year. This included the preparation for the launch of the Wealth Management funds distribution business, the development of a comprehensive project to implement the FCA's Consumer Duty in 2023, and the launch of an in-house advisory residential property finance proposition by Nomo.

External Audit Process

The Committee makes recommendations to the Board on the appointment of the external auditors and has unrestricted access to the Group's external auditors. The Audit Committee is responsible for reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process.

The process through which the Committee assesses the auditor's independence and objectivity each year includes the following is described within the Corporate Governance report on pages 21 to 27.

The Audit Committee meets twice a year with the external auditor in the absence of Management. The external auditor provides a planning report in advance of the annual audit, a results report on the annual audit of the Annual Report and Financial Statements and a control themes and observations report on matters that came to their attention during the normal course of their audit work. The Audit Committee has an opportunity to question and challenge the external auditor in respect of each of these reports. The Audit Committee challenge the external auditor's area of focus at the planning stage and where considered necessary ask for other areas of focus to be added. In particular the committee question the external auditor on the audit process relating to the level of provisioning, the appropriateness of the ECL provision, and the level of deferred tax.

After each audit, the Audit Committee reviews the audit process and considers its effectiveness. The review of the 2022 audit concluded that the audit process had worked well, and the issues raised during the year have been adequately addressed.

Auditor Assessment and Independence

The Audit Committee has reviewed EY's independence policies and procedures including quality assurance procedures. It was considered that those policies and procedures remained fit for purpose.
Calum Thomson

Chairman, Board Audit Committee
06 April 2023

NOMINATIONS AND REMUNERATION REPORT

Statement from the Chairman of the Board Nominations and Remuneration Committee

Committee Members
Joanne Hindle – Chairman
Calum Thomson – Deputy Chairman
David Williams – INED
Abdul-Salam Al Saleh – NED
Abdullah Abdulkareem Al Tuwaijri – NED

Committee Guests
Andrew Ball – CEO
Chris Power - CFO
Tracey Carlton – Director, People and Corporate Communications
John Cotton – Advisor from Deloitte LLP

The Committee met seven times during 2022.

Role of the Nominations and Remuneration Committee
The Committee's main remuneration related functions are to:

- Decide and report to the Board on the framework for remuneration including the overall level of salary reviews, other incentive awards, pension and contractual arrangements;
- Oversee compliance with regulations, including the FCA's Remuneration Code;
- Set the remuneration of the Chairman of the Board, the CEO, and the CFO;
- Monitor and review the remuneration of senior executive management (being all material risk-takers, all direct reports to the CEO, and all other highly paid staff), and
- Directly oversee the remuneration of the senior managers in the Risk and Compliance functions.

The Committee's main nominations related functions are to:

- Ensure that there is a formal, rigorous and transparent procedure for the appointment of directors to the Board;
- Ensure that any person nominated for election to the Board is fit and proper with the appropriate skills and experience for the post in accordance with regulatory requirements and principles of good corporate governance;
- Make recommendations to the Board on the appointment of any new Directors to the Board and accept an overseeing role in any appointment process having prepared a description of the role and capabilities required for a particular appointment and having regard to the overall balance of the Board;
- Oversee the Board assessment process including the creation and maintenance of a Board skills matrix, to ensure that satisfactory analysis is undertaken of the performance of the Board, and report to the Board on at least an annual basis on its assessment taking account of the balance of skills, knowledge, independence and experience on the Board;
- Identify any skill gaps on the Board and any succession planning issues and recommend to the Board how these gaps will be addressed;
- Oversee the training as necessary of all Board members; and
- Support the Board in ensuring that diversity and inclusion is embedded in the corporate culture and values.

Remuneration policy
Our ability to deliver against our strategy requires us to attract and retain high calibre staff and align their interest with our shareholders. Our Remuneration Framework is designed to support the strategy. This includes discouraging inappropriate risk taking and is guided by the following principles:

- Remuneration is set at appropriate levels and is benchmarked against the external marketplace;
- A total remuneration philosophy is operated wherein the Group seeks to balance short term considerations against alignment of the longer-term interests of shareholders;
- Remuneration is designed to promote effective risk management, consistent with the Group's stated risk appetite;
- Any breaches of risk appetite or conduct failures are considered by the Committee when determining both the overall bonus pool and individual executive remuneration;
- Performance measures and targets contain both financial and non-financial metrics and are cascaded from the Group's strategy to the CEO metrics and downwards. They are aligned with shareholder interests and consistent with the business strategy and objectives; and
- Compliance with the regulatory environment is mandatory.

2022 activity
The Committee's activity during the year included:

- Approval of updates to the regulatory Remuneration Policy Statement and categorisation of Material Risk Takers with the expert advisory of Deloitte to ensure compliance with CRD V requirements;
- Annual review of staff salaries in conjunction with a salary benchmarking survey and considering total remuneration as well as market conditions and other economic factors such as high UK inflation;
- Review of the benefits package offered to employees which aims to support their physical, mental, family, and financial well-being;
- Review of gender pay gap results (although the Group is not required to formally report on this);
- Review and approval of Executive Directors, Material Risk Takers, and other higher-paid staff remuneration;
- Review and approval of the remuneration of the Chairman of the Board;
- Review and challenge of the treatment of deferred bonus awards;
- Review and approval of a set of deferred bonus plan rules;
- Approval of the 2022 bonus pool payable in 2023 including the discretionary bonuses for senior staff and material risk takers with mandatory deferral applied above a threshold of £50,000;
- Review and approval of the cash deferral portions due to be paid out in 2023 (from the 2019, 2020 and 2021 bonus year awards);
- Review and approval of the design of and the issue of any strategic awards as appropriate;
- People and culture updates from Management including but not limited to Employee Engagement Survey results, benefits enhancements or reviews, employee attrition, learning and development, and other employee engagement initiatives;
- Oversight of management initiatives to further embed diversity and inclusion into the Bank's culture;
- Oversight of executive rewards and incentives at Walbrook Asset Finance Limited; and
- Succession planning in respect of the board as well as reviewing succession planning for the executives and senior managers in the Bank.

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

Long-term incentives are designed with external independent expert advice and in keeping with relevant industry best practice. The Group does not apply a formulaic approach to remuneration on the grounds that this could encourage inappropriate risk taking. The pay-out levels depend on the performance of the Group, the relevant business units and the individual; forfeiture and claw-back mechanisms operate where appropriate and consistent with Sharia'a law and FCA rules.

A discretionary bonus forms part of the Group's remuneration package. For Executive Directors, senior executives and staff designated as Material Risk Takers a portion of the annual discretionary bonus is deferred over a three-year period and is subject to forfeiture relating to malus, gross misconduct or leaving to join a direct competitor.

Joanne Hindle
Chairman, Board Nominations and Remuneration Committee
06 April 2023

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 Group and Parent Company 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 Group and the Company and of the profit or loss of the Group and 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 group and company financial position and financial performance;
- in respect of the Group 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;
- in respect of the Parent Company 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 and / or the Group will not continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's and Group's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Company and the Group financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and Parent 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 Group's website.

INDEPENDENT AUDITOR'S REPORT
To the members of BLME Holdings Limited

Opinion

In our opinion:

- BLME Holdings Limited's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended;

- the group financial statements have been properly prepared in accordance with UK adopted international accounting standards;

- the parent company financial statements have been properly prepared in accordance with UK adopted international accounting standards as applied in accordance with section 408 of the Companies Act 2006; and

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

We have audited the financial statements of BLME Holdings Limited (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2022 which comprise:

Group	Parent company
Consolidated statement of financial position as at 31 December 2022	Company statement of financial position as at 31 December 2022
Consolidated income statement for the year then ended	
Consolidated statement of comprehensive income for the year then ended	
Consolidated statement of changes in equity for the year then ended	Company statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Company statement of cash flows for the year then ended
Related notes 1 to 37 to the financial statements, including a summary of significant accounting policies, except for the sections of note 37 identified as "unaudited"	Related notes 1 to 37 to the financial statements including a summary of significant accounting policies, except for the sections of note 37 identified as "unaudited",

The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with section 408 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 group and parent 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 group and parent company's ability to continue to adopt the going concern basis of accounting included:

- In conjunction with our walkthrough of the Group'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 not less than 12 months from the date of signing this audit opinion, to 30 April 2024. Within this, the Group 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 Group.

- We have tested the factors and assumptions included in each modelled scenario for the cash forecast and we have tested the impact of the uncertain economic outlook included in each forecasted scenario. This also considered the outlook for inflation, interest rates and climate change. 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 Group 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 Group. This includes review of the Company's non-operating cash outflows and evaluating the Company's ability to control these outflows as mitigating actions if required.

- We assessed the Company's going concern disclosures in the Annual Report and Financial Statements to determine whether they were appropriate and in conformity with the reporting standards.

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 group and parent company's ability to continue as a going concern for the period which covers not less than 12 months to 30 April 2024.

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 group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of the group and parent company. • Our group audit scope included all operating subsidiaries of BLME Holdings Limited, all of which are audited by the engagement team.
Key audit matters	• Group – Improper recognition of revenue from financing and investing activities • Group – Adequacy of the provision for expected credit loss ("ECL") • Parent Company – Valuation of investments in subsidiaries

Materiality	• Overall group materiality of £2.3m which represents 1% of equity.

An overview of the scope of the parent company and group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each company within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the group and effectiveness of group-wide controls, the potential impact of climate change and changes in the business environment and other factors such as recent Internal audit results when assessing the level of work to be performed at each company.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, we performed an audit of the complete financial information of the Group. There have been no changes in scope compared to the prior year. All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Climate change

Stakeholders are increasingly interested in how climate change will impact the Group. The Group has performed a climate-related risk assessment which is explained in the Directors' report in the climate change risk section. These disclosures form part of the "Other information," rather than the audited financial statements. Our procedures on these unaudited disclosures therefore 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, in line with our responsibilities on "Other information".

In planning and performing our audit we assessed the potential impacts of climate change on the Group's business and any consequential material impact on its financial statements.

The Group has explained in Note 2 and [37] how they have reflected the impact of climate change in their financial statements. Significant judgements and estimates relating to climate change are included in note 3. These disclosures also explain where governmental and societal responses to climate change risks are still developing, and where the degree of certainty of these changes means that they cannot be taken into account when determining asset and liability valuations under the requirements of UK adopted international accounting standards.

Our audit effort in considering the impact of climate change on the financial statements was focused on evaluating management's assessment of the impact of climate risk, physical and transition, and whether the effects of potential climate risks have been appropriately reflected in determining that the impact on the financial statements would be immaterial. As part of this evaluation, we performed our own risk assessment to determine the risks of material misstatement in the financial statements from climate change which needed to be considered in our audit.
We also challenged the Directors' considerations of climate change risks in their assessment of going concern and associated disclosures. Where considerations of climate change were relevant to our assessment of going concern, these are described above.

Based on our work we have considered the impact of climate change on the financial statements to impact certain key audit matters. We have concluded that the impact is immaterial at this stage.

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
Improper recognition of revenue from financing and investing activities (Group) **Income from financing and investing activities: £69.1 million (2021: £56.4 million).** *Refer to the Accounting policies (page 60); and Note 5 of the Consolidated Financial Statements (page 78)* The risk of improper revenue recognition may result in a material misstatement in the income from financing and investing activities in the income statement and financing arrangements on the balance sheet. There is judgement applied in determining the behavioural life of assets over which to determine the expected profit rate (EPR), and a risk of management override from the manual recognition of fees recognised as part of the expected profit. The risk level remains unchanged from 2021.	We took the following approach in response to the risk: • 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 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. • Performed back testing to confirm the EPR calculation assumption of behavioural life being equal to contractual life is appropriate. Given the relatively short-term nature of loans, it is reasonable to assume the behavioural life is equal to the contractual life. • We tested the appropriate fees are included within or excluded from the EPR calculation in accordance with IFRS9, considering whether they are integral to the EPR of the loan. This included ensuring all exit fees on property finance deals within the trial balance are included with the EPR calculation, for new and existing loans.	We have tested the design and operating effectiveness of the revenue recognition controls, concluding them to be effective. Based on the procedures performed, we have no material findings to report. We have gained reasonable assurance over the revenue from financing and investing activities recorded for the year.

	• Tested supporting evidence for any adjustments to the accounting records that we have identified that have characteristics that could indicate unusual or inappropriate adjustments. • Performed year end cut-off testing to ensure that revenue was recognised in the correct period.	
Adequacy of the provision for expected credit loss (ECL) (Group) **Financing arrangements** **2022: £938.1 million** *(ECL provision £13.96 million)* **2021: £825.5 million** *(ECL provision £15.3 million)* **Finance lease receivables** **2022: £429.5 million** *(ECL provision £1.2 million)* **2021: £42.8 million** *(ECL provision £0.06 million* **Off balance sheet exposures** **2022: £94 million** *(ECL Provision £0.007 million)* **2021: £79.0 million** *(ECL Provision £0.01 million)* *Refer to the Accounting policies (page 63); and Note 13 of the Consolidated Financial Statements (page 83).* The adequacy of the provision for ECL is highly subjective and judgmental. The level of risk remains heightened from uncertainty due to the potential impacts of the cost of living crisis, the Russian invasion of Ukraine, rising interest rates, and the impact on borrowers and underlying property valuations.	• We obtained an understanding of the Group's process for onboarding (including KYC procedures) and assessed the design effectiveness and tested the operating effectiveness of the key controls within relevant processes focusing on model governance and credit monitoring of financial assets or liabilities, off balance sheet exposures, and ECL. **Staging:** • Assessed factors such as collateral values, FTVs ("Finance to values"), arrears, industry of the customer and also enquired with management regarding any indicators of increases in credit risk, in order to test the appropriateness of the staging. • Performed significant increase in credit risk (SICR) reperformance testing and audited changes to the SICR criteria. • Reviewed the assessment and governance for any manual overrides applied to staging outcomes. • We reviewed a sample of stage 2 exposures on the Group's watchlist to validate the completeness of stage 3 ECL and concluded on the appropriateness of including these within the stage 2 ECL calculation, rather than stage 3. • We reviewed material exposures removed from the Group's watchlist during the year and	We have gained reasonable assurance that management's judgements are appropriate, and that the allowance for ECL is adequate and recorded in line with IFRS 9. We noted that macroeconomic variables related to inflation and interest rates have not been incorporated within the models. However, we concluded that these did not individually or in the aggregate have a material impact on ECL recorded. We also raised observations in relation to data inputs and related controls, model recalibration and validation, none of which individually or in the aggregate had a material impact on ECL recorded. Based on the procedures performed, we concluded that the ECL recorded was materially correct.

In addition, the Group has acquired leasing portfolios, on an undisclosed basis to the ultimate lessees. Due to the undisclosed relationships, the Group has no visibility over the cash collections and no relationship with the ultimate lessee. The risk of fictitious leases existing in these acquired portfolios represents an increased credit risk to the group. The risk level remains unchanged from 2021.	validated that this was supported by corroborative evidence. • We reviewed the arrears report to ensure exposures in arrears have been included in the watchlist and classified as stage 2 or stage 3 as appropriate. **Data:** • Tested the data flow of the underlying records of the Group's inputs into the ECL model for completeness and accuracy. **Models:** • 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 Group to monitor inputs and outputs. We independently replicated the PDs, LGDs and associated sensitivity analysis as part of this. **Multiple Economic Scenarios:** • With the assistance of the EY economists we have challenged the macroeconomic forecast assumptions, the probability weights applied, and the appropriateness of the macroeconomic variables applied. We have benchmarked the macroeconomic forecasts with forecasts from a range of other institutions and with the historical performance of the series. **Individual provisions:** • For assets in stage 3, reviewed credit files to assess that the credit exposures are appropriately provided for, including high risk assets and also any sector most impacted by the current macroeconomic issues such as rising inflation.	

	• For a sample stage 3 assets, we reviewed management's collateral or exit values, cash flow assumptions, and exit strategies, and with the involvement of our valuation specialists, also formed an independent view of these. We also assessed the reasonableness of the probability weighting assigned to each scenario used in the ECL computation. • We assessed the appropriateness of the discount rate used, and re-performed the discounted cashflow models, comparing our ECL outcome to that prepared by management. **Stand-back assessment:** • We performed a stand-back assessment of the ECL provision and coverage at an overall level and by stage to determine if provision levels are reasonable by considering the overall credit quality of the Group's portfolios, risk profile, the Russian invasion of Ukraine, climate change, impacts from the cost-of-living crisis, supply chain issues, inflationary pressures and geopolitical factors. We performed peer benchmarking to assess overall staging and provision coverage levels.	
Valuation of investments in subsidiaries (Parent company) **Investment in Bank of London and the Middle East plc ("Bank"): £183.7 million (2021: £115.9 million).** **Investment in Walbrook Asset Finance Limited ("WAF"): £3 million (2021 £11.8 million).** *Refer to the Accounting policies (page 72); and Note 19 of the Consolidated Financial Statements (page 96).* The valuation of investments in subsidiaries is an area of judgement and therefore there is a risk that the carrying value	We took the following approach in response to the risk: • Confirmed our understanding of the impairment assessment process and evaluated the design effectiveness of key controls over the process. After our assessment we adopted a substantive audit approach. • Compared management's impairment assessment and the estimation of the recoverable amount to the carrying value recorded in the Parent Company financial statements. We have reviewed the impairment indicators that management have identified and performed	We noted that the Company's valuation of the investments had focused on recent share sales for the Bank, and decision to winddown the WAF business, rather than the preparation of a value in use calculation. We concluded that the recoverable amount of the investments in subsidiaries included in the Company Statement of financial position as at 31

of the investments is impaired and are not reflected accurately in the accounts of the parent company. The risk level remains unchanged from 2021.	independent analysis to evaluate them. This included searches for contradictory evidence. • With the assistance of EY valuation specialists, critically assessed the data used by management to value the subsidiaries, taking into consideration the impact of the uncertain economic outlook. This included critically assessing whether prices of recent investments are reflective of the valuation at the valuation date. • We have challenged management's prospective financial information, including cash flow forecasts, profit forecasts and discount rates, that we have used in our independent value in use calculations. • We assessed whether the valuation performed supported the reversal of impairment of the Bank. • Performed comparative checks such as calculating value in use, recalculating the fair value less cost of disposal and considering discount rates, long term growth rate, terminal values and the costs of disposal of the investments in subsidiaries.	December 2022 is fairly stated.

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 Group to be £2.3 million (2021: £2.4 million), which is 1% (2021: 1%) of equity. We believe that equity provides us with a relevant basis, due to a loss being incurred in the prior and current years, and because the Group's recent levels of profitability (even before incurring a loss) have been low relative to the balance sheet size. Our expectation is also that the main users of the financial statements, including the members of the Company, view capital restoration as a key consideration.

We determined materiality for the Parent Company to be £1.9 million (2021: £1.3 million), which is 1% (2021: 1%) of equity. We determined our materiality based on equity rather than on profits or revenues, because the Parent Company is not consistently profitable and also our expectation is that the main users of the financial statements, including the members, view capital restoration as a key consideration.

During the course of our audit, we reassessed initial materiality and Group planning materiality reduced from £2.5m to £2.3m, and Parent Company planning materiality increased from £1.3m to £1.9m, due to actual results differing from forecasted results.

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 Group's overall control environment, our judgement was that performance materiality was 50% (2021: 50%) of our planning materiality, namely £1.2m (2021: £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 (2021: £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. 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 the 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 group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the 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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 34, 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 group and parent company'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 group or the parent company 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 group 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 BLME Holdings Limited is complying with those frameworks by enquiries of management, internal audit and those responsible for legal and compliance matters. We also reviewed correspondence between the Group 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 Group's approach to governance demonstrated by the Board's approval of the Group's risk management framework and governance framework and the internal controls processes;

- We assessed the susceptibility of the group's financial statements to material misstatement, including how fraud might occur by considering the controls that the Group has established to address risks identified by the Group, 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; and

- We understood the nature of the Company'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 six years, covering the years ending 31 December 2017 to 31 December 2022.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent 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.

Helen Joseph (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
06 April 2023

CONSOLIDATED INCOME STATEMENT

For the year 1 January 2021 to 31 December 2022

	Note	2022 £000	2021* £000
Income			
Income from financing and investing activities	*5a*	69,056	56,493
Returns to financial institutions and customers	*6*	(23,845)	(17,678)
Net margin		**45,211**	**38,815**
Fee and commission income	*5b*	554	826
Fee and commission expense		(2,383)	(1,315)
Net fee and commission expense		**(1,829)**	**(489)**
Net investment gains	*7*	595	571
Credit impairment losses	*13*	(13,229)	(23,373)
Operating lease income		10,994	9,547
Other operating income	*8*	10,032	3,122
Share of profit of equity-accounted investees, net of tax		97	99
Net operating income		**51,871**	**28,292**
Expenses			
Personnel expenses	*10*	(25,337)	(19,188)
Operating lease depreciation		(9,007)	(7,695)
Other depreciation and amortisation		(1,081)	(986)
Other operating expenses	*12*	(21,613)	(15,493)
Total operating expenses		**(57,038)**	**(43,362)**
Loss before tax excluding exceptional costs		**(5,167)**	**(15,070)**
Exceptional costs-Leasing	*10*	**(2,882)**	**-**
Loss before tax		**(8,049)**	**(15,070)**
Tax credit	*15*	2,298	7,251
Loss for the period		**(5,751)**	**(7,819)**
Attributable to:			
Equity holders of the parent		(6,065)	(8,616)
Non controlling interest		314	797
		(5,751)	**(7,819)**

**The year to 31 December 2021 has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

The notes on pages 56 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year 1 January 2021 to 31 December 2022

	Note	2022 £000	2021* £000
Income			
Loss for the year		(5,751)	(7,819)
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss if specific conditions are met:			
Foreign currency translation differences for foreign operations		(151)	-
Net losses in fair value of FVOCI debt instruments		(15)	(256)
Income tax credit on other comprehensive income	*15*	5	47
		(161)	**(209)**
Items that will not be reclassified subsequently to profit or loss:			
Net gains / (losses) in fair value of FVOCI equity instruments		17	-
Other comprehensive income for the year net of income tax		**17**	**-**
Total comprehensive expense for the year attributable to equity holders of the Parent company		**(5,895)**	**(8,028)**
Attributable to:			
Owners of the parent		(6,209)	(8,825)
Non Controlling Interest		314	797
		(5,895)	**(8,028)**

**The year to 31 December 2021 has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

The notes on pages 56 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022 £000	2021 £000
Assets			
Cash and balances with banks		140,399	112,089
Due from financial institutions	*17*	24,915	16,994
Due from customers	*17*	-	24,993
Investment securities	*18*	10,663	38,933
Financing arrangements	*20*	938,083	825,462
Finance lease receivables	*21*	429,539	42,756
Operating lease assets	*23*	42,526	-
Property and equipment	*22*	3,844	2,782
Intangible assets	*24*	723	-
Other assets	*25*	14,402	11,716
Current tax asset		2,416	934
Deferred tax asset	*15*	25,960	13,099
Investment in joint ventures	*30*	1,154	1,157
Assets held for sale	*14, 31*	-	480,057
Total assets		**1,634,624**	**1,570,972**
Liabilities			
Due to financial institutions	*26*	51,039	272,605
Due to customers	*27*	1,323,496	1,031,514
Profit rate swaps	*9*	-	334
Other liabilities	*28*	22,586	14,308
Liabilities directly associated with discontinued operations	*14*	-	8,327
Total liabilities		**1,397,121**	**1,327,088**
Equity			
Share capital	*33*	50,091	50,091
Share premium		1,140	1,140
Other reserve		15,226	15,226
Capital redemption reserve		50	50
Fair value reserve		(108)	(107)
Non Controlling Interest		4,430	4,600
Foreign currency translation reserve		(151)	-
Retained earnings		166,825	172,884
Total equity attributable to equity holders of the Parent company		**237,503**	**243,884**
Total liabilities and equity		**1,634,624**	**1,570,972**

These financial statements were approved by the Board of Directors on 06 April 2023 and were signed on its behalf by:

Andrew Ball
Chief Executive Officer

Chris Power
Chief Financial Officer

The notes on pages 56 to 136 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

	Note	2022	2021
		£000	**£000**
Assets			
Cash and balances with banks		374	374
Investment in subsidiaries	*19*	186,734	127,672
Total assets		**187,108**	**128,046**
Liabilities			
Other liabilities		1	1
Total liabilities		**1**	**1**
Equity			
Share capital	*33*	50,091	50,091
Share premium		1,140	1,140
Retained earnings		135,876	76,814
Total equity attributable to equity holders of the Parent Company		**187,107**	**128,045**
Total liabilities and equity		**187,108**	**128,046**

The company profit for the year ended 31 December 2022 was £59.06 million (2021: £33.99 million). As permitted by section 408 of the Companies Act 2006, a separate profit and loss account of the parent has not been presented.

These financial statements were approved by the Board of Directors on 06 April 2023 and were signed on its behalf by:

Andrew Ball
Chief Executive Officer

Chris Power
Chief Financial Officer

Company Registration Number: 08503102

The notes pages 56 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 1 January 2022 to 31 December 2022	2022	2021
Cash flows from operating activities	**£000**	**£000**
Loss before tax on continued operations	(8,049)	(6,958)
Loss before tax on discontinued operations	-	(8,111)
Adjusted for:		
Exchange differences	(10)	(12)
Fair value gains on investment securities	195	(8)
Share of profit of equity-accounted investees, net of tax	(97)	(100)
Provision for impairment	13,229	12,641
Depreciation and amortisation	9,192	(36)
Movements relating to profit rate swaps	(112)	-
IFRS 16 - depreciation and finance charges	2,797	928
Amortisation of investment securities	240	257
Gain on intangible assets	-	152
	17,385	**(1,247)**
Net (increase)/decrease in operating assets:		
Due from financial institutions	(9,326)	64,555
Due from customers	24,950	9,594
Financing arrangements	(126,772)	25,670
Finance lease receivables	24,293	(40,437)
Operating lease assets	(2,254)	2,752
Other assets	(1,925)	(6,319)
	(91,034)	**55,815**
Net increase/(decrease) in operating liabilities:		
Due to financial institutions	(226,876)	83,757
Due to customers	290,262	(263,860)
Other liabilities	6,441	1,917
	69,827	**(178,186)**
Corporation tax paid	(6,128)	(4,383)
Net cash outflow from operating activities	**(9,950)**	**(128,001)**
Cashflow from investing activities		
Purchase of property and equipment	(886)	(15)
Purchase of intangible assets	(722)	-
Purchase of investment securities	(298)	-
Sale of investment securities	32,752	22,646
Sale of interest in assets held for sale	-	485
Dividend received from joint venture	100	100
Cash balances reclassified to discontinued operations	-	(7,450)
Net cash inflow from investing activities	**30,946**	**15,766**
Cash flows from financing activities		
Payment of principal portion of lease liabilities	(1,123)	(1,094)
Dividend paid by a subsidiary to a Non-controlling interest	(860)	(5,895)
Sale of investments in Non-controlling interest	375	1,000
Net cash outflow from financing activities	**(1,608)**	**(5,989)**
Net change in cash and cash equivalents	**19,388**	**(118,224)**
Cash and cash equivalents at the beginning of the period	120,332	233,606
Exchange differences in respect of cash and cash equivalents	679	(3,293)
Cash and cash equivalents at the end of the period	**140,399**	**112,089**

The comparatives for the year to 31 December 2021 reflect leasing as part of discontinued activities. Leasing has been reclassified into continuing operations for the year to 31 December 2022, please see Note 2 b.
The notes on pages 56 to 136 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year 1 January 2022 to 31 December 2022

	2022	2021
	£000	£000
Cash flows from operating activities		
Profit for the year before tax	59,062	33,999
Adjusted for:		
Net impairment reversal on subsidiaries	(59,062)	(33,999)
Net cash inflow from operating activities	-	-
Cash flows from financing activities		
Proceeds from issue of new ordinary shares	-	-
Net cash inflow from financing activities	-	-
Cash flows from investing activities		
Purchase of investment in subsidiaries	-	-
Net cash outflow from financing activities	-	-
Net change in cash and cash equivalents	**-**	**-**
Cash and cash equivalents at the beginning of the period	374	374
Cash and cash equivalents at the end of the period	**374**	**374**

The notes on pages 56 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022	Share capital	Share premium account	Other reserve	Capital redemption reserve	Fair value reserve	Retained earnings	Foreign currency translation reserve	Total	Non-Controlling Interest	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2021	50,091	1,140	15,226	50	(107)	172,884	-	239,284	4,600	243,884
Loss for the year	-	-	-	-	-	(6,065)	-	**(6,065)**	314	**(5,751)**
Other comprehensive income / (expense)										
Foreign currency translation	-	-	-	-	-	-	(151)	(151)	-	(151)
Net change in fair value of equity/debt instrument at FVOCI	-	-	-	-	2	-	-	2	-	2
Tax on items transferred directly to equity	-	-	-	-	5	-	-	5	-	5
Total other comprehensive income / (expense)	**-**	**-**	**-**	**-**	**7**	**-**	**(151)**	**(144)**	**-**	**(144)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**7**	**(6,065)**	**(151)**	**(6,209)**	**314**	**(5,895)**
Contributions by and distributions to owners										
Dividends paid by subsidiaries to Non-controlling interest	-	-	-	-	-	-	-	-	(859)	(859)
Increase in investment by NCI shareholders	-	-	-	-	-	-	-	-	375	375
Sale of equity instrument at FVOCI	-	-	-	-	(8)	8	-	-	-	-
Tax on items transferred directly to equity	-	-	-	-	-	(2)	-	(2)	-	(2)
Total transactions with owners	**-**	**-**	**-**	**-**	**(8)**	**6**	**0**	**(2)**	**(484)**	**(486)**
Balance at 31 December 2022	**50,091**	**1,140**	**15,226**	**50**	**(108)**	**166,825**	**(151)**	**233,073**	**4,430**	**237,503**

FVOCI – Fair value through other comprehensive income
Fair value reserve includes the cumulative net change in fair value of FVOCI instruments until the investment is either derecognised or becomes impaired.
Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.
The **Capital redemption reserve** arose on 26 June 2014 following the redemption of 50,000 preference shares of £1 each and the repurchase of one A ordinary share of £1.
The **Other reserve** arose when the BLME Scheme of Arrangement took effect on 2 October 2013.
Non-Controlling Interest relates to the minority shareholders in AQ1 Limited.

The notes on pages 56 to 136 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021	Share capital	Share premium account	Other reserve	Capital redemption reserve	Fair value reserve	Retained earnings	Foreign currency translation reserve	Total	Non-Controlling Interest	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2020	50,091	1,140	15,226	50	102	181,500	-	248,109	8,698	256,807
Loss for the year	-	-	-	-	-	(8,616)	-	**(8,616)**	797	**(7,819)**
Other comprehensive income / (expense)										
Foreign currency translation	-	-	-	-	-	-		-	-	-
Net change in fair value of equity/debt instrument at FVOCI	-	-	-	-	(256)	-	-	(256)	-	(256)
Tax on items transferred directly to equity	-	-	-	-	47	-	-	47	-	47
Total other comprehensive income / (expense)	**-**	**-**	**-**	**-**	**(209)**	**-**	**-**	**(209)**	**-**	**(209)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(209)**	**- 8,616**	**-**	**(8,825)**	**797**	**(8,028)**
Contributions by and distributions to owners										
Dividend paid by subsidiaries to a Non-controlling interest	-	-	-	-	-	-	-	-	(5,895)	(5,895)
Increase in investment by NCI shareholders	-	-	-	-	-	-	-	-	1,000	1,000
Sale of equity instrument at FVOCI	-	-	-	-			-	-	-	-
Transfer to Retained Earnings	-	-	-	-	-	-	-	-	-	-
Tax on items transferred directly to equity	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(4,895)**	**(4,895)**
Balance at 31 December 2021	**50,091**	**1,140**	**15,226**	**50**	**(107)**	**172,884**	**-**	**239,284**	**4,600**	**243,884**

FVOCI – Fair value through other comprehensive income
Fair value reserve includes the cumulative net change in fair value of FVOCI instruments until the investment is either derecognised or becomes impaired.
Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.
The **Capital redemption reserve** arose on 26 June 2014 following the redemption of 50,000 preference shares of £1 each and the repurchase of one A ordinary share of £1.
The **Other reserve** arose when the BLME Scheme of Arrangement took effect on 2 October 2013.
Non-Controlling Interest related to the minority shareholders in Walbrook Construction Equipment Finance Limited, AQ1 Limited and Aspenway Limited

The notes on pages 56 to 136 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Share capital	Share premium account	Retained earnings	Total
	£000	**£000**	**£000**	**£000**
Balance at 31 December 2021	**50,091**	**1,140**	**76,814**	**128,045**
Profit for the year	-	-	59,062	59,062
Other comprehensive income / (expense)	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**59,062**	**59,062**
Contributions by and distributions to owners				
Issue of new ordinary shares	-	-	-	-
Transfer to Retained Earnings	-	-	-	-
Tax on items transferred directly to equity	-	-	-	-
Total transactions with owners	**-**	**-**	**-**	**-**
Balance at 31 December 2022	**50,091**	**1,140**	**135,876**	**187,107**

The notes on pages 56 to 136 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2021	Share capital	Share premium account	Retained earnings	Total
	£000	£000	£000	£000
Balance at 31 December 2020	**50,091**	**1,140**	**42,815**	**94,046**
Loss for the year	-	-	33,999	33,999
Other comprehensive income / (expense)	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**33,999**	**33,999**
Contributions by and distributions to owners				
Issue of new ordinary shares	-	-	-	-
Transfer to Retained Earnings	-	-	-	-
Tax on items transferred directly to equity	-	-	-	-
Total transactions with owners	**-**	**-**	**-**	**-**
Balance at 31 December 2021	**50,091**	**1,140**	**76,814**	**128,045**

The notes on pages 56 to 136 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

BLME Holdings Limited ("the Company") is a company incorporated and domiciled in England. The address of the Company's registered office is Cannon Place, 78 Cannon Street, London, England, EC4N 6HL. The Company's principal activity is to act as a holding Company for Bank of London and The Middle East plc ("the Bank" or "BLME") and its subsidiaries and Walbrook Asset Finance Limited ("Walbrook"). BLME is a wholesale bank involved in investment, commercial finance, private client banking, digital banking and wealth management. The consolidated financial statements of the Group are presented as at and for the year ended 31 December 2022 and comprise BLME Holdings Limited and its subsidiaries (together referenced as "the Group").

The Company was inserted as a holding Company of the Bank during 2013 pursuant to a Scheme of Arrangement. The transaction was outside the scope of IFRS 3 and therefore no business combination occurred.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Presentation of financial statements

The Group and Company have prepared its financial statements in accordance with UK adopted international accounting standards and effective for the Group's reporting for the year ended 31 December 2022.

In preparing the financial statements the Directors have considered the impact of the physical and transition risks of climate change and identified this as an emerging risk but for the reasons outlined on page 75 concluded that it does not have a material impact on the recognition and measurement of the assets and liabilities in these financial statements as of 31 December 2022. This may change as time passes and societal responses develop.

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

b. Comparative information on the cessation of classification as held for sale

Following a strategic review and separation process, the Board decided in 2021 to explore a sale of its leasing business. At the time a sale was expected to be completed within a year from the reporting date. Therefore in accordance with IFRS 5, Walbrook Asset Finance Limited ('WAF') and Walbrook Construction Equipment Finance Limited ('WAFCEF') were classified as a disposal group held for sale and treated as a discontinued operation in the 2021 consolidated financial statements.

Due to unfavourable market conditions in 2022 resulting from the rising interest rate environment, the sale process did not result in a disposal. In June 2022 the Group Board decided to implement a controlled wind-down of the leasing business. The leasing business will continue to trade, and the portfolio will be run down in an orderly fashion, a process that is expected to take approximately three to four years.

The decision to wind down the leasing business subsequent to the 2021 year-end did not affect the conditions that existed as of 31 December 2021 and thus for the purposes of finalising the 2021 consolidated financial statements, which were approved on 24 June 2022, the decision was treated as a non-adjusting subsequent event under IAS 10 which did not require adjustment of the treatment as a discontinued operation.

The leasing business is no longer held for sale and has been treated as part of the Group's continuing operations in these 2022 consolidated financial statements.

In order to align presentation and measurement in these 2022 consolidated financial statements, the comparative information for 2021 in respect of the Consolidated Income Statement, the Consolidated Statement of Comprehensive

Income and the related Notes to the Consolidated Financial Statements have been restated as if the leasing business never qualified as a discontinued operation held for sale.

The comparative information for 2021 in the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and related Notes to the Consolidated Financial Statements have not been restated.

c. 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, consolidation assessments, impairment of subsidiary and determining the lease term of contracts with renewal and termination options. Refer to Note 3 from page 73 for further detail.

d. Going concern

Accounting standards require the Directors to assess the Group'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 Group in order to support a conclusion that the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence until 30 April 2024.

The Group has not experienced any material adverse impacts arising from the recent volatility in banking and financial markets in the aftermath of the collapse of Silicon Valley Bank and the takeover of Credit Suisse by UBS.

As set out below, the Directors have considered four main factors in reaching their conclusions on going concern – liquidity management, preserving capital buffers, reverse stress test assessments and the impact of winding down the leasing business. In addition, they considered the broader current macroeconomic and geopolitical conditions including the outlook for inflation, interest rates and climate change.

Liquidity management

The Group adopts a prudent approach to liquidity management. Balance sheet liquidity remains strong with over £140m of cash as of 31 December 2022 and the regulated Group reported a Liquidity Coverage Ratio ("LCR") of 465% compared to the minimum regulatory requirement of 100%. The Bank has a credit rating of A from Fitch which assists institutional relationships providing the Bank with new avenues for sourcing liquidity. The Bank has diversified its High-Quality Liquid Assets ('HQLA') by using the Bank of England Alternative Liquidity Facility.

Preserving capital buffers

As of 31 December 2022 the Group had £31m of excess regulatory capital over and above the PRA minimum requirements. The Group 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 February 2023, the Group performed an updated reverse stress test assessment in advance of signing these 2022 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 Group is adequately capitalised to withstand any adverse impact in the medium term for approximately five years.

Winding down the leasing business

In June 2022 the Group Board made the decision to wind down the leasing business in an orderly manner, running off the existing portfolio over the next three to four years. Based on the forecast cashflows during run-off the Directors are satisfied this will have no impact on the Group's ability to continue as a going concern.

Based on the above assessment the directors have a reasonable expectation that the Group 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 Group 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.

e. 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 2022 however none are deemed material to the Group:

- 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'

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

f. 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 Group's financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

i. Other new and amended standards and interpretations

- 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 group, not expected to have any impact or it is not feasible to determine whether there will be an impact to the Group’s consolidated financial statements.

g. Basis of consolidation

i. Subsidiaries

Subsidiaries are investees controlled by the Company. The Company ‘controls’ an investee if it is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control commences until the date control ceases (see Note 34).

ii. Structured Entities (“SE”)

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

iii. Loss of control

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

h. Consolidation of foreign operations

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

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

i. 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.

j. Functional and presentation currency

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

k. 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.

l. 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 140)

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, the Group 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 Group 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 Group 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 Group'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.

m. 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 Group is required to provide finance with pre-specified terms to the customer. The premium received is amortised over the life of the facility.

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

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

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

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

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

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are 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 Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.

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

iv) Impairment of financial assets

The Group uses a forward-looking expected credit loss (ECL) approach. IFRS 9 *Financial Instruments* requires the Group to record an allowance for ECLs for all financing and other debt financial assets not held at FVPL, together with financing commitment contracts. The allowance is based on the ECLs associated with the probability of default in the next twelve months unless there has been a significant increase in credit risk since origination.

- **Overview of the ECL principles**

The Group 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 (12m ECL). The Group's policies for determining if there has been a significant increase in credit risk are set out on page 64.

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

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

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

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

• Stage 3: Financing considered credit-impaired, the Group records 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 114 and 115 in Note 37 Financial Risk Management.

- **The calculation of ECLs**

In line with industry best practice, the Group uses vendor impairment tools to calculate ECL consistent with IFRS 9 guidance, and this is the reason for the methodology change in 2022 (away from an in-house model). The tools generate discounted cash flows adjusted for credit risks inputs, such as probability of default (PD), loss given default (LGD), and exposure at default (EAD) to produce loss allowance for each facility in the portfolio. Additionally, the tools are able to incorporate projected macroeconomic changes that have an impact on the portfolio's performance. 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.

For the Group, the outcome of the ECL is based on the weighted outcome of six scenarios (base case (50%), mild upside (10%), upside (10%), stagnation (10%), downturn (10%) and severe downturn scenarios (10%)).

More specifically, for all portfolios except for the mortgage portfolios, after inserting contractual terms and other credit risk related information such as credit rating and loss given default, the impairment tool produces an unconditional Point in Time PD term structure. Then the Unconditional PIT Term Structure is converted to a scenario-dependent PD and LGD term structure, as the borrower's future performance will depend on the state of the macroeconomic environment.

For the mortgage portfolios, utilising macroeconomic data and key facility and borrower level characteristics, the tool models the probability of default (PD), prepayment probability (PP) and loss-given-default (LGD), which are used to calculate the expected loss allowances.

After defining the Stages of the facilities based on specific criteria, loss allowances calculated are either 1-year (Stage 1) or lifetime expected credit losses (Stage 2). For financing considered credit-impaired (Stage 3), the Group recognises the lifetime expected credit losses for these financings, with the PD set at 100%.

The Group 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 the different segments.

- **Significant increase in credit risk (Criteria for escalation into Stage 2)**

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.

The Group 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 principles of credit deterioration being seen when a default rate doubles. In addition, the Group also considers whether the counterparty payment performance is deteriorating (i.e. payments are 30-day past due and the counterparty is added to the Watchlist as described from page 112 in Note 37).

- **Default**

Refer to page 114 in Note 37 for the definition of default.

v) Forward looking information

The below macroeconomic factors are used for determining the forward-looking projections across all segments of the portfolio – UK GDP, UK Unemployment, UK House Price Index and UK Equity Index (FTSE 100 share price index). The selected macroeconomic factors are updated quarterly from reports received by a reputable external source. Climate risk has been considered when assessing the drivers of impairment but due to the short tenor and diversification of the Group’s portfolio of assets it is not considered to be a core driver.

vi) Multiple economic scenarios

The Group 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 Group’s material portfolios and is taken from published reports by Oxford Economics.

- **Base Case Key Macroeconomic Assumptions for 2023**

GDP: The UK GDP forecast for 2023 is for output to contract by 0.9%, driven by higher energy prices limiting the purchasing power and confidence of consumers, which currently sit near all-time lows. In addition to this, the lack of support provided from the tighter fiscal stance adopted by the current government to reduce the debt further limits growth prospects. Monetary tightening pursued by the Bank of England, in an effort to reduce inflation, comes at the expense of downside from a growth perspective.

Inflation: Inflation rose at a significant pace throughout 2022, to levels that have not been seen in decades. Towards the end of the year however, optimism grew that inflation has peaked, with commodity and gas prices beginning to ease, and the latter falling below prices that existed at the point when Russia invaded Ukraine.

Additionally, leading indicators, such as the Producer Price Index (‘PPI’), suggest there is less inflation in the pipeline. With demand in the economy falling, it has given businesses an opportunity to work through backlogs and fewer input orders have assisted in easing supply chain pressures. Although at the turn of the year, inflation appears to have eased, it is still over five times above target, and weak sterling along with the higher energy costs for businesses may mean that inflation takes time to return to target, with Oxford Economics forecasting CPI reaching 2% at the end of 2024 and still above 4% by the end of 2023.

Oxford Economics believe the risk of a wage-price spiral developing, as feared by the Bank of England, is limited, given the labour market appears to be loosening and the UK is expected to move into a recession in 2023.

Interest Rates: As of the beginning of 2023, markets are pricing in a terminal UK Bank Rate of 4.5%. This is viewed as being too high given the negative growth effects it would entail and subsequently deflation in 2025. 4% is seen as more realistic, where rates will need to remain for the rest of 2023.

Property: UK mortgage rates rose significantly in 2022, given the pace of increase in the UK Bank Rate. This was further exacerbated by the mini budget fallout, which sent swap rates higher, albeit the impact of this has softened since the change in political leadership, which is feeding through to mortgage rates. Given the high proportion of fixed rate deals the impact is currently limited, however when fixed rate borrowers are required to refinance, they will likely experience a significant increase in costs. Some forced sales may occur, and with rising unemployment and recessionary pressures, UK house prices are forecast to fall by 11.5% in 2023. Further to this, potential buyers may hold off from buying given where rates are at, in hope that they will ease in the future, or are now unable to afford the repayments, limiting demand.

The reduction in disposable income as a result of higher debt servicing is another factor feeding into lower growth prospects.

- **Upside Scenario Assumptions for 2023:**

Oxford Economics' upside scenario consists of GDP sharply improving and unemployment reaching new lows, with recessionary pressures alleviating. Savings that have been accumulated during the recent months of uncertainty are spent as consumer confidence rebounds from all-time lows. Business sentiment and therefore investment improves as a result in order to raise capacity. 2023 sees UK GDP increase by 3%, however, to combat the inflationary pressures this facilitates the Bank of England is required to raise the Bank Rate higher than current market expectations to 5.5% by the middle of 2023. The risks to the housing market subside and house prices are forecast to rise by 2.9% in this scenario, with commercial property also avoiding any losses.

- **Downside Scenario Assumptions for 2023:**

In the downside scenario projected by Oxford Economics, the macroeconomic environment is characterised by high interest rates, high inflation, weak global conditions and continued supply chain disruptions, similar to what is forecast in the base case, but with a slower recovery driven by uncertainty and falling real incomes. Inflation expectations are raised resulting in price pressures become permanently engrained. With real wages failing to keep up and high interest rates further denting spending power, consumer and business spending is reined in. Firms scale back their capacity leading to rising unemployment throughout 2023 and subsequent years.

In an attempt to alleviate recessionary pressures intertest rates are cut by the Bank of England, however this is insufficient in protecting the property market, where rising unemployment and lower real incomes outweigh the looser financial conditions and forced sales contribute to sharp decline in house prices.

Global Risks:

High Inflation Regime: Inflation consistently remains well above target, with the Bank of England seemingly unable to bring it towards the target rate as higher inflation expectations become embedded. Wages do not keep up with the rate of price growth, leading to consumer confidence and spending declining due to lower disposable incomes. The Bank Rate is raised at an even faster rate than has been experienced so far, further limiting growth prospects.

Gas Rationing: With the continued conflict in Ukraine impacting gas supplies to Europe and the UK, prices for gas rose sharply throughout 2022. A cold European winter requires rationing of gas supplies, further raising prices due to supply being limited further, with households prioritised over businesses. This leads to a decline in real incomes, denting consumer confidence and spending. The domestic economy suffers from the faster monetary tightening implemented to control inflation.

Housing Market Crash: Rising interest rates coupled with increasing unemployment leads to a decline in house prices, resulting in a lack of investment within the property sector. Lenders also suffer from losses due to borrowers struggling to make repayments and collateral values decreasing. In response to this, lending becomes more limited further limiting growth prospects. The surge in property prices experienced during recent years in advanced economies makes them more susceptible to a sharp correction, given they are now arguably overpriced.

End of Supply Chain Crisis: An upside scenario proposed by Oxford Economics consists of supply chain issues easing and therefore inflationary pressures receding sooner than had been anticipated, driven by the Chinese government pivoting away from their zero-Covid policy. Falling inflation results in rising consumer and business confidence which is further assisted by a slower pace of monetary tightening. Once it is evident inflation is under control the Bank of England begins cutting the Bank Rate during 2023.

Details of the scenario weights and macroeconomic assumptions used for 2023 in respect of all six scenarios, including Mild Upside, Stagnation and Severe Downside, are summarised in Note 13 on page 86.

vii) Write-offs

Financial assets are written off either partially or in their entirety only when the Group 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 Group has transferred its contractual right to receive the cash flows of the financial assets and either:

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

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

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 122 to 124 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 Group measures assets and long positions at a bid price and liabilities at an ask price. Where no active market exists for the particular asset or liability, the Group uses another valuation technique to arrive at the fair value, including the use of prices obtained in recent arms-length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants (see Note 3(b) on pages 73 and 74).

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, the Group 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 Group 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 Group 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; the Group 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, "PRSs") that do not qualify for hedge accounting**

All gains and losses from changes in the fair values of PRSs 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.

n. 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.

o. 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
- Leasehold improvements – 4 years

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

p. Intangible assets

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

Subsequent expenditure on software development 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, from the date available for use. The estimated useful life of computer licences reflect the contractual period.

- Software development – 7 years (2021: 3 years)
- Computer licences – 1 to 3 years

q. Impairment of property and equipment including right-of-use assets, 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.

r. 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.

s. 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 income and the reduction of the outstanding receivable. The finance income 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 receivable.

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

t. Lessee accounting

Right-of-use assets

The Group 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 Group 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
- Motor vehicles 1 to 3 years

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

The Group's Right-of-use assets are included in Property and Equipment (see Note 22).

Lease liabilities

At the commencement date of the lease, the Group 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 Group 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 Group's lease liabilities are included in Other Liabilities (see Note 28).

Short-term leases and leases of low-value assets

The Group 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.

u. Employee benefits

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

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

v. Provisions

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

w. 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.

x. Cash and cash equivalents

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

y. Other receivables

Trade and other receivables are stated at their nominal amount less expected credit losses. Refer to Note 2(m) (iv) from page 62 for more detail on the forward-looking expected credit loss (ECL) approach.

z. Segmental information

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

aa. Investment in subsidiary undertakings

The investment in subsidiary undertakings in the Company's financial statements is stated at the IFRS net asset value of the Group at the effective date of the BLME Scheme of Arrangement (which becomes the effective 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 Company only income statement. Where the recoverable amount is an excess of the carrying amount, the reversal of previous impairment is recognised in the Company only income statement. The reversal is limited to the previous impairment recognised.

bb. 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 Group'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 Group's share of net assets of the joint venture since the acquisition date.

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

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

cc. Assets held for sale

The Group 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.

dd. Business combinations

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

3. USE OF CRITICAL ACCOUNTING ESTIMATES AND 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 Group’s ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgements and estimates include:

- The Group’s internal credit grading model, which assigns PDs to the individual grades.
- The Group’s criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a LTECL basis and the qualitative assessment.
- The segmentation of financial assets when their ECL is assessed on a collective basis.
- Development of ECL models, including the various 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 Group’s accounting policy on fair value measurement is in accordance with IFRS 13 Fair Value Measurement and is discussed on page 126 in Note 37.

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

Level 1: Valuation is based upon quoted market price in an active market for an identical instrument. This category comprises 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 Group determines fair values using other valuation techniques. Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

Judgements

a. Effective profit rate adjustments

IFRS 9 requires financial instruments to be recognised at the effective profit rate of the assert, 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. Consolidation assessments

The Group consolidates subsidiaries and structured entities when Management considers the Group to have power and control over the investee. Judgement has been applied in determining whether control has been established by considering if the Company is exposed to, or has rights to, variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

d. Impairment of subsidiaries

Under IAS 36, an investment is impaired if the cost of investment is greater than the recoverable amount. A formal estimate of recoverable amount is performed for the Company's investments in the Bank and Walbrook if there are indications that an impairment loss may have occurred. In the current year, the Bank and Walbrook both made a loss before tax due which provided an indication that an impairment loss may have occurred in the Company's investment in the Bank. The most recent observable price of BLME Holdings in January 2023 was used to estimate the recoverable amount of the Group. This recoverable amount was apportioned between the Bank and Walbrook, the two main trading subsidiaries, and the calculation resulted in the reversal of an impairment loss in the Bank.

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

The Group 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 Group has the option, under some of its leases to lease the assets for additional terms. The Group 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 Group 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 Group 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 Group has a policy of leasing motor vehicles for not more than five years and hence not exercising any renewal options.

f. Impact of climate risk on accounting judgments and estimates

The Group and its customers are exposed to the physical risks from climate change and risks of transitioning to a net-zero economy. Most climate-related physical risks are expected to manifest over a term that is generally longer than the maturity of most of the outstanding exposures.

The Group has identified the potential physical and transition risks and opportunities presented by rising temperatures and climate change for our business and have also considered the scale of this risk to BLME. Climate change is not a principal risk for the Group for the year ended 31 December 2022, but the Group has identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders.

The Group has determined that climate change is not a principal risk given that over 80% of the Bank's credit exposures are classified as low risk for both transition and physical risks and over 95% of the Bank's credit exposures are classified as either low risk for transition risk or low risk for physical risks.

4. SEGMENTAL INFORMATION

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

Information regarding the results of the Group'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 Group utilised by the Executive Committee. Segment contribution is stated after charging (or crediting) funding costs between the segments in respect of the segment assets or liabilities which either require or generate funding. There are no other significant transactions between segments.

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

For the year ended 31 December 2022

	Wealth Management	Commercial Finance	Treasury Division	Unallocated items	Total
	£000	£000	£000	£000	£000
Net margin from financing and investing activities	30,823	11,244	3,058	86	45,211
Operating lease income	-	10,994	-	-	10,994
Net fee income	(200)	(1,354)	6	(281)	(1,829)
Net impairment charge	(11,694)	(1,560)	25	-	(13,229)
Net investment gains	461	47	87	-	595
Share of profit of equity-accounted investees, net of Tax	97	-	-	-	97
Other operating income	370	987	11	8,664	10,032
Net operating income	**19,857**	**20,358**	**3,187**	**8,469**	**51,871**
Directly attributable segment expenses	(7,296)	(10,738)	(1,422)	(8,469)	(27,925)
Operating lease depreciation	-	(9,007)	-	-	(9,007)
Net segment contribution	**12,561**	**613**	**1,765**	**-**	**14,939**
Common costs not directly attributable to segments					(22,988)
Net operating loss before tax					**(8,049)**
Reportable segment assets	**935,493**	**485,096**	**168,912**	**45,123**	**1,634,624**

£1.7m of the total operating income was derived through the effective profit rate (EPR) model (2021: £5.7m).

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

For the year ended 31 December 2021*

	Wealth Management £000	Commercial Finance £000	Treasury Division £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	24,552	10,827	3,436	-	38,815
Operating lease income	-	9,547	-	-	9,547
Net fee income	390	(791)	2	(90)	(489)
Net impairment charge	(8,575)	(14,885)	87	-	(23,373)
Net investment gains	441	-	130	-	571
Share of profit of equity-accounted investees, net of Tax	99	-	-	-	99
Other operating income	25	418	12	2,667	3,122
Net operating income	**16,932**	**5,116**	**3,667**	**2,577**	**28,292**
Directly attributable segment expenses	(3,722)	(8,196)	(1,628)	(2,577)	(16,123)
Operating lease depreciation	-	(7,695)	-	-	(7,695)
Net segment contribution	**13,210**	**(10,775)**	**2,039**	**-**	**4,474**
Common costs not directly attributable to segments					(19,544)
Net operating loss before tax					**(15,070)**

**The year to 31 December 2021 has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

Reportable segment assets	**825,385**	**79,899**	**631,912**	**33,779**	**1,570,975**

Entity wide disclosures

Geographical analysis of non-current assets

	31 December 2022 £000	31 December 2021 £000
United Kingdom	87,171	27,294
Channel Islands	1,156	1,157
United Arab Emirates	282	307
Total	**88,609**	**28,758**

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

The above 31 December 2021 comparative figures for segment assets and non-current assets are presented reflecting leasing as a discontinued operation. The 31 December 2022 segment assets and non-current assets figures above reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

5. INCOME

5 (a) Income from financing and investing activities:	2022 £000	2021* £000
Due from financial institutions:		
Murabaha income	57	76
Wakala income	270	7,637
Alternative Liquidity Facility	249	-
Finance lease receivables:		
Finance lease income*	4,983	3,860
Hire Purchase income*	16,097	7,315
Istisna and Ijara income	141	65
Financing arrangements:		
Murabaha income	46,667	34,794
Wakala income	151	1,818
Investment securities:		
Sukuk income	441	928
	69,056	**56,493**

5 (b) Fee and commission income	2022 £000	2021* £000
Fees - letters of credit and uncommitted facilities	-	24
Management fees	201	331
Card fee income	130	5
Other	223	466
	554	**826**

**The year to 31 December 2021 has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

6. RETURNS TO FINANCIAL INSTITUTIONS AND CUSTOMERS

	2022 £000	2021 £000
Customer deposits	19,341	16,121
Murabaha	951	275
Cost of funding*	241	190
Wakala	3,312	1,092
	23,845	**17,678**

*This amount represents the cost of managing non-GBP funding incurred by the Group. 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. NET FAIR VALUE GAINS ON INVESTMENTS

	2022 £000	2021 £000
Net realised gains on investments	632	569
Net unrealised gains / (losses) on investments	(37)	2
	595	**571**

8. OTHER OPERATING INCOME

	2022	2021*
	£000	£000
Gain on foreign exchange transactions	10	12
Gains on leased asset sales	987	442
Dividend from joint venture	-	1
Other dividends	370	-
Recharges from a Related Party **	8,665	2,667
	10,032	**3,122**

**The year to 31 December 2021 has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

** This relates to recharges to BB2 Digital and Technology Services Limited as described in Note 36.

9. PROFIT RATE SWAPS

The Group 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 Group to mitigate the market risk associated with re-pricing its assets and liabilities. The Group did not have any PRS as of 31 December 2022 (2021: zero).

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 Group did not have any PRS as of 31 December 2022 (2021: none), which did not qualify for hedge accounting.

All PRS are over-the-counter derivatives, none of which are settled through a central counterparty. The valuation technique used to determine the fair value of the Group's profit rate swaps is the present value of the estimated future cash flows base on observable yield curves.

The Group's fair value hedges consisted 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 Group'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 2022			**Carrying amount**	**Notional amount**
Derivative liabilities	**Hedging instrument**	**Risk**	**£000**	**$000**
Profit rate swaps - USD	Profit rate swap	Profit	-	-

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

The profile of the timing of the nominal amounts of the hedging instruments was one PRS for $15.225m that matured in April 2022 and one PRS for $15.5m that matured in September 2022. The hedging ratio was 1:1 and the weighted average hedged rate for the year was 2.36% (2021: 2.33%).

There were no derivative assets and liabilities in 2022 or 2021 that did not qualify for hedges.

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 Group 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.

	2022		**2021**	
	Carrying amount	**Fair value hedge adjustments**	**Carrying amount**	**Fair value hedge adjustments**
Investment securities	**£000**	**£000**	**£000**	**£000**
Sukuk	-	-	22,914	588

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

	2022	**2021**
	£000	**£000**
Gains / (losses) on hedging instruments	356	(628)
Gains / (losses) on hedged items attributable to the hedged risk	(276)	588
Hedge ineffectiveness recognised in the Net investment gains line within the Income Statement	**80**	**(40)**

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

	2022	**2021**
	£000	**£000**
Gains / (losses) on hedging instruments	(56)	36
Hedge ineffectiveness recognised in the Other operating expenses line within the Income Statement	**(56)**	**36**

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.

10. PERSONNEL EXPENSES

	2022	2021*
	£000	£000
Wages and salaries**	18,585	14,462
Social security costs	2,145	1,901
Defined contribution pension scheme costs	2,142	1,314
Recruitment costs	939	784
Other staff costs	1,526	727
	25,337	**19,188**

** The Wages and salaries and social security costs above for 2022 do not include £2.88m of redundancy costs and staff retention charges which have been classified as exceptional costs as they relate to the strategic decision to close down the Leasing business.

Included within personnel expenses above is £3.9m (2021: £0.7m) of cost related to the Nomo digital banking business unit that has been recharged to BB2 Digital and Technology Services Limited, a fellow subsidiary of Boubyan Bank K.S.C.P., as a component of the £8.7m (2021: £2.7m) total cost recharge disclosed in Note 36 Related Parties.

The following table summarises the number of employees within the continuing operations of the Group for 2022:

	Number	Number*
Period end	225	170
Average for the period - management	15	9
Average for the period - non-management	199	139

**The year to 31 December 2021 has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

11. DIRECTORS' EMOLUMENTS

	2022	2021
	£000	£000
Directors' emoluments	1,820	1,923
Pension contributions	78	20
	1,898	**1,943**

The aggregate emoluments of the highest paid Director was £0.7 million (2021: £0.8 million), and pension contributions of £0.04m (2021: £0.01m) were made on his behalf. Two directors are accruing retirement benefits in respect of a money purchase pension scheme.

12. OTHER OPERATING EXPENSES

	2022	2021*
	£000	£000
Advertising and market development	1,299	136
Board and SSB related expenses	752	893
Communications and IT costs	3,201	2,707
Consultancy	2,090	1,647
Legal and professional fees	9,343	6,301
Loss on foreign exchange transactions	6	7
Other operating charges	3,434	2,328
Rent and other occupancy costs	1,488	1,474
	21,613	**15,493**

Included within other operating expenses above is £4.5m (2021: £1.9m) of cost related to the Nomo digital banking business unit that has been recharged to BB2 Digital and Technology Services Limited, a fellow subsidiary of Boubyan Bank K.S.C.P., as a component of the £8.7m (2021: £2.7m) total cost recharge disclosed in Note 34 Related Parties.

Included within other operating expenses are fees payable to the Group's auditors categorised as follows:

	2022	2021*
	£000	£000
Auditor's remuneration		
Audit of financial statements pursuant to the legislation		
- Ernst & Young LLP	746	696
Other advisory and assurance services		
- Ernst & Young LLP	44	41
	790	**737**

**The year to 31 December 2021 has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

13. 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

As at 31 December 2022	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Cash	-	-	-	-
Financing arrangements	577	2,151	11,236	13,964
Finance lease receivables	662	220	269	1,151
Operating lease receivables	11	19	-	30
Due from financial institutions	1	-	-	1
Due from customers	-	-	-	-
Investment securities	3	-	-	3
Total Impairment	**1,254**	**2,390**	**11,505**	**15,149**

Statement of Financial Position

As at 31 December 2021	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Cash	20	-	-	20
Financing arrangements	559	1,455	13,275	15,289
Finance lease receivables	12	24	21	57
Operating lease receivables	-	-	-	0
Due from financial institutions	3	5	-	8
Due from customers	18	-	-	18
Investment securities	1	-	-	1
Total Impairment	**613**	**1,484**	**13,296**	**15,393**

The 31 December 2021 comparative figures above are presented reflecting leasing as a discontinued operation. The 31 December 2022 figures above reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

Within Stage 1 and Stage 2 for financing arrangements there is an ECL balance of £71k relating to undrawn commitments (2021: £15k).

Forborne exposures that have not been specifically provided for within Stage 3 equate to £Nil (2021: £Nil). The Stage 1 and Stage 2 ECLs relating to these forborne exposures is £115k (2021:£Nil). Refer to pages 122 to 124 for further details on how the Group monitors its forborne exposure.

Income Statement

	2022 £000	2021* £000
New and increased provisions (net of releases)	8,066	23,806
Amounts written off during the year (net of write-backs)	5,163	(433)
Total Impairment Loss	**13,229**	**23,373**

**The Income Statement for the year to 31 December 2021 has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

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

ECL by Stage

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2022	1,483	1,498	13,857	16,838
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	-	-	-	-
Transferred to Stage 2	(200)	200	-	-
Transferred to Stage 3	(14)	(1,096)	1,110	-
New and increased provisions (net of releases)	(15)	1,788	6,293	8,066
Write-offs from specific provisions*	-	-	(10,346)	(10,346)
Foreign currency translation adjustments	-	-	591	591
As at 31 December 2022	**1,254**	**2,390**	**11,505**	**15,149**
Carrying amount as at 1 January 2021	1,086	2,986	12,594	16,666
Reclassification of discontinued operation	(821)	(252)	-	(1,073)
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)	35	(936)	13,542	12,641
Write-offs from specific provisions*	-	-	(12,884)	(12,884)
Foreign currency translation adjustments	-	-	43	43
As at 31 December 2021	**613**	**1,485**	**13,295**	**15,393**

The year to 31 December 2021 comparative figures above are presented reflecting leasing as a discontinued operation. The year to 31 December 2022 figures above reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

* The Write-off from specific provisions figures in the ECL by Stage table above do not correlate to the Amounts written off during the year (net of write backs) figures in the previous Income Statement table as the above amounts represent Stage 3 Specific ECL balances which have been written off during the period and can include ECL amounts included in the opening carrying amount figures.

Exposure by Stage

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2022	1,389,730	101,696	44,675	1,536,101
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	-	-	-	-
Transferred to Stage 2	(175,217)	175,217	-	-
Transferred to Stage 3	(20,017)	(10,712)	30,729	-
New and increased exposure	112,655	(25,969)	13,527	100,213
Write-offs from specific provisions			(10,346)	(10,346)
Foreign currency translation adjustments			591	591
As at 31 December 2022	**1,307,151**	**240,232**	**79,176**	**1,626,559**
Carrying amount as at 1 January 2021	1,560,432	145,050	39,003	1,744,485
Reclassification of discontinued operation	(235,863)	(6,636)	-	(242,499)
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	(312,651)	(69,492)	16,787	(365,356)
Write-offs from specific provisions			(12,775)	(12,775)
Foreign currency translation adjustments			43	43
As at 31 December 2021	**981,056**	**99,784**	**43,058**	**1,123,898**

The year to 31 December 2021 comparative figures above are presented reflecting leasing as a discontinued operation. The year to 31 December 2022 figures above reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

Contractual amounts outstanding on financial assets of £14.48m that were written off during the reporting period are still subject to enforcement activity (2021: £0.1m).

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 Group 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 forward looking stress scenarios per material portfolio are outlined within the significant accounting policies section of these financial statements (in Note 2 (m) (vi) on pages 64 to 66).

The scenario weights and macroeconomic assumptions for 2023 are summarised below:

	2023 Assumptions					
	Upside	**Mild Upside**	**Base**	**Stagnation**	**Downside**	**Severe Downside**
Scenario Weights	10%	10%	50%	10%	10%	10%
GDP%, yearly[1]	3.0%	1.4%	-0.9%	-3.5%	-4.6%	-6.5%
Equity%, yearly[2]	16.9%	12.1%	4.9%	-2.2%	-5.4%	-10.9%
Unemployment Rate[3]	3.5%	4.1%	4.4%	5.2%	5.3%	5.5%
HPI%, yearly[3]	-2.8%	-5.2%	-8.4%	-12.7%	-14.6%	-17.6%

[1] Denotes Core Macroeconomic Variable for all segments
[2] Denotes the macroeconomic variable for all segments except for Mortgages and Nomo
[3] Denotes the macroeconomic variables for Mortgages and Nomo

The base case macroeconomic scenario reflects an expectation that GDP will contract by 0.9% in 2023, with the upside scenario reflecting a yearly average growth of 3% and the severe downside reflecting a yearly average contraction of 6.5%.

Under the base scenario for the years 2024 to 2031, the expectation is that the yearly average growth will range from 1.3% to 2.7%. The base case macroeconomic scenario for the yearly average level of unemployment rate reflects an expectation that in 2023 it will reach 4.4%, with the upside scenario reflecting a level of 3.5% and the severe downside scenario reflecting a level of 5.5%. Under the Base scenario for years 2024 to 2031, the expectation is that the yearly average will range between 3.7% and 4.4%.

In relation to the HPI%, the base case scenario for 2023 reflects a year end reduction of 8.4%, with the most severe scenario reflecting a year end reduction of 17.6% and the upside a growth of 0.3%. For years 2024 to 2031, under the base scenario, the year end HPI% ranges between a reduction of 3.3% and a growth of 5.7%.

The base case scenario for the 2023, reflects a year end growth of 4.9% for the equity price index, with the upside scenario reflecting a growth of 16.9% and the severe downside reflecting a contraction of 10.9%. Under the base scenario for years 2024 to 2031, the year-end equity index % ranges between a growth of 3.4% and 4.3%.

The comparative scenario weights and macroeconomic assumptions for 2022, as applied in the 2021 ECL, are summarised below:

	2022 Assumptions					
	Upside	**Mild Upside**	**Base**	**Stagnation**	**Downside**	**Severe Downside**
Scenario Weights	10%	10%	50%	10%	10%	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

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	£000
	Stage 1	Stage 1	Stage 2	Stage 1	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 1	Stage 2	
AAA	-	-	-	-	-	-	-	-	-	-	10,008	-	-	-	**10,008**
AA+	-	-	-	-	17	-	-	-	-	-	-	-	-	-	**17**
AA	-	-	-	-	33	-	-	-	-	-	-	-	-	-	**33**
AA-	86,415	10,008	-	-	43	-	-	2,900	-	-	-	-	-	-	**99,366**
a+	43,569	-	-	-	8,026	-	-	-	-	-	-	341	-	-	**51,936**
a	3,780	6,078	-	-	29,076	78	-	66,259	-	-	-	-	15,954	-	**121,225**
a-	242	8,901	-	-	12,256	-	-	131,785	-	-	-	-	9,613	-	**162,797**
bbb+	4,424	-	-	-	10,903	1,981	-	80,593	12,543	-	-	-	10,710	-	**121,154**
bbb	-	-	-	-	30,199	1,590	-	69,042	40,190	-	-	-	430	663	**142,114**
bbb-	-	-	-	-	74,032	8,356	-	229,025	36,634	-	-	-	35,185	-	**383,232**
bb+	1,962	-	-	-	100,414	4,745	-	77,205	53,066	-	-	50	17,283	2,439	**257,164**
bb	-	-	-	-	86,404	8,862	-	-	9,790	-	-	-	-	150	**105,206**
bb-	-	-	-	-	23,337	5,339	-	-	5,697	-	-	-	-	1,507	**35,880**
b+	-	-	-	-	6,259	7,815	-	-	80	-	-	-	-	-	**14,154**
b	-	-	-	-	2,637	4,726	-	-	-	-	-	-	-	-	**7,363**
b-	-	-	-	-	1,699	1,277	-	-	32,619	-	-	-	-	-	**35,595**
ccc+	-	-	-	-	55	43	-	-	-	-	-	-	-	-	**98**
ccc	-	-	-	-	-	34	-	-	-	-	-	-	-	-	**34**
ccc-	-	-	-	-	-	7	-	-	-	-	-	-	-	-	**7**
d	-	-	-	-	-	-	467	-	-	78,709	-	-	-	-	**79,176**
At 31 December 2022	**140,392**	**24,987**	**-**	**-**	**385,390**	**44,853**	**467**	**656,809**	**190,619**	**78,709**	**10,008**	**391**	**89,175**	**4,759**	**1,626,559**

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

The 31 December 2022 figures above reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

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 1	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+	-	-	-	-	-	-	-	48,889	11,749	-	-	-	630	**61,268**
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	-	-	35,249	16,362	-	-	-	-	**88,623**
bb-	801	-	-	-	7	-	-	-	2,058	-	-	-	-	**2,866**
b+	-	-	-	-	-	293	-	-	168	-	-	-	-	**461**
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**	**13,000**	**4,000**	**24,939**	**42,240**	**593**	**22**	**725,470**	**95,189**	**43,037**	**38,614**	**-**	**23,563**	**1,123,898**

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

The 31 December 2021 comparative figures above are presented reflecting leasing as a discontinued operation. Please see Notes 2 b and Note 14 for further detail.

14. DISCONTINUED OPERATIONS

Following a strategic review and separation process, the Board decided in 2021 to explore a sale of its leasing business. At the time a sale was expected to be completed within a year from the reporting date. Therefore in accordance with IFRS 5, Walbrook Asset Finance Limited ('WAF') and Walbrook Construction Equipment Finance Limited ('WAFCEF') were classified as a disposal group held for sale and treated as a discontinued operation in the 2021 consolidated financial statements.

Due to unfavourable market conditions in 2022 resulting from the rising interest rate environment, the sale process did not result in a disposal. In June 2022 the Group Board decided to implement a controlled wind-down of the leasing business. The leasing business will continue to trade, and the portfolio will be run down in an orderly fashion, a process that is expected to take approximately three to four years.

The decision to wind down the leasing business subsequent to the 2021 year-end did not affect the conditions that existed as of 31 December 2021 and thus for the purposes of finalising the 2021 consolidated financial statements, which were approved on 24 June 2022, the decision was treated as a non-adjusting subsequent event under IAS 10 which did not require adjustment of the treatment as a discontinued operation.

The leasing business is no longer held for sale and has been treated as part of the Group's continuing operations in these 2022 consolidated financial statements.

In order to align presentation and measurement in these 2022 consolidated financial statements, the comparative information for 2021 in respect of the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income and the related Notes to the Consolidated Financial Statements have been restated as if the leasing business never qualified as a discontinued operation held for sale.

The comparative information for 2021 in the Consolidated Statement of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and related Notes to the Consolidated Financial Statements have not been restated.

The combined results of WAF and WAFCEF for the period when they were classified as a discontinued operation for 2021 are presented below:

	2022	2021
	£000	**£000**
Income		
Income from financing and investing activities	-	5,822
Returns to financial institutions and customers	-	-
Net margin	**-**	**5,822**
Fee and commission income	-	3,108
Fee and commission expense	-	(1,120)
Net fee and commission income	**-**	**1,988**
Credit impairment losses	-	(10,731)
Operating lease income	-	9,547
Other operating income	-	563
Net operating income	**-**	**7,189**
Expenses		
Personnel expenses	-	(4,424)
Operating lease depreciation	-	(7,695)
Other depreciation and amortisation	-	(182)
Other operating expenses	-	(2,999)
Total operating expenses	**-**	**(15,300)**
(Loss) / profit before tax from discontinued operations	**-**	**(8,111)**
Tax credit / (expense):		
Related to current year movement in deferred tax	-	3,007
Adjustment in respect of prior years	-	(5)
Impact of change in rate and current year tax	-	1,408
(Loss) / profit for the year from discontinuing operations	**-**	**(3,701)**
Attributable to:		
Equity holders of the parent	-	(4,056)
Non controlling interest	-	355
	-	**(3,701)**

The major classes of assets and liabilities of WAF and WAFCEF when they were classified as held for sale as of 31 December 2021 were as follows:

As at 31 December 2021

	2022	2021
	£000	£000
Assets		
Cash and balances with banks	-	8,243
Due from financial institutions	-	658
Finance lease receivables	-	410,787
Operating lease assets	-	49,279
Property and equipment	-	66
Intangible assets	-	91
Other assets (including inventory)	-	4,930
Current tax asset	-	828
Deferred tax assets	-	5,175
Assets held for sale	**-**	**480,057**
Liabilities		
Other liabilities	-	8,238
Current tax liability	-	90
Liabilities directly associated with the assets held for sale	**-**	**8,328**
Net assets directly associated with disposal group	**-**	**471,729**

The net cash flows incurred by WAF and WAFCEF whilst classified as discontinued operations during 2021 are presented below:

	2022	2021
	£000	£000
Operating	-	(204,148)
Investing	-	(48)
Financing	-	209,614
Net cash inflow / (outflow)	**-**	**5,418**

15.TAXATION

Group	2022	2021*
	£000	£000
UK Corporation Tax		
- current tax for the year	5,262	2,670
- adjustments in respect of prior years	120	828
	5,382	3,498
Deferred tax for the year	(6,484)	(5,720)
Prior year adjustment to deferred tax	(96)	(73)
Effect of change In tax rates	(1,100)	(4,956)
Tax credit in income statement	**(2,298)**	**(7,251)**

**The year to 31 December 2021 has been re-presented to reflect previously discontinued leasing operations as continuing operations, please see Note 2 b.*

The tax credit for the year is higher (2021: higher) than the standard rate of corporation tax which is explained as follows:

Group	2022	2021
	£000	£000
Reconciliation of effective tax rate		
Loss for the year before tax	(8,049)	(15,070)
Loss for the year multiplied by standard rate of corporation tax in the UK of 19% (2021: 19%)	(1,529)	(2,863)
Movement in unrecognised deferred tax	-	(259)
Tax exempt income	(293)	(370)
Expenses not deductible for tax purposes	341	119
Tax on controlled foreign companies	259	323
Prior year adjustment - current tax	120	828
Prior year adjustment - deferred tax	(96)	(73)
Effect of change in tax rates	(1,100)	(4,956)
Tax credit in income statement	**(2,298)**	**(7,251)**

The main rate of corporate tax for the year ended 31 December 2022 is 19% (2021: 19%).

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

Group	2022	2021
	£000	£000
Fair value reserve:		
-current tax	-	-
-deferred tax	(5)	(47)
	(5)	**(47)**

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 Group has forecast taxable profits in future years. Management has recognised a DTA as of 31 December 2022 on accelerated depreciation of £21.1m (net) (2021: £12.5m), tax losses carried forward of £3.8m (2021: £Nil) and other temporary differences of £1.1m (net) (2021: £0.6m net).

Movements in deferred tax assets

Group - 2022	Balance at 1 January	Recognised in profit or loss	Recognised in OCI/Equity	Balance at 31 December
	£000	£000	£000	£000
Accelerated depreciation	17,672	3,434	-	21,106
Tax losses carried forward	-	3,780	-	3,780
Other temporary differences	603	466	5	1,074
Deferred tax assets	**18,275**	**7,680**	**5**	**25,960**

Group - 2021	Balance at 1 January	Recognised in profit or loss	Recognised in OCI/Equity	Balance at 31 December
	£000	£000	£000	£000
Accelerated depreciation	7,179	5,317	-	12,496
Tax losses carried forward	-	-	-	-
Other temporary differences	300	256	47	603
Deferred tax assets	**7,479**	**5,573**	**47**	**13,099**

The year to 31 December 2021 comparative figures above are presented reflecting leasing as a discontinued operation. The year to 31 December 2022 figures above reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

There are no unrecognised deferred tax assets.

16.CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

Group	1 January 2022	Cashflows	FX Movement	Additions to Right of Use assets	Other	31 December 2022
	£000	£000	£000	£000	£000	£000
Lease liabilities	3,468	(1,123)	(2)	1,063	97	3,503

Group	1 January 2021	Cashflows	FX Movement	Additions to Right of Use assets	Other	31 December 2021
	£000	£000	£000	£000	£000	£000
Lease liabilities	4,152	(1,093)	4	296	109	3,468

17.DUE FROM FINANCIAL INSTITUTIONS AND CUSTOMERS

Due from financial institutions

	0 - 3 months	4 - 12 months	1 - 5 years	2022
	£000	£000	£000	£000
Commodity Murabaha	10,008	-	-	10,008
Wakala	-	-	14,908	14,908
	10,008	**-**	**14,908**	**24,916**
Provision for impairment				(1)
				24,915
IFRS 9 Stage 1 and 2 ECL				(1)
				(1)

Due from financial institutions

	0 - 3 months	4 - 12 months	1 - 5 years	2021
	£000	£000	£000	£000
Commodity Murabaha	-	-	-	-
Wakala	17,002	-	-	17,002
	17,002	**0**	**-**	**17,002**
Provision for impairment				(8)
				16,994
IFRS 9 Stage 1 and 2 ECL				(8)
				(8)

Due from Customers

	0 - 3 months	4 - 12 months	1 - 5 years	2022
	£000	£000	£000	£000
Wakala	-	-	-	-
	-	**-**	**-**	**-**
Provision for impairment				-
				-

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

18. INVESTMENT SECURITIES

Group	Listed	Unlisted	2022 Total
	£000	£000	£000
Fair value through other comprehensive income			
Equity	-	658	658
Sukuk	-	-	-
Amortised cost			
Sukuk	10,008	-	10,008
	10,008	**658**	**10,666**
Provision for impairment			(3)
			10,663
IFRS 9 Stage 1 and 2 ECL			(3)
			(3)

See pages 126 and 127 in Note 37 for further detail on fair value measurements of investment securities.

Group	Listed	Unlisted	2021 Total
	£000	£000	£000
Fair value through other comprehensive income			
Equity	-	321	321
Sukuk	23,568	-	23,568
Amortised cost			
Sukuk	15,045	-	15,045
	38,613	**321**	**38,934**
Provision for impairment			(1)
			38,933
IFRS 9 Stage 1 and 2 ECL			(1)
			(1)

19.INVESTMENT IN SUBSIDIARIES

Company	Listed	Unlisted	2022 Total
	£000	£000	£000
Investment in subsidiaries			
Bank of London and The Middle East plc	-	183,734	183,734
Walbrook Asset Finance Limited	-	3,000	3,000
	-	186,734	186,734

Company	Listed	Unlisted	2021 Total
	£000	£000	£000
Investment in subsidiaries			
Bank of London and The Middle East plc	-	115,861	115,861
Walbrook Asset Finance Limited	-	11,811	11,811
	-	127,672	127,672

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

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

Company	2022	2021
	£000	£000
Investment in subsidiaries		
Opening balance	127,672	93,673
Impairment reversal - Bank of London and The Middle East plc	67,873	33,999
Impairment charge - Walbrook Asset Finance Limited	(8,811)	-
Closing balance at 31 December	**186,734**	**127,672**

In June 2022 the Group Board took the decision to wind-down the leasing business. The leasing business will continue to trade, and the portfolio will be run down in an orderly fashion, a process that is expected to take approximately three to four years. An impairment assessment in the recoverable amount of the Parent's investment in Walbrook was undertaken and an impairment of £8.8m of the equity investment has been booked in the Company only financial statements.

The most recent share transactions during 2022 of USD$1.15 per BLME Holdings Limited share has been used as an estimate of the Group's fair value less costs to sell. This is a level 2 fair value hierarchy valuation technique based on observable inputs, i.e. prices. This fair value was apportioned between the two main trading subsidiaries, BLME and WAF, by deducting an estimate of the realisable value of WAF as a separate stand-alone business to arrive at a value for BLME. As a result, a £67.9 million reversal of previous impairment charges related to the investment in BLME was recognised in the current year's income statement of the Parent Company. The original impairment in the value of the investment in BLME occurred in 2016 following a period of continued poor financial performance.

20. FINANCING ARRANGEMENTS

Group	Less than 1 year	1 - 5 years	Over 5 years	2022 Total
	£000	£000	£000	£000
Murabaha	895,436	56,472	139	952,047
	895,436	**56,472**	**-**	**952,047**
Provision for impairment				(13,964)
				938,083
IFRS 9 Stage 1 and 2 ECL				(2,728)
IFRS 9 Stage 3 ECL				(11,236)
				(13,964)

Refer to Note 13 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

Group	Less than 1 year	1 - 5 years	Over 5 years	2021 Total
	£000	£000	£000	£000
Murabaha	770,103	70,648	-	840,751
	770,103	**70,648**	**-**	**840,751**
Provision for impairment				(15,289)
				825,462
IFRS 9 Stage 1 and 2 ECL				(2,014)
IFRS 9 Stage 3 ECL				(13,275)
				(15,289)

21. FINANCE LEASE RECEIVABLES

Group	2022	2021
	£000	£000
Gross investment in finance lease receivables		
Within one year	42,831	921
One to five years	55,945	3,444
Over five years	949	1,018
	99,725	5,383
Hire purchase		
Within one year	148,166	15,478
One to five years	213,386	24,242
Over five years	1,293	113
	362,845	39,833
Unearned future income on finance leases	(7,039)	(196)
Unearned future income on hire purchase	(24,841)	(2,207)
IFRS 9 Stage 1 & 2 ECL	(882)	(36)
IFRS 9 Stage 3 ECL	(269)	(21)
Net investment in finance leases and hire purchase	**429,539**	**42,756**
The net investment in finance leases comprises:		
Within one year	39,167	848
One to five years	52,342	3,318
Over five years	918	1,006
	92,427	**5,172**
The net investment in hire purchase comprises:		
Within one year	134,870	14,309
One to five years	200,983	23,163
Over five years	1,259	112
	337,112	**37,584**
	429,539	**42,756**

These tables represent contractual maturities. The Group'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 Group 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 13 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

22. PROPERTY AND EQUIPMENT

	Computer Equipment £000	Office Equipment £000	Fixtures & Fittings £000	Buildings £000	Motor vehicles £000	Total £000
Cost						
At 1 January 2022	711	78	2,191	5,134	20	8,134
Additions	90	2	796	1,063	-	1,951
Disposals	(504)	(49)	(185)	(14)	(20)	(772)
FX difference	-	-	-	37	-	37
At 31 December 2022	**297**	**31**	**2,802**	**6,220**	**-**	**9,350**
At 1 January 2021	657	78	2,195	4,833	20	7,783
Reclassified to discontinued	(45)	(3)	(6)	-	-	(54)
Additions	15	-	-	302	-	317
Disposals	-	-	-	-	-	0
FX difference	-	-	-	(1)	-	(1)
At 31 December 2021	**627**	**75**	**2,189**	**5,134**	**20**	**8,045**
Depreciation						
At 1 January 2022	587	78	2,189	2,412	20	5,286
Charge for the year	66	-	29	896	-	991
Disposals	(504)	(49)	(185)	(13)	(20)	(771)
At 31 December 2022	**149**	**29**	**2,033**	**3,295**	**-**	**5,506**
At 1 January 2021	546	75	2,191	1,638	13	4,463
Reclassified to discontinued	(6)	(3)	(2)	-	-	(11)
Charge for the year	26	3	0	775	7	811
Disposals	-	-	-	-	-	-
At 31 December 2021	**566**	**75**	**2,189**	**2,413**	**20**	**5,263**
Net Book Value						
At 1 January 2022	124	-	2	2,722	-	2,848
At 31 December 2022	**148**	**2**	**769**	**2,925**	**-**	**3,844**
At 31 December 2021	**61**	**-**	**0**	**2,721**	**-**	**2,782**

The year to 31 December 2021 comparative figures above are presented reflecting leasing as a discontinued operation. The year to 31 December 2022 figures above reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

Buildings and motor vehicles relate to right-of-use assets recognised in line with IFRS 16 Leases in relation to the Group's leased premises and motor vehicles respectively. See Note 29 for further detail.

23. OPERATING LEASE ASSETS

These operating lease assets arise when the Group is the lessor in a leasing arrangement.

Group	At 1 January 2022 £000	Reclassification 2022 £000	Additions 2022 £000	Disposals 2022 £000	Depreciation 2022 £000	At 31 December 2022 £000
Gross carrying amount	72,523	-	2,539	(443)	-	74,619
Less depreciation	(23,244)	-	-	158	(9,007)	(32,093)
	49,279	**-**	**2,539**	**(285)**	**(9,007)**	**42,526**
Provision for impairment						-
						42,526

Group	At 1 January 2021 £000	Reclassification 2021 £000	Additions 2021 £000	Disposals 2021 £000	Depreciation 2021 £000	At 31 December 2021 £000
Gross carrying amount	67,701	(67,701)	-	-	-	-
Less depreciation	(15,665)	15,665	-	-	-	-
	52,036	**(52,036)**	**-**	**-**	**-**	**-**
Provision for impairment						-
						-

Rental receipts under operating leases*	**2022**	**2021**
Future rentals are as follows:	**£000**	**£000**
Less than one year	8,994	-
Between one and five years	10,670	-
More than five years	8	-
	19,672	**-**

*These future rental receipts represent undiscounted cash flows.

The year to 31 December 2021 comparative figures above are presented reflecting leasing as a discontinued operation. The year to 31 December 2022 figures above reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

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

24. INTANGIBLE ASSETS

Group	2022	2021
Cost	**£000**	**£000**
Opening balance	6,098	6,098
Reclassification to discontinued operations	-	(457)
Additions	722	-
Disposals	(1,189)	-
Closing balance	**5,631**	**5,641**
Amortisation and impairment losses		
Opening balance	6,007	5,855
Reclassification to discontinued operations	-	(214)
Charge for the year	90	-
Disposals	(1,189)	-
Closing balance	**4,908**	**5,641**
Net Book Value	**723**	**-**

The year to 31 December 2021 comparative figures above are presented reflecting leasing as a discontinued operation. The year to 31 December 2022 figures above reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

Intangible assets consist of computer licences and software development. This includes the cost of fully amortised software development items that remain in use within the Group.

25. OTHER ASSETS

Group	2022	2021
	£000	**£000**
Amounts due from Walbrook Asset Finance Limited	-	4,210
Amounts due from fellow subsidiary of majority shareholder	1,067	2,867
Collateral deposits*	377	1,170
Prepayments	1,224	961
VAT recoverable	744	-
Foreign exchange forward contracts**	558	698
Deposit paid for a Real Estate Investment asset acquisition***	4,060	-
Other receivables and assets	6,372	1,810
	14,402	**11,716**

* The Group has pledged cash collateral deposits of £0.03 million (2021: £0.03 million) as security against rental payments on office premises, and £0.34m (£1.14m) of cash collateral deposits placed with financial institutions.

** Foreign exchange forward contracts relate to deal balances with a notional contract amount of £46.0 million (2021: £36.2m). Further disclosure on the Group's foreign exchange forward deals is covered in Note 37.

*** Represents a 10% deposit paid for an office building in Warrington, Cheshire in relation to a property to be managed by the BLME Real Estate Investment team in 2023.The transaction successfully completed on 24 January 2023.

26. DUE TO FINANCIAL INSTITUTIONS

Group	2022	2021
	£000	£000
Reverse Murabaha	1,677	153,139
Wakala	49,362	119,466
	51,039	**272,605**

27. DUE TO CUSTOMERS

Group	2022	2021
	£000	£000
Customer deposits	1,315,238	1,025,484
Security deposits	8,258	6,030
	1,323,496	**1,031,514**

28. OTHER LIABILITIES

Group	2022	2021
	£000	£000
Trade payables	276	82
VAT payable	-	110
Collateral advance	-	81
Social security and income tax	624	389
Accruals	12,253	8,223
Lease liability*	3,503	3,468
Other creditors**	5,930	1,955
	22,586	**14,308**

* Refer to Note 29 for further detail on lease liabilities recognised in line with IFRS 16.
** Other creditors include a foreign exchange forward deal balance of £1.1m (2021: £1.7m) with a notional contract amount of £49.8m (2021: £70m). Further disclosure on the Group's foreign exchange forward deals is covered in Note 37.

29. LEASES

The Group has lease contracts for office premises in London, Dubai and Riyadh. Leases of offices have lease terms between 1 and 10 years. The Group's obligations under its leases are stipulated in the respective lease agreements. Generally, the Group 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 Group 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 recognised (included under property and equipment) and the movements during the year:

	Buildings	Motor vehicles	Total
	£000	£000	£000
At 1 January 2022	2,721	-	2,721
Additions	1,063	-	1,063
Depreciation expense	(896)	-	(896)
Foreign currency translation adjustments	37	-	37
At 31 December 2022	**2,925**	**-**	**2,925**

	Buildings	Motor vehicles	Total
	£000	**£000**	**£000**
At 1 January 2021	3,195	7	3,202
Additions	302	-	302
Depreciation expense	(775)	(7)	(782)
Foreign currency translation adjustments	(1)	-	(1)
At 31 December 2021	**2,721**	**-**	**2,721**

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

	2022
	£000
At 1 January 2022	3,468
Additions	1,063
Accretion of finance charges	106
Payments	(1,123)
Foreign currency translation adjustments	(2)
Other movements	(9)
At 31 December 2022	**3,503**

	2021
	£000
At 1 January 2021	4,152
Additions	296
Accretion of finance charges	109
Payments	(1,093)
Foreign currency translation adjustments	4
At 31 December 2021	**3,468**

The maturity analysis of lease liabilities is as follows:

At 31 December 2022	**Less than 1 month**	**1-3 months**	**3 - 12 months**	**1-5 years**	**5+ years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Future lease payments (undiscounted)	-	287	1,188	2,181	-	3,656
Total future finance charges						(153)
Lease liability						**3,503**

At 31 December 2021	**Less than 1 month**	**1-3 months**	**3 - 12 months**	**1-5 years**	**5+ years**	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Future lease payments (undiscounted)	9	242	777	2,625	-	3,653
Total future finance charges						(185)
Lease liability						**3,468**

Further detail on how the Group 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:

	2022	2021
	£000	£000
Depreciation expense of right-of-use assets	896	782
Finance charge on lease liabilities	106	109
Total amount recognised in profit or loss	**1,002**	**891**

Depreciation expense of right-of-use assets is disclosed in Note 22 while finance charge on lease liabilities is included in rent and other occupancy costs per Note 12.

The Group had total cash outflows for leases of £1.2m in the year (2021: £1.1m). The Group also had non-cash additions to right-of-use assets and lease liabilities of £1.1m and £1.1m respectively in the year (2021: £0.3m and £0.3m).

The Group 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 Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3 (e) on page 75).

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	More than five years	Total
	£000	£000	£000
Extension options expected not to be exercised	4,832	-	4,832
At 31 December 2022	**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 2021	**4,832**	**-**	**4,832**

30.INVESTMENT IN JOINT VENTURES

The Group 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 Group holds a 10.13% (2021: 10.13%) equity interest in Waterfront having initially planned to sell all but 10% of its investment. The Group does not intend to sell the residual excess amount above 10% of 0.13%. Accordingly, 10.13% is accounted for using the equity method with no balance (2021: Nil) 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 Group's investment in Waterfront Holdings Limited:

Statement of Financial Position	**2022**	**2021**
	£000	**£000**
Cash and cash equivalents	784	836
Other assets	120	64
Investment properties	26,950	26,950
Total assets	**27,854**	**27,850**
Other liabilities	564	595
Due to financial institutions	15,901	15,840
Total liabilities	**16,465**	**16,435**
Net Assets	**11,389**	**11,415**
Group's share in the Net Assets - 10.13% (2021: 10.13%)	**1,154**	**1,157**

Income Statement	**2022**	**2021**
	£000	**£000**
Revenue	1,580	1,577
Unrealised loss on revaluation of investment	121	121
Management and advisory fees	(186)	(184)
Murabaha profit expense	(480)	(479)
Other expenses	(48)	(54)
Profit before tax	**987**	**981**
Income tax expense	(25)	(23)
Profit for the year	**962**	**958**

The joint venture had no contingent liabilities or capital commitments as of 31 December 2022 (2021 – none).

Movements in Waterfront Holdings Limited carrying amounts

	2022	**2021**
	£000	**£000**
Opening balance	1,157	1,142
Reclassification from Assets Held for Sale	-	15
Share of profit equity-accounted investees, net of tax	97	99
Dividends received	(100)	(99)
Closing net book amount	**1,154**	**1,157**

31. ASSETS HELD FOR SALE

As described in Note 30, the Group committed to a plan to sell all but 10% of its interest in Waterfront Holdings Limited. This was in line with the investment memorandum provided to all eligible prospective investors. Accordingly, historically the excess of the Group's investment above 10% was presented as an asset held for sale (2021: Nil). During 2021, the Group sold 4% of its interest in Waterfront Holdings Limited.

	2022	2021
Assets held for sale	**£000**	**£000**
Opening balance as at 1 January	-	477
Amounts sold during the year	-	(500)
Other movements	-	38
Reclassification to investment in joint ventures	-	(15)
Closing balance as at 31 December	**-**	**-**

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 Group.

32.CONTINGENT LIABILITIES

Except for the cost recharge arrangements described in Note 36 in conjunction with BB2 Digital and Technology Services Limited, there are no contingent liabilities as of 31 December 2022 to be disclosed (2021: none).

33. SHARE CAPITAL

Group and Company	Number of shares	Share capital £000	Share premium £000
Allotted, called up and fully paid 25p per Ordinary share			
At 31 December 2021	200,365,281	50,091	1,140
Add: Issue of new shares	-	-	-
At 31 December 2022	**200,365,281**	**50,091**	**1,140**

Group and Company	Number of shares	Share capital £000	Share premium £000
Allotted, called up and fully paid 25p per Ordinary share			
At 31 December 2020	200,365,281	50,091	1,140
Add: Issue of new shares	-	-	-
At 31 December 2021	**200,365,281**	**50,091**	**1,140**

34. SUBSIDIARIES AND OTHER ENTITIES

Principal Subsidiaries	Country of incorporation and principal operations	BLME interest in equity capital	Issued equity capital	Profit / (loss) for the year ('000s)	Principal business activity	Ultimate parent undertaking	Immediate parent undertaking
Directly held:							
Bank of London and The Middle East plc	United Kingdom	100%	£48,933,422	(6,807)	Regulated Bank	Boubyan Bank K.S.C.P.	BLME Holdings Ltd
Walbrook Asset Finance Limited	United Kingdom	100%	£11,811,000	(2,022)	Leasing	Boubyan Bank K.S.C.P.	BLME Holdings Ltd
Indirectly 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
Walbrook Construction Equipment Finance Limited	United Kingdom	100%	£1,000	78	Leasing	Boubyan Bank K.S.C.P.	BLME plc
WAF 1 Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	Walbrook Asset Finance Limited
Walbrook Asset Finance (Ireland) DAC	Ireland	100%	€100	-€165	Leasing	Boubyan Bank K.S.C.P.	Walbrook Asset Finance Limited
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	82%	£24,870,010	1,653	Investment Holding Company	Boubyan Bank K.S.C.P.	BLME plc
BLME Capital Company	Kingdom of Saudi Arabia	100%	SAR 20 million	-	Dormant	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
Walbrook Asset Finance (Ireland) DAC: Block 3, Harcourt Centre, Harcourt Road, Dublin, Ireland, D02 A339

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

- **Significant restrictions**

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of Bank of London and The Middle East Plc's assets and liabilities are £1,612 million and £1,389 million respectively (2021: £1,549 million and £1,319 million respectively).

- **Interests in unconsolidated structured entities**

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

- **Contractual arrangements, audit exemption and financial support**

The Board of BLME Holdings Limited has agreed to guarantee the liabilities of Walbrook Construction Equipment Finance Limited, registered company number 09019700, in order that it qualifies for the exemption available under Section 479A of the Companies Act 2006 in respect of the requirement for an audit of its annual financial statements for the year ended 31 December 2022. The liabilities of Walbrook Construction Equipment Finance Limited at the year-end was £ 277,355 (31 December 2021:£246,832).

The Board of BLME Holdings Limited has agreed to guarantee the liabilities of WAF 1 Limited, registered company number 13712678, in order that it qualifies for the exemption available under Section 479A of the Companies Act 2006 in respect of the requirement for an audit of its annual financial statements for the period ended 31 October 2022. The liabilities of WAF 1 Limited as of 31 October 2022 was £ 998.

Except for the above guarantees under Section 479C of the Companies Act 2006, the Group does not have any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated or unconsolidated structured entity (2021: none).

Except for a letter of support provided to Walbrook Asset Finance Limited, the Group did not provide financial support to any of its consolidated or unconsolidated structured entities during 2022 (2021: nil) and does not have any current intentions to provide such support (2021: none).

- **Parent company**

As of 31 December 2022, the Company's parent undertaking was Boubyan Bank K.S.C.P, a public shareholding company incorporated in Kuwait and listed on the Kuwait Stock Exchange. BLME Holdings Limited is the parent undertaking of the smallest group of undertakings for which Group consolidated financial statements are drawn up and of which the Company is a member. Boubyan Bank K.S.C.P. is the parent undertaking of the largest group of undertakings for which Group consolidated financial statements are drawn up and of which the Company is a member. Copies of the annual reports of Boubyan Bank K.S.C.P. are readily available for download from the investor relations section of Boubyan's corporate website.

35. NON-CONTROLLING INTEREST

The group holds a 82.4% shareholding in AQ1 Limited and consolidates it as a subsidiary under IFRS 10. The non-controlling interests represent the minority shareholders of 17.6% in AQ1 Limited (hold nil voting rights).

36. RELATED PARTIES

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

	Relationship	2022 £000	2021 £000
Boubyan Bank K.S.C.P	Majority shareholder		
Wakala placement		121,372	260,900
Wakala deposit taking		461,687	321,426
Participation deposit		-	28,144
Boubyan Capital Investment Company	Subsidiary of majority shareholder		
Gain on disposal of fund*		440	-
NBK SAKP, Bahrain Branch	Branch of a fellow subsidiary of majority shareholder		
Reverse Murabaha		22,994	128,078
NBK International PLC	Fellow subsidiary of majority shareholder		
Reverse Murabaha		30,000	-
Commodity Murabaha		20,000	-
National Bank of Kuwait	Parent of majority shareholder		
Commodity Murabaha		-	143,781

*relates to the purchase and sale of a $25m holding in a leasing fund and is stated net of costs and dividend income

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

	Relationship	2022 £000	2021 £000
Boubyan Bank K.S.C.P.	Majority shareholder		
Cash and balances with banks			
Nostros		242	222
Due from financial institutions			
Wakala placement		8,872	13,002
NBK SAKP Bahrain Branch	Branch of a fellow subsidiary of majority shareholder		
Due to financial institutions			
Reverse murabaha		-	43,174
NBK International PLC	Fellow subsidiary of majority shareholder		
Due from financial institutions			
Reverse murabaha		10,000	-

The above related party balances are unsecured, and settlement occurs in cash.

As of 31 December 2022, Boubyan Bank K.S.C.P held an economic interest of 71.18% of the Parent Company's voting shares (2021: 71.08%).

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.

BLME 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, BLME 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 by BLME to BB2 TechCo for the year ending 31 December 2022 were £8,665,351 (31 December 2021: £2,666,891). If Nomo does not come to profitability there will be no overall cost to BLME. As of 31 December 2022 the balance due to the Company from BB2 TechCo in respect of the Nomo cost recharges was £1,060,019 (2021: £2,666,891).

BB2 TechCo is a member of the BLME Holdings Limited VAT group registration with HMRC. During the year BLME made payments to HMRC in respect of BB2 TechCo amounting to £395,916 (2021: £198,862). As of 31 December 2022 there was a VAT related balance of £6,936 due to BLME from BB2 TechCo (2021: £198,862).

During the year, BLME paid £48,054 (2021: £1,567) of marketing incentives on behalf of BB2 TechCo and was reimbursed these costs by BB2 TechCo. As of 31 December 2022 there was no balance due to BLME from BB2 TechCo in respect of marketing incentives (2021: £1,567).

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

	2022	**2021**
	£000	**£000**
Key management emoluments *	1,374	1,495
Bank contributions to pension plans	78	20
	1,452	**1,515**

* Key management emoluments includes other long-term benefits of £0.135m (2021: £0.15m)

37. FINANCIAL RISK MANAGEMENT

The Group has exposure to the following primary 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 Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing these risks, and the management of capital.

The Group'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 Group's risk management framework ("RMF") provides the foundation for ensuring that business risk-taking activity is consistent with the Group's strategy and risk appetite, and that the Group delivers good service and good outcomes for customers from its products. The RMF establishes an appropriate balance between risks and reward and ensuring robust controls and management of risk.
The Group's method of managing risk begins with the definition of the Group's Risk Appetite, which when combined with the Group'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 Group operates, including regulatory standards and industry best practices. The Group requires a strong and proactive RMF in order to mitigate all principal risks and:

- Manage the Group in line with the Board's approved Risk Appetite;
- Achieve the Group's strategic objectives whilst adhering to its Risk Tolerance levels;
- Empower and equip the Group'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 the Group 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 Group'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 Group and in line with the Board Risk Appetite, and the overall strategy.

The constituting elements of the RMF are:

- Sharia'a principles;
- Group 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 Group Risk Appetite Statement is set by the Company's Board and reviewed at least annually.

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

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

The principal risks faced by the Group 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**

  The Group 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
- Obligors sources of recurring income are no longer available to meet Group finance payments
- Concerns about the obligors 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 Group'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 Group 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 <u>at least all of</u>:

- 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 the Group is 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 the Group's customers experience financial distress, the Group 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 Group's position it may be deemed necessary to take appropriate measures to protect the Group's position, for example by appointing an insolvency practitioner to take possession of property subject to the Group's security. The Group 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 Group.

In taking any action, the Group is mindful to comply with all laws and regulations which apply to it and the activities it is undertaking. In particular, the Group 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. The Group 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:

- The Group 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 Group.

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 the Group 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 the Group.
- Any other situation where the Group considers that the financed party is unlikely to pay its credit obligations in full without recourse by the Group 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.

- **Credit Ratings and PD estimation process**
  Probabilities of Default are owned by the Risk department and are approved by CCRC and ERC. All amendments to the methodology require ERC approval.

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

	Fitch	Moody's	Group (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 Group Internal Credit Rating greater than 17 are considered to be in default.

When determining a Group 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 the Group Internal rating)
3. Moody’s RiskCalc
4. Moody’s Commercial Real Estate Model

- **Group 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 via the use of risk models. 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, the counterparty must have been added to the watch-list, this includes considering judgemental trigger events, with expert credit analysis to identify a Significant Increase In Credit Risk.

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 Group'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 Underwriting Guidelines 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 the Group 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 three 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 Group'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 Group 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 Group's Credit Risk Management Policy. The Group has a credit review process in place covering all its customers and counterparties whereby it assigns an in-house rating and maximum 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 Group manages credit risk by the use of Risk Appetite Statement, Portfolio Limits and Key Risk Indicators ("KRIs") within the Group's Credit Risk Management Policy. These sector and business-based expressions of credit risk appetite provide guidance on the acceptable level of credit exposure by counterparty rating, country and sector, including the adequacy of collateral. Credit risks are monitored on a daily basis and regularly re-assessed for creditworthiness.

A separate Credit Risk Department, accountable to the CCRC, is responsible for oversight of the Group's credit risk, including:

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

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

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

ii. Exposure by Statement of Financial Position line

The tables below present the Group's exposure to credit risk on balance sheet financial instruments as of 31 December 2022, 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.

The 31 December 2021 comparative figures in the following tables are presented reflecting the Group's leasing business as a discontinued operation. The 31 December 2022 figures in the following tables reflect the reclassification of leasing as part of continuing operations. Please see Notes 2 b and Note 14 for further detail.

	2022	2021
	£000	£000
Cash and balances with banks	140,399	112,089
Due from financial institutions		
Murabaha	10,008	-
Wakala	14,907	16,994
Due from customers	-	24,993
Investment securities	10,663	38,933
Financing arrangements	938,083	825,462
Finance lease receivables	429,539	42,756
Other assets (Foreign exchange forward deals)	558	698
Total credit exposure	**1,544,157**	**1,061,925**

Except for the subsidiary audit exemption guarantees under Section 479C of the Companies Act 2006 disclosed in Note 34, the Group had no letters of credit or guarantees outstanding as of 31 December 2022 (2021: none). The Group has a credit exposure to £94m in undrawn commitments (2021: £79m).

iii. Exposure by country of the financed counterparty

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

	2022	2021
	£000	£000
GCC countries		
Kuwait	14,157	20,448
Qatar	10,864	5,156
Saudi Arabia	16,310	42,421
United Arab Emirates	3,645	11,372
EEA countries		
Ireland	-	-
United Kingdom	1,466,984	912,437
Other countries		
Switzerland	-	-
Jersey	25,153	25,145
USA	7,044	44,946
Total credit exposure	**1,544,157**	**1,061,925**

iv. Exposure by economic sector

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

	2022 £000	2021 £000
Financial services		
GCC financial institutions	29,629	51,871
UK financial institutions	265,923	153,387
Other financial institutions	31,836	69,777
Mining and quarrying	11,070	-
Manufacturing	11,661	1,568
Real estate	542,703	547,992
Transportation and storage	75,735	19,383
Government	2,532	6
Wholesale / Retail	13,685	-
Commodities	13,212	-
Energy	4,857	5,156
Construction	158,449	84,665
Education	26,934	-
Buy to let mortgages	182,776	120,299
Renting and Leasing of Equipment	143,721	-
Others	29,434	7,821
Total credit exposure	**1,544,157**	**1,061,925**

v. Credit risk quality

The Group's credit quality and direct investments are managed by CCRC and the Assets & Liabilities Committee (ALCO) respectively, under the oversight of the Executive Risk Committee. 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 of 31 December 2022. Of the total portfolio 10% (31 December 2021: 14%) was directly rated by at least one of the ECAI, with 90% (31 December 2021: 86%) using internal ratings.

For counterparties not rated by the major ECAI the Group 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.

At 31 December 2022	Neither Past Due Nor Impaired							
	ECAI Rating		BLME Internal Rating					
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade	Ungraded	Past due but not impaired	Individually Impaired	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	140,399	-	-	-	-	-	-	140,399
Due from financial institutions	-	-	24,914	1	-	-	-	24,915
Due from customers	-	-	-	-	-	-	-	-
Investment securities								
FVOCI								
Government debt securities	-	-	-	-	-	-	-	-
Other Investment securities	-	-	-	361	297	-	-	658
AC								
Government debt securities	-	-	-	-	-	-	-	-
Other Investment securities	10,005	-	-	-	-	-	-	10,005
Financing arrangements	-	-	642,318	102,944	25,944	87,445	79,432	938,083
Finance lease receivables	-	-	274,445	154,210	-	412	472	429,539
Other assets (Foreign exchange forward deals)	558	-	-	-	-	-	-	558
Profit rate swaps	-	-	-	-	-	-	-	-
Total credit exposure	**150,962**	**-**	**941,677**	**257,516**	**26,241**	**87,857**	**79,904**	**1,544,157**

At 31 December 2021	Neither Past Due Nor Impaired							
	ECAI Rating		BLME Internal Rating					
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade	Ungraded	Past due but not impaired	Individually Impaired	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	112,089	-	-	-	-	-	-	112,089
Due from financial institutions	-	-		24,993	-	-	-	24,993
Due from customers	-	-	12,999	3,995	-	-	-	16,994
Investment securities								
FVOCI								
Government debt securities	-	-	-	-	-	-	-	-
Other Investment securities	23,567	-	-	321	-	-	-	23,888
AC								
Government debt securities	-	-	-	-	-	-	-	-
Other Investment securities	15,045	-	-	-	-	-	-	15,045
Financing arrangements	-	-	573,218	167,074	25,145	30,262	29,763	825,462
Finance lease receivables	-	-	5,097	37,212	4	421	22	42,756
Other assets (Foreign exchange forward deals)	698	-	-	-	-	-	-	698
Profit rate swaps	-	-	-	-	-	-	-	-
Total credit exposure	**151,399**	**-**	**591,314**	**233,595**	**25,149**	**30,683**	**29,785**	**1,061,925**

The Group's cash balances, amounts due from financial institutions and customers, investment securities and derivative financial instruments were neither past due nor impaired as of 31 December 2022 and 31 December 2021.

Analysis of past due amounts and impairments

	Financing arrangements		Finance Leases	
	2022	**2021**	**2022**	**2021**
	£000	**£000**	**£000**	**£000**
Neither past due nor impaired	782,442	765,438	428,924	42,334
Past due but not impaired	87,445	30,262	412	421
Gross exposure associated with impairment provision	79,432	43,037	472	22
Less: allowance for impairments	(11,236)	(13,275)	(269)	(21)
Total	**938,083**	**825,462**	**429,539**	**42,756**

Past due but not impaired	**£000**	**£000**	**£000**	**£000**
Past due up to 30 days	44,654	4,455	174	89
Past due 30 to 60 days	42,005	24,081	163	89
Past due 60 to 90 days	787	96	70	73
Past due over 90 days	-	1,630	5	170
Total	**87,446**	**30,262**	**412**	**421**

The past due but not impaired balances as of 31 December 2022 include £82.7 million (2021: £26.0 million) relating to six real estate transactions (2021: four) where the facility balances are lower than the collateral values. The Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

An analysis of impairments is provided in Note 13 “Impairment of financial assets”.

Forbearance

The Group 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 the Group.

Forbearance classification

Forbearance:

- is a concession granted to a counterparty for reasons of financial difficulty that would not be otherwise considered by the Group. 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, the Group, 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 the Group 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 Group 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 the Group.

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.

Group 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 Group
- Non-enforcement of a material covenant breach impacting the obligors ability to meet the Group financial obligations
- Converting a fully or partially amortising facility to bullet payment at maturity (with no other improvement to terms or benefit to the Group) 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 Group commensurate with the value of the security released.

<u>Monitoring</u>

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 forborne 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 Group'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 Group'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 of 31 December 2022 there had been nine instances (2021: three):
- where the Group waived material financial covenants or agreed to temporary relaxation of payment terms which were subsequently cured;
- where the Group agreed to provide temporary facilities beyond the terms upon which the facilities were intended to operate; and/or
- where the Group agreed to extend facilities beyond their contractual term outside of its normal credit criteria.

The carrying value as of 31 December 2022 of exposures relating to forborne counterparties with no specific impairment charge was £40.2 million, which represents 2.4% of the Group's total assets (2021: £16.3 million and 1.0%). The Stage 1 and 2 ECLs relating to these forborne exposures is £29k (2021: £14k).

- **Allowance for impairment**

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

vi. Collateral

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

Financial assets or non-financial assets obtained by the Group by taking possession of collateral held as security against financing arrangements and finance leases and held at the year-end are disclosed within Note 25 Other Assets.

	2022 On balance sheet exposure	2022 Collateral	2021 On balance sheet exposure	2021 Collateral
	£000	£000	£000	£000
Cash and balances with banks	140,399	-	112,089	-
Due from financial institutions	24,915	-	16,994	-
Due from customers	-	-	24,993	25,011
Investment securities	10,663	-	38,933	-
Financing arrangements	938,083	896,600	825,462	782,613
Finance lease receivables	429,539	426,856	42,756	37,327
Other assets (Foreign exchange forward deals)	558	-	698	-
Total credit exposure	**1,544,157**	**1,323,456**	**1,061,925**	**844,951**

As of 31 December 2022, collateral represented 86% (2021: 80%) of the Group's total credit exposure.

Analysis of Group collateral	**2022**	**2021**
	£000	**£000**
Plant and equipment	435,993	62,249
Property	887,463	782,702
Raw materials/ finished stock	-	-
Total credit exposure	**1,323,456**	**844,951**

In addition, the Group holds financial guarantees of £Nil (2021: Nil) 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 of 31 December 2022, 78% (2021: 88%) of the Group'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 the Group's financial assets and liabilities.

	Note	Fair value hierarchy	2022 Carrying value £000	2022 Fair value £000	2021 Carrying value £000	2021 Fair value £000
Cash and balances with banks		1	140,399	*	112,089	*
Due from financial institutions	i	2	24,915	24,915	16,994	16,987
Due from customers	i	2	-	-	24,993	24,998
Investment securities	ii, iii	See next table**	10,663	10,663	38,933	38,933
Financing arrangements	iii	3	938,083	933,871	825,462	818,255
Finance lease receivables	iii	3	429,539	384,280	42,756	42,251
Other assets (Foreign exchange forward deals)	iv	2	558	558	698	698
Due to financial institutions	iii	3	51,039	51,037	272,605	272,025
Due to customers	iii	3	1,323,496	1,309,770	1,031,514	1,024,970
Profit rate swaps liability	ii	2	-	-	334	334
Other liabilities (Foreign exchange forward deals)	iv	2	1,064	1,064	1,732	1,732

*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 Group's fair value measurement techniques can be found in Note 3(b) on pages 73 and 74.

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

	2022 Level 1 £000	2022 Level 2 £000	2022 Level 3 £000	2022 Total £000
Investment securities	-	-	658	658
Profit rate swaps (liability)	-	-	-	-
Foreign exchange forward deals (assets)	-	558	-	558
Foreign exchange forward deals (liabilities)	-	1,064	-	1,064

	2021 Level 1 £000	2021 Level 2 £000	2021 Level 3 £000	2021 Total £000
Investment securities	15,045	-	321	15,366
Profit rate swaps (liability)	-	334	-	334
Foreign exchange forward deals (assets)	-	698	-	698
Foreign exchange forward deals (liabilities)	-	-	-	-

During the year, there were no transfers between Level 1 and Level 2 fair value measurements (2021: none), and no transfers into or out of Level 3 fair value measurements (2021: 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.

Investment securities	**2022 £000**	**2021 £000**
Balance at 1 January	321	318
Total gains / (losses) recognised in:		
- profit or loss*	40	3
Purchases	298	-
Sales	-	-
Balance at 31 December	**659**	**321**

** This amount is included in "net investment losses" in the income statement*

The reconciliation for investment securities is included in Note 18.

viii. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as of 31 December 2022.

	2022 Fair value through profit and loss	2022 Fair value through other comprehensive income	2022 Financial assets at amortised cost	2022 Total
Assets	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	-	-	140,399	140,399
Due from financial institutions	-	-	24,915	24,915
Due from customers	-	-	-	-
Investment securities:				
Sukuk	-	-	10,004	10,004
Equity	-	659	-	659
Financing arrangements	-	-	938,083	938,083
Finance lease receivables	-	-	429,539	429,539
Other assets (foreign exchange forward deals)	558	-	-	558
Total financial assets	**558**	**659**	**1,542,940**	**1,544,157**

	2022 Fair value through profit and loss	2022 Fair value through other comprehensive income	2022 Financial liabilities at amortised cost	2022 Total
Liabilities	**£000**	**£000**	**£000**	**£000**
Due to financial institutions		-	51,039	51,039
Due to customers	-	-	1,323,496	1,323,496
Profit rate swaps	-	-	-	-
Other liabilities (Foreign exchange forward deals)	1,064	-	-	1,064
Total financial liabilities	**1,064**	**-**	**1,374,535**	**1,375,599**

Group	2021 Fair value through profit and loss	2021 Fair value through other comprehensive income	2021 Financial assets at amortised cost	2021 Total
Assets	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	-	-	112,089	112,089
Due from financial institutions	-	-	16,994	16,994
Due from customers	-	-	24,993	24,993
Investment securities:				
Sukuk	-	23,567	15,045	38,612
Equity	-	321	-	321
Financing arrangements	-	-	825,462	825,462
Finance lease receivables	-	-	42,756	42,756
Other assets (foreign exchange forward deals)	698	-	-	698
Total financial assets	**698**	**23,888**	**1,037,339**	**1,061,925**

Group	2021 Fair value through profit and loss	2021 Fair value through other comprehensive income	2021 Financial liabilities at amortised cost	2021 Total
Liabilities	**£000**	**£000**	**£000**	**£000**
Due to financial institutions		-	272,605	272,605
Due to customers	-	-	1,031,514	1,031,514
Profit rate swaps	334	-	-	334
Other liabilities (Foreign exchange forward deals)	1,732	-	-	1,732
Total financial liabilities	**2,066**	**-**	**1,304,119**	**1,306,185**

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, arising from the differing maturity profile of its assets and liabilities. This risk is managed by ensuring that the Group has sufficient liquidity to meet its liabilities 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 Group’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 Group’s Liquidity Risk Management Policy and its annual ILAAP, as required by the PRA. Included in the Recovery Plan is the Group’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 of 31 December 2022, the Group held £1,375 million (2021: £1,304 million) of term deposits and held £nil (2021: £nil) of secondary market assets.

The Group 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

Group	**Less than 1 month £000**	**1-3 months £000**	**3 - 12 months £000**	**1-5 years £000**	**5+ years £000**	**2022 Total £000**
Cash and balances with banks	140,399	-	-	-	-	140,399
Due from financial institutions	24,915	-	-	-	-	24,915
Due from customers	-	-	-	-	-	-
Investment securities	656	1,420	136	8,601	-	10,813
Financing arrangements	376,779	480,111	48,737	72,262	146	978,035
Finance lease receivables	15,719	31,768	143,369	269,330	2,241	462,427
Other assets (Foreign exchange forward deals)	213	345	-	-	-	558
	558,681	**513,644**	**192,242**	**350,193**	**2,387**	**1,617,147**

	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	112,089	-	-	-	-	112,089
Due from financial institutions	17,002	-	-	-	-	17,002
Due from customers	-	25,118	-	-	-	25,118
Investment securities	321	266	243	38,581	-	39,411
Financing arrangements	74,577	44,089	156,638	571,411	2,354	849,069
Finance lease receivables	1,534	2,754	12,055	27,686	1,131	45,160
Other assets (Foreign exchange forward deals)	354	-	344	-	-	698
	205,877	**72,227**	**169,280**	**637,678**	**3,485**	**1,088,547**

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

None of the Group's assets have been pledged as collateral apart from cash collateral deposits of £0.03 million (2021: £0.03m) pledged as security against rental payments on the Group's premises and £0.34 million (31 December 2021: £1.14 million) of cash held as deposits with financial institutions related to foreign exchange forward deals.

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

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £	2022 Total £000
Due to financial institutions	24,399	26,752	-	-	-	51,151
Due to customers	165,254	124,601	818,841	247,670	3,044	1,359,410
Profit rate swaps	-	-	-	-	-	-
Other liabilities (Foreign exchange forward deals)	461	603	-	-	-	1,064
	190,114	**151,956**	**818,841**	**247,670**	**3,044**	**1,411,625**

	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £	2021 Total £000
Due to financial institutions	142,437	48,433	82,304	-	-	273,174
Due to customers	80,439	82,019	576,891	318,113	610	1,058,072
Profit rate swaps	-	-	-	334	-	334
Other liabilities (Foreign exchange forward deals)	623	1,109	-	-	-	1,732
	223,499	**131,561**	**659,195**	**318,447**	**610**	**1,333,312**

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

Whilst the Group 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 £95.0 million as of 31 December 2022 (2021: £68.6 million). These HQLA holdings have been greater than the regulatory liquidity requirement throughout the year (unaudited).

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

Group	2022 £000	2021 £000
Highly liquid securities (included in HQLA)	10,008	38,614
Bank of England Alternative Liquidity Facility	85,000	30,000
Other cash and cash equivalents	55,399	82,089
Total	**150,407**	**150,703**

As at 31 December 2022, there are no limitations on the use of the liquidity reserves held by the Group (2021: 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 Group's Market Risk Management Policy, ALCO is responsible for reviewing all classes of market price risk and positions, sanctioning dealing limits and approving the Group's stress testing program in accordance with the Group'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 Group only had two US dollar denominated PRS designated as fair value hedges as of 31 December 2021 and these contracts expired during 2022. In addition the Group does not undertake any cash flow hedging.

i. Profit rate risk

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

As of 31 December 2022, the Group'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 £10,000 (2021: £10,791). 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 2022		At 31 December 2021	
	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000
Increase in profit & loss	-	1,039	-	1,702
Decrease in profit & loss	962	-	1,613	-
Increase in off-balance sheet	-	-	85	-
Decrease in off-balance sheet	-	-	-	86

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.

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 Group 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 Group 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 2022 £000	At 31 December 2021 £000
Resultant foreign exchange revaluation (loss) / gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	(156)	50

	Year to 31 December 2022 £000	Year to 31 December 2021 £000
Net foreign exchange gain / (loss) for the year	10	12

iii. Equity price risk

The Group 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 Group.

d. Operational risk

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

The responsibility for the operating framework for risk governance rests with the Board. This extends to determining risk appetite in line with the Group'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.

The BLME risk management framework evolved during 2022 with the establishment of a first line risk team. The operational risk framework was updated accordingly to align and support the business to identify risks and ensure that all key operational risks are captured and managed.

As the digital banking business unit develops there has been a strong focus on new product development governance and operational risk reporting. The Bank's Transformation and Product Committee was separated into a Transformation Committee and a dedicated Product Committee to help ensure that all relevant stakeholders are engaged in the product approval process. In addition, the separate Nomo Risk Committee helps ensure that all identified operational risks, issues and events within the digital banking business unit are managed and reported into the Executive Risk Committee.

Basel III requires Pillar 1 capital to be retained for operational risk, which the Group has calculated to be £5.2 million using the Basic Indicator Approach (2021: £5.2 million) (unaudited).

e. Capital risk

Capital risk is the risk that low risk adjusted returns or stress events reduce the Group's profitability, which result in a reduction in available capital. BLME and WAF together comprise a UK Regulatory Consolidation Group that came into being during 2020 and which is subject to regulatory capital requirements. The Consolidated regulatory position as of 31 December 2022 has been set out below. Throughout the year the Group 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 components of Common Equity Tier 1, which the Group manages as its capital, are outlined in the unaudited UK Regulatory Consolidation Group capital return as of 31 December detailed below:

	2022	2021
	£000	£000
Tier 1 Capital - CET1		
Ordinary share capital	60,744	60,744
Share premium	140,623	140,623
Capital contribution	3,527	3,527
Fair Value reserve	(108)	(107)
Retained earnings	23,194	32,195
Total Tier 1 capital	**227,980**	**236,982**
Deductions from Tier 1 capital		
Intangible assets	(740)	(91)
Others	(28)	-
Total Tier 1 capital after deductions	**227,212**	**236,891**
Tier 2 capital	-	-
Total Tier 2 capital	**-**	**-**
Total Tier 1 and Tier 2 capital	**227,212**	**236,891**
Deductions from Tier 1 and Tier 2 capital:	NIL	NIL
Total regulatory capital	**227,212**	**236,891**

The amounts of regulatory capital shown above differ from the equity balances shown in the Group'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 Group 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 Group'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 Group's overall minimum capital requirement and capital adequacy position under Pillar 1 of 31 December:

	2022 £000 (unaudited)	2021 £000 (unaudited)
Pillar 1 capital requirements		
Credit risk	104,146	99,569
Market risk - foreign currency PRR	542	112
Counterparty risk capital component	93	41
Operational risk	5,230	5,230
Total Pillar 1 capital requirement	**110,011**	**104,952**
Total regulatory capital in place	**227,212**	**236,891**

The Group 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 Group which do not explicitly attract a capital requirement under the Pillar 1 rules. The Group 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 Group's ICAAP assessment of its Pillar 2 capital requirement as part of the Individual Capital Guidance (ICG) process. The Group 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 Group website www.blme.com.

The Group 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.

f. Climate-related risks

The Group and its customers may face significant climate-related risks in the future. These risks include the threat of financial loss and adverse non-financial impacts that encompass the political, economic and environmental responses to climate change.

The key sources of climate risks have been identified as physical and transition risks.

Physical risks arise as the result of acute weather events such as hurricanes, floods and wildfires, and longer-term shifts in climate patterns, such as sustained higher temperatures, heat waves, droughts and rising sea levels and risks.

Transition risks may arise from the adjustments to a net-zero economy, e.g., changes to laws and regulations, litigation due to failure to mitigate or adapt, and shifts in supply and demand for certain commodities, products and services due to changes in consumer behaviour and investor demand. These risks are receiving increasing regulatory, political and societal scrutiny, both within the country and internationally. While certain physical risks may be predictable, there are significant uncertainties as to the extent and timing of their manifestation. For transition risks, uncertainties remain as to the impacts of the impending regulatory and policy shifts, changes in consumer demands and supply chains.

The Group and its customers are exposed to the physical risks from climate change and risks of transitioning to a net-zero economy. Most climate-related physical risks are expected to manifest over a term that is generally longer than the maturity of most of the outstanding exposures.

The Group has identified the potential physical and transition risks and opportunities presented by rising temperatures and climate change for our business and have also considered the scale of this risk to BLME. Climate change is not a principal risk for the Group for the year ended 31 December 2022, but the Group has identified the climate transition as an emerging risk due to its intensifying importance to all stakeholders.

The Group has determined that climate change is not a principal risk given that over 80% of the Bank's credit exposures are classified as low risk for both transition and physical risks and over 95% of the Bank's credit exposures are classified as either low risk for transition risk or low risk for physical risks.

The Group is making progress on embedding climate risk in its Risk framework, including the development of a Climate Change Roadmap and identifying appropriate risk appetite metrics.

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	Chief Financial 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
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EPS	Earnings Per Share
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
HQLA	High-Quality Liquid Assets
HTM	Held to Maturity
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
kWh	kilowatt- hour
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
PC	Product Committee
PDA	Premier Deposit Account
PPI	Producer Price Index
PRA	Prudential Regulation Authority
PROUD	*Passionate* - Our people are passionate about their job and the company and are driven to achieve our aspirations and those of our clients. *Resilient* - We are resilient and agile. Challenges and setbacks create opportunities to develop solutions together. *Open* - We build open and straightforward relationships. Our products and services are transparent and fair. *United* - We believe success is achieved through our diversity, collaboration and honest communication. *Doing the right thing* - We do the right thing by our clients, people, shareholders and the wider community.
PRR	Position Risk Requirement
PRS	Profit Rate Swap
PVO1	Present Value of 1 basis point
REGO	Renewal Energy Guarantees of Origin
RMF	Risk Management Framework
RRP	Recovery Resolution Plans
RSCA	Risk Control Self-Assessment
SCV	Single Customer View
SE	Structured Entities
SECR	Streamlined Energy and Carbon Reporting framework
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 an a legitimate obligation to donate a proportion on certain kinds of wealth each year to certain deserving classes of recipients prescribed for in accordance with the principles of Sharia'a. The purpose of Zakat is to make society coherent so that the rich feel the suffering of the poor and the needy in society. Zakat is paid by Muslims who have wealth above a certain threshold. Zakat is paid on "shares" and shareholders of the Company are responsible for paying Zakat on their shareholding.
Fatwa	Islamic law given by a recognized authority

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