BLME Holdings plc
Annual Report and Accounts
For the year ended 31 December 2015

Registered number 08503102

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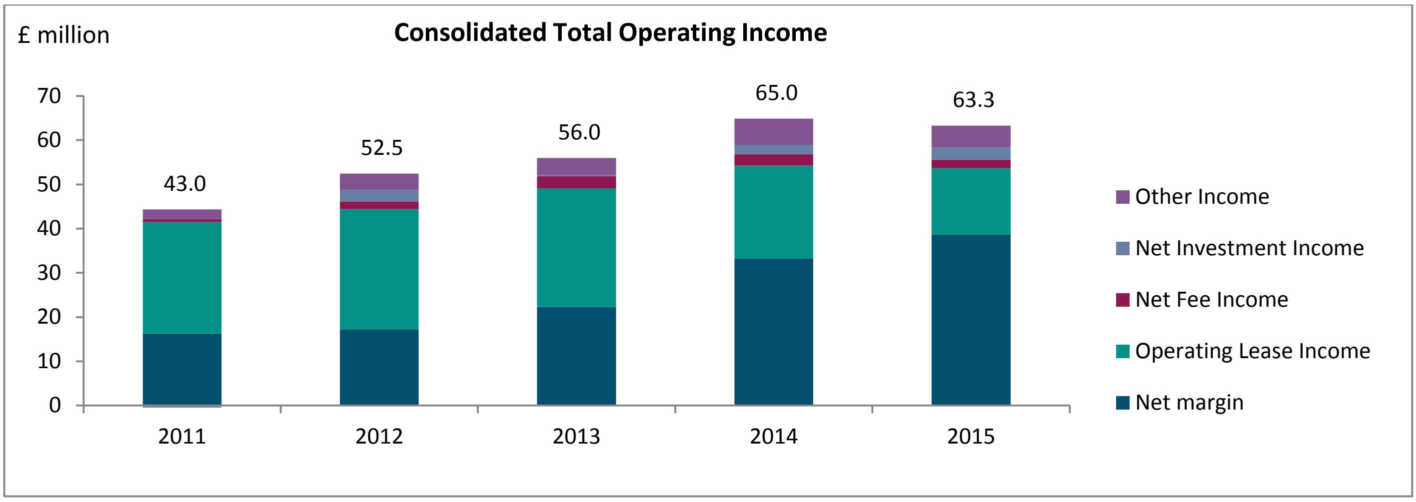
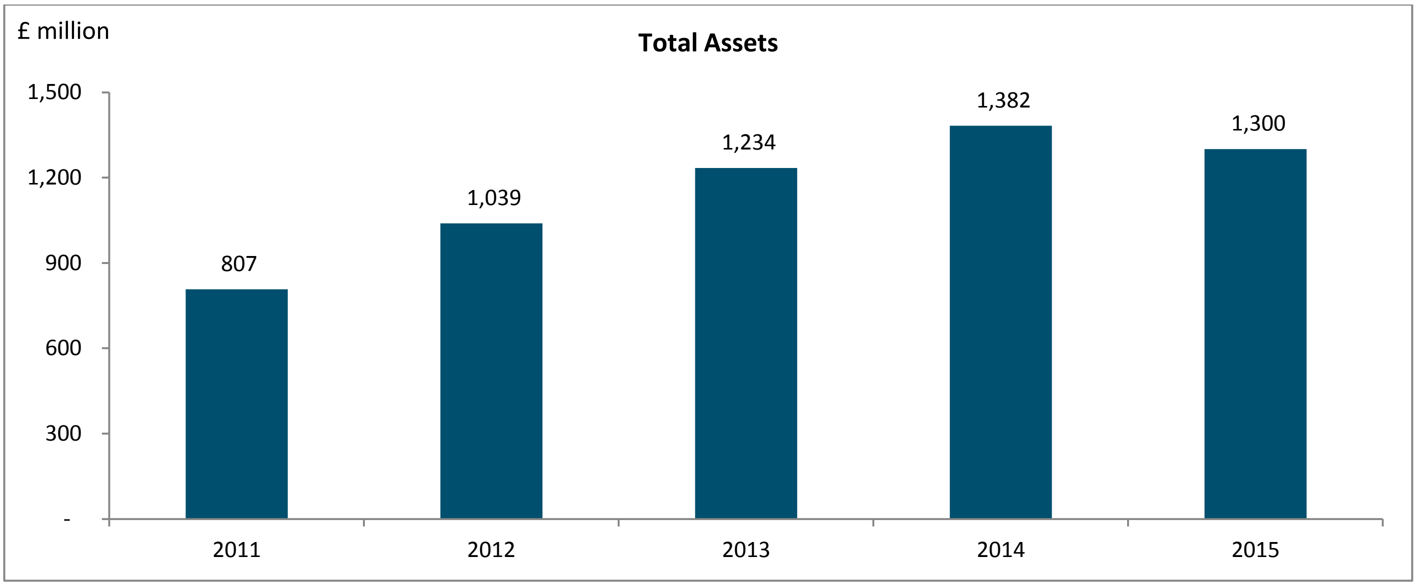
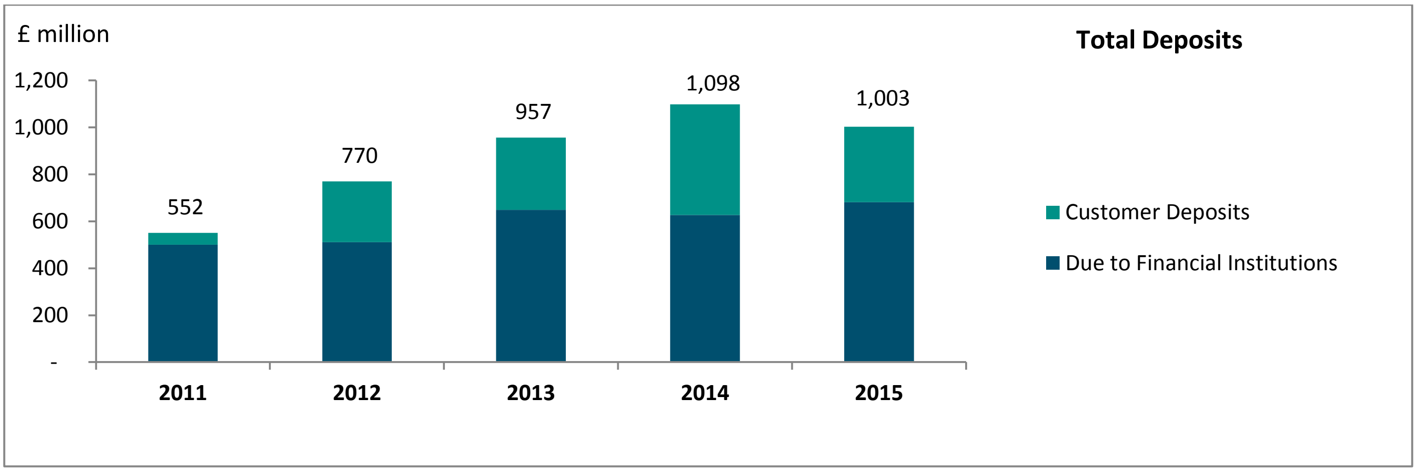
2015 Group Highlights for BLME Holdings plc

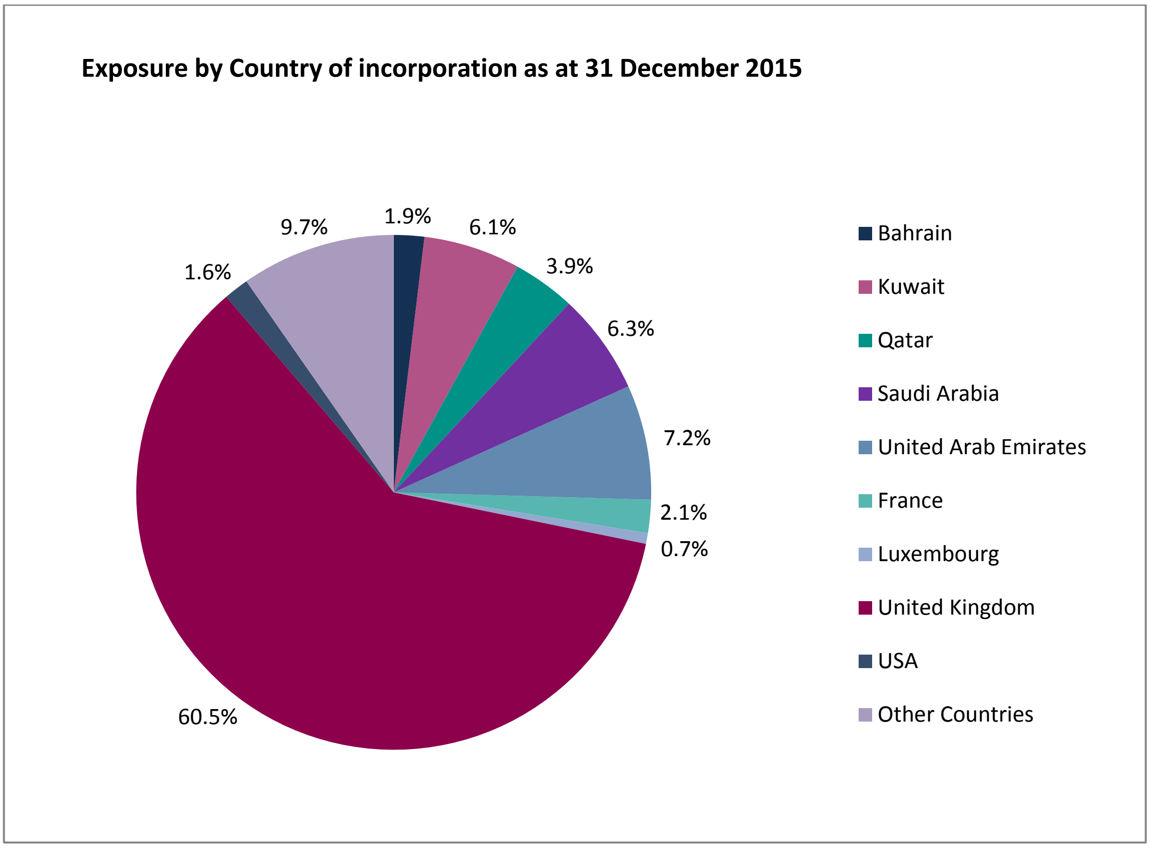
Despite the disappointing financial results, 2015 was in fact a year of positive change for BLME:

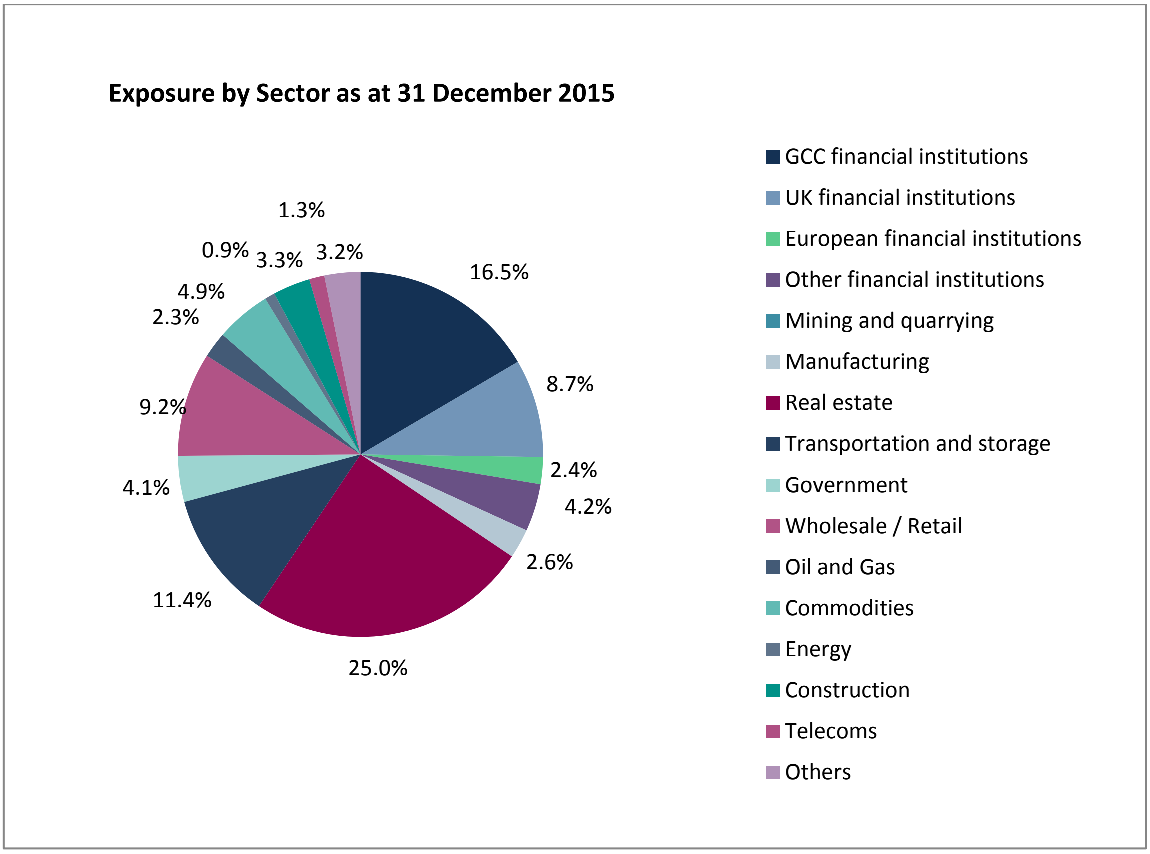
- realigned core objectives with a newly focussed strategy and a forward looking Risk Appetite
- re-balanced our business model concentrating on our core strengths
- restructured Corporate Banking to leverage areas of specialism in Real Estate, Leasing and Trade Finance with closer alignment to our strategic Wealth Management ambitions
- reduction in excess liquidity combined with a departure from targeting growth in total assets











Naming convention and abbreviations:
In this document, the expression “the Company” refers to BLME Holdings plc which is the ultimate parent company of the BLME Group and is listed on Nasdaq Dubai.
The expression “the Group” or “the BLME Group” refers to BLME Holdings plc and its subsidiaries.
The name of the principal subsidiary, Bank of London and The Middle East plc is shortened to “BLME” or “the Bank” in narrative text.

Chairman’s statement

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

Dear Shareholders

2015 has been an important chapter for the BLME Group with significant changes made and challenges addressed. In this year of change, the Bank maintained stable Operating profit before impairment charges of £12.3 million but impairments have resulted in a post-tax loss of £6.9 million in 2015.

A clear strategy

Although the end result is disappointing, 2015 was in fact a year of positive change for BLME, with the Bank realigning core objectives with a newly focussed strategy and a forward looking Risk Appetite. I am pleased to report that your Board endorsed the Bank’s strategy which will provide a robust framework to implement business priorities.

BLME has a clearer vision of its ambitions and target markets in Corporate Banking, with Wealth Management becoming an increasingly important division for the Bank with a range of new products and services scheduled for release throughout 2016. Corporate Banking however has been restructured in order to leverage their areas of specialism – Real Estate, Leasing and Trade Finance – and to align the strategy of both business lines to maximise synergies.

I am confident that the Bank is now moving in the right direction in order to create a market leading offering and improve Shareholder return.

A strong executive team

BLME has appointed several senior individuals during 2015 who will provide the expertise and experience to realise BLME’s potential and ambitions. Further senior appointments will be announced over the course of 2016 with market leading experts currently being recruited to join our Wealth Management division.

Michael Williams took over as CEO in May, having previously been Senior Independent Director and Chairman of the Board Risk and Nominations Committees. His mandate was to address some legacy issues and to define a new direction for the Bank, strengthening the senior team where necessary and ensuring an orderly succession plan. Two significant appointments made were Jabra Ghandour as Head of Wealth Management and Deputy CEO and Chris Power, who has joined BLME’s executive team as Chief Financial Officer, taking over from Richard Williams. Richard will retire in early 2016 and step down from the Board. We would like to take this opportunity to thank him for his dedicated service to BLME. He was instrumental in the launch of the Bank and we are grateful for his years of guidance and knowledge.

Financial Performance

BLME produced Operating profit before impairment charges of £12.3 million compared to £12.6 million in 2014. I am disappointed to see the impact of £20.7 million of impairment charges on the financial performance of the Bank, but much of this relates to secured transactions where underlying asset values reduced as a result of the prolonged decline in global oil prices. The Bank closely managed costs over 2015, reducing operating expenses and re-aligning the staff mix, the benefits of which will be seen in 2016. This restructuring will allow BLME to invest in delivering growth in 2016.

Board and Corporate Governance

My fellow Board members and I are committed to providing and investing in a robust governance framework for the executive to operate within and to support our business goals. In 2015 we strengthened the composition of the Board with the appointment of a risk specialist, David Williams, as Chairman of the Board Risk Committee. He has already made a valuable contribution in assisting the Board with a revised Risk Appetite Framework. The Board will continue to review the Bank’s corporate governance and ensure that best practice principles are followed.

Michael Williams has been steadfast in his commitment to facilitating change and has worked hand in hand with the Board to identify a senior management team that has the experience and contacts to implement the Bank’s vision.

Michael has managed the Bank through a period of significant transition leaving BLME in a position to deliver on its potential.

The future

BLME has the potential to become one of the leading providers of wealth management solutions to GCC investors to add to its proven team of expert financiers to the UK mid-market. The Bank is well positioned with a strong balance sheet and capital ratios, a supportive Board and a realistic, ambitious and focussed strategy.

To conclude, I would like to thank our customers and Shareholders for their continued support and loyalty as BLME works to meet your ambitions for the Bank. BLME and the Board would also like to extend our sincere gratitude to the Sharia'a Supervisory Board for their invaluable guidance. Finally we would like to acknowledge the hard work of all of BLME's employees and their commitment to its success.

Adel Abdul Wahab Al-Majed
Chairman
29 February 2016

Chief Executive Officer’s statement

Overview

Having joined BLME as CEO in May 2015 I have had the privilege of overseeing the development of a new strategy for the Bank, focussing on Wealth Management and refocussing on target areas of Corporate Banking where we have a proven track record. There has been significant progress however there is still much more to do in order for BLME to realise its full potential but the foundations are well set.

A challenging year

Over the course of 2015 BLME has tackled many legacy challenges and we have overhauled our strategy, streamlining our business and making our operations more customer-centric. Having launched on the cusp of the global financial crisis in 2007 the Bank’s initial operations and business plan changed in reaction to the opportunities that this presented. With hindsight some of the lending decisions we made in those days have proved to be flawed and lessons learned from this have helped shape our Risk Appetite and strategy moving forward. In more recent years our performance has been affected by the impact of the falling oil and commodity prices on some borrowing clients and asset values. This has been particularly evident in our impairment charges with the major part of new provisions recorded against a small number of facilities closely linked to the oil industry with the remainder relating to legacy transactions booked when the Bank was first established and a collective impairment charge in accordance with accounting standards.

As we move forward BLME will remain responsive to market conditions but will manage our operations and objectives in a more proactive manner. BLME is developing into a mature and established institution and importantly maintaining the flexibility and relationship based approach of successful financial institutions. BLME’s clear strategy is relevant to today’s market and tomorrow’s opportunities working to serve the interests of our shareholders, employees and all other stakeholders ensuring we provide excellent services to our customers capitalising on opportunities in the UK and the MENA region.

In 2015 we made tough decisions to re-balance our business model concentrating on our core strengths, reviewing every business area and activity to be certain it contributes to our success and sits within our Risk Appetite Framework. A priority for the Bank is to broaden our Wealth Management offering significantly, with new products and services currently being developed and industry leaders being recruited. BLME will increasingly focus on the products and services where we have a competitive advantage, through our strong links to the GCC region, our Sharia’a compliance and knowledge of key markets such as the UK mid-market and Islamic Asset Management. We are also intent on building close linkages between our mainstream Corporate Banking activity and our Wealth Management business to ensure we generate revenue in both streams and provide a flow of activity. We see real scope to source assets from our Corporate Banking book to produce asset management products for our private banking clients, and equally we will provide real estate financing and advisory services for our high net worth clients. This will be beneficial to the Group as we build client relationships in both businesses, generate fee income to help our overall return on equity and distribute assets to help us maximise our capital utilisation.

Financial performance

The Bank’s 2015 financial results have been severely impacted by the impairment charges which are £20.7 million compared to £11.6 million in 2014, resulting in a post-tax loss for the period of £6.9 million. In a difficult market BLME’s Net margin was £38.6 million; a reasonable increase when compared to 2014’s £33.2 million. There was a small drop in Total operating income to £63.3 million from £65.0 million in 2014. Expenses reduced following a review of our cost base with a decrease in line with Total operating income. Absolute growth in our balance sheet size is no longer a core priority and we are content that the Balance Sheet remained stable. The Bank’s Operating profit before impairment charges has remained stable at £12.3 million (2014: £12.6 million). Our consistency in Operating profit before impairment charges demonstrates the underlying strength of the core business. Although the net result is clearly disappointing we view 2015 as one of significant transition. The key elements of our Corporate Banking business – real estate finance, leasing and commodities trade finance – all held up well with a strong business pipeline as we enter 2016. Our achievements in a difficult year, in addition to a more focussed Corporate Banking offering and the possibilities provided by Wealth Management, provide the Bank with a stable platform from which to grow.

Risk management

BLME is committed to implementing a robust Risk management framework. In light of the impairment charges recognised in recent years we have enhanced our credit processes and revised our Risk Appetite Framework. Although BLME has maintained a stable number of staff across the Bank we have strengthened the Risk function both in the Credit area and in overall Risk management.

BLME is implementing a more comprehensive Risk Appetite Framework with the approval and support from the Board and with the acceptance of Senior Management.

The right staff, in the right place

The Bank's headcount was static over 2015 however resources have been rebalanced and additional expertise recruited into the areas we see as strategically important such as Wealth Management, Leasing and Real Estate as well as key support areas. We are intensifying cooperation across our business areas in order to present one bank and a complete solution to our customers, placing great internal emphasis on the linkages between our business lines. As we continue to refine our offering and develop the business model we will continue to recruit industry leaders who share our values and determination to succeed in providing professional services in a Sharia'a compliant manner.

The future – realising our potential

The past year has demonstrated that BLME has accepted the challenge of change and that we are able to adapt our strategy to the market influences and target customer requirements. These are part of a natural evolution of the Bank and will position BLME well on the road to becoming the market leader in Islamic Wealth Management solutions and as the expert financier of choice to the UK mid-market.

The scale of the opportunity in our key markets is substantial. Despite market turbulence, demand for expert and tailored financial services is rising rapidly. Our challenge is to capture these opportunities in a disciplined and customer-focused way to create shareholder value.

Michael Williams
Chief Executive Officer
29 February 2016

The Board and Executive management

Adel Abdul Wahab Al-Majed – Chairman
Adel is the Non-executive Chairman of the Board of BLME Holdings plc. He has over 30 years of experience in banking. He is currently Chief Executive Officer and Vice-Chairman of BLME's largest shareholder, Boubyan Bank K.S.C, having previously held the position of Chairman. From 1980 to 2009 Adel worked for National Bank of Kuwait where he held a number of positions including Deputy Chief Executive Officer and General Manager. Adel has played a key role in the development of the Kuwait banking sector including regulation, shared enterprises (Credit Bureau and K-Net Shared Switch) and Islamic Banking.

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

Executive Directors

Michael Williams – Chief Executive Officer
Michael Williams was appointed Chief Executive Officer of BLME Holdings plc in May 2015 having been a Non-executive Director of BLME since 2012 holding the positions of Senior Independent Director, Chairman of the Nominations Committee and of the Risk Committee of BLME Holdings plc. He is a qualified banker with an extensive background in international finance. He has held a number of senior and board level positions in the UK and in the Middle East. Prior to this he was Chief Executive Officer of the International Bank of Qatar in Doha before which he was in Dubai as the Chief Executive Officer of the National Bank of Fujairah, having previously been the Managing Director of Nomura Bank International Plc for 6 years. Michael started his career with Barclays Bank Group working for them for 25 years holding a number of senior positions including Managing Director of Barclays Global Services and Corporate Banking Director at Barclays Bank PLC.

Richard Williams – Executive Director
Richard is Group Finance Director of BLME Holdings plc having joined BLME plc as Finance Director and Company Secretary in November 2006. Having qualified as a chartered accountant with KPMG in 1980, Richard's early career in investment banking was spent with Chase Manhattan, Credit Agricole and Bankers Trust. He then spent 10 years at Robert Fleming & Co setting up their Global Equities Derivatives business, including three years in Hong Kong with Jardine Fleming. Richard also has experience with start-up companies and in private equity with Legal & General Ventures.

Non-executive Directors

Neil Holden (Senior Independent Director)
Neil is Chairman of the Nominations Committee and the Remuneration Committee of BLME Holdings plc. He is a mathematician and chartered accountant with more than 30 years of experience in international banking focusing on financial control, risk management and governance. His executive roles included Head of Corporate and Investment Banking Credit for Standard Bank Group, Head of Risk for Standard Bank Plc, and previously various senior roles at WestLB and Hambros Bank covering all risk, finance and operational disciplines. He is also a Non-executive Director of Stanbic International Insurance Limited, Integrated Financial Arrangements Ltd and Saffron Building Society.

Frank Vermeulen (Independent)
Frank is Chairman of the Audit Committee of BLME Holdings plc. He has a master's degree in Dutch law and has 35 years of experience in finance. For most of the first 20 years of this period Frank worked for ABN Bank NV in a variety of roles in different countries, including Head of Corporate Banking, Syndications & International for Saudi Hollandi Bank, Riyadh. In 1992 he joined Olayan Financing Company in Riyadh, where he worked until his retirement at the end of 2006. At Olayan he held the positions of Treasurer and Chief Financial Officer and various board positions in affiliated

companies in the Middle East and Europe. He also acts as an advisor to the Board of Jarir Marketing Company, Riyadh, where he is a member of the audit committee, and is involved in risk management at Saudi Hollandi Bank.

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

Zeyad Al-Mukhaizeem
Zeyad is a Non-executive member of the Board. He is an investment banking leader with a background in financial services, investment management, real estate, and business restructuring / turnaround. Zeyad began his career with Kuwaiti Manager Company and has held investment banking and management positions with Kuwait Finance House and AREF Investment Group where he is the Executive Director of the International Investment Division. Zeyad holds numerous board positions and is currently Chairman of the Board and Executive Committee for Munshaat Real Estate Projects Company and a member of the Board and Executive Committee of Ibdar Bank B.S.C. along with board positions for real estate and private equity funds.

Group Strategic report

Strategic report and business review

BLME is the largest Islamic bank in Europe with a focus on the UK corporate mid-market. In the year to 31 December 2015 the Group continued to build on its established Corporate Banking businesses and develop its Wealth Management offering including Asset Management and Private Banking.

The Group's core aim is to be the largest and most profitable wholly Islamic bank in Europe providing a broad range of financial services and delivering an acceptable return to shareholders. A key strategic goal of the BLME Group is to generate organic growth from the existing financing businesses whilst developing the Bank's fee generative businesses such as Asset Management. In addition the Group will consider short-term tactical opportunities to assist delivery of the strategy by accelerating growth in profits and return on equity. This is the first year in which the financial statements include a contribution from Renaissance Asset Finance Limited ("RAF"), which has been consolidated as a result of the Bank's option to purchase 100% of the voting share capital of RAF. This reflects the Group's strategy to diversify business risks.

The Chairman's statement on pages 5 to 6 and the Chief Executive Officer's statement on pages 7 to 8 set out how the Group is prioritising its Wealth Management offering.

The Directors consider pre-tax return on equity, net operating profit before tax, cost income ratio (after adjusting for operating lease depreciation) and net fee income as a proportion of operating profit before impairment charges to be the key performance indicators of the Group.

Key performance indicators	**2015**	**2014**
Pre-tax return on equity	(3.5)%	0.4%
Net operating (loss) / profit before tax	£(8.4)m	£1.0m
Cost income ratio (adjusted for operating lease depreciation)	76.1%	74.1%
Net fee income / operating profit before impairment charges	15.5%	20.7%

In order to improve these key performance indicators BLME will concentrate on growing its Wealth Management business whilst de-risking its Corporate Banking businesses. The Dubai representative office will introduce fee generative business opportunities to the Wealth Management division in addition to supporting the Treasury division.

The Group will continue prudently to employ capital and maintain appropriate capital adequacy, liquidity and leverage ratios. BLME reported to the PRA ratios above the minimum requirement through 2015. The capital planning process continues to incorporate these measures.

A description of the principal risks and uncertainties facing the business is detailed in Note 36 and further information on strategy and business review is provided in the Chief Executive Officer's statement on pages 7 to 8 and the Directors' report on pages 12 to 15.

By order of the Board

Richard Williams
Executive Director
29 February 2016

Directors' report

The Directors present their annual report and audited financial statements for the period ended 31 December 2015.

Principal activities

BLME Holdings plc ("the Company") was incorporated in the United Kingdom on 24 April 2013 and its principal activity is to act as a holding company for Bank of London and The Middle East plc ("the Bank" or "BLME"). The insertion of the Company as a holding company of the Bank was effected pursuant to a Scheme of Arrangement in 2013 which is explained in more detail in Note 32.

BLME is an independent, wholly Sharia'a compliant wholesale bank authorised by the UK's Prudential Regulation Authority (the "PRA") and regulated by the Financial Conduct Authority ("FCA") and the PRA. The Bank provides a range of Sharia'a compliant banking services to businesses and individuals with a strong focus on Europe and the Middle East. BLME has three strategic business divisions - Corporate Banking, Wealth Management and Treasury - offering competitive financial products and services.

Financial results and dividends

The financial statements for the reporting period ended 31 December 2015 are shown on pages 30 to 109. The consolidated Group loss for the year after taxation amounts to £6.9 million (2014: profit of £1.0 million). The result for the Company for the year was £nil (2014: loss of £761). The Directors do not recommend the payment of a dividend (2014: £nil).

Directors and Directors' interests

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

Name and Committee Chairmanships **(as at 31 December 2015)**	**Date of Appointment**	**Date of Resignation**	**Committee Memberships** **(as at 31 December 2015)**
Adel Abdul Wahab Al-Majed *Chairman of the Board*	26 April 2013		
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah *Deputy Chairman of the Board*	26 April 2013		Audit Risk Remuneration
Humphrey Percy	24 April 2013	11 June 2015	Executive
Michael Williams	26 April 2013		Executive
Richard Williams	24 April 2013		Executive
Neil Holden (Senior Independent Director) *Chairman of the Nominations Committee* *Chairman of the Remuneration Committee*	26 April 2013		Nominations Audit Risk Remuneration
Frank Vermeulen (Independent) *Chairman of the Audit Committee*	26 April 2013		Nominations Audit Risk Remuneration
Zeyad Al-Mukhaizeem	7 February 2014		Audit Risk Remuneration
David Williams *Chairman of the Risk Committee*	15 October 2015		Nominations Risk

There were some significant changes to the Board during 2015. Humphrey Percy stepped down from the Board on 11 June 2015. The Board would like to take this opportunity to thank him for his significant contribution in establishing BLME and wish him the very best for the future.

Michael Williams took over responsibility as Chief Executive Officer with effect from 13 May 2015 and Neil Holden was appointed Senior Independent Non-executive Director on the same date. David Williams was appointed as an Independent Non-executive Director with effect from 15 October 2015 and Risk Committee Chairman with effect from 16 October 2015. In accordance with the Articles of Association David Williams will offer himself for re-appointment at the next Annual General Meeting.

With the exception of David Williams, all of the current Directors were re-elected at the Company's first Annual General Meeting held on 5 June 2014. They may offer themselves for re-election by the Shareholders at least every three years. The Directors of BLME are the same as the Directors of the Company. The position of all of the Company's independent Non-executive Directors complies with the DFSA Market Rules provisions for independence.

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

The Directors who held office at 31 December 2015 had the following beneficial interests in the ordinary shares of the Company at the end of the year.

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

Chairman's other significant commitments

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

Reduction of Share Premium Account of BLME

On 16 December 2015 BLME reduced its Share Premium Account by £25 million by way of a Special Resolution confirmed by an Order of the High Court of Justice, Chancery Division ("the Reduction"). The resulting accounting entries were to debit the Share Premium account and credit Retained Earnings. There was no net reduction in equity or regulatory capital. The purpose of the Reduction was to create positive distributable reserves to enable BLME to pay dividends up to the Company should the Directors of BLME consider this to be appropriate in the future.

Sharia'a Supervisory Board members

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

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

Financial Risk Management

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

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

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

Policy and practice on payment of creditors

The Group's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated.

Political contributions

The Group made no political contributions during the year (2014: £nil).

Going concern

The Directors have reviewed the business activities and financial position of the Group and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. In making this assessment the Directors have considered a wide range of information about the current and future condition of the Group including the strategic direction, activities and risks that affect the financial position. The Directors also considered the Group's exposure to the oil & gas and commodities industries in light of the prolonged oil price decline and obtained comfort from the Liquid Asset Buffer held by the Bank in addition to the strong relationships between the Group and its liquidity providers. Furthermore, the Directors have assessed how the oil price decline has affected the Group's major funders and noted that the impact has been minimal to date. The Directors have also assessed the 2016 budget and future plans. For these reasons the financial statements have been prepared on a going concern basis.

Disclosure of information to auditors

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

Auditor

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

By order of the Board

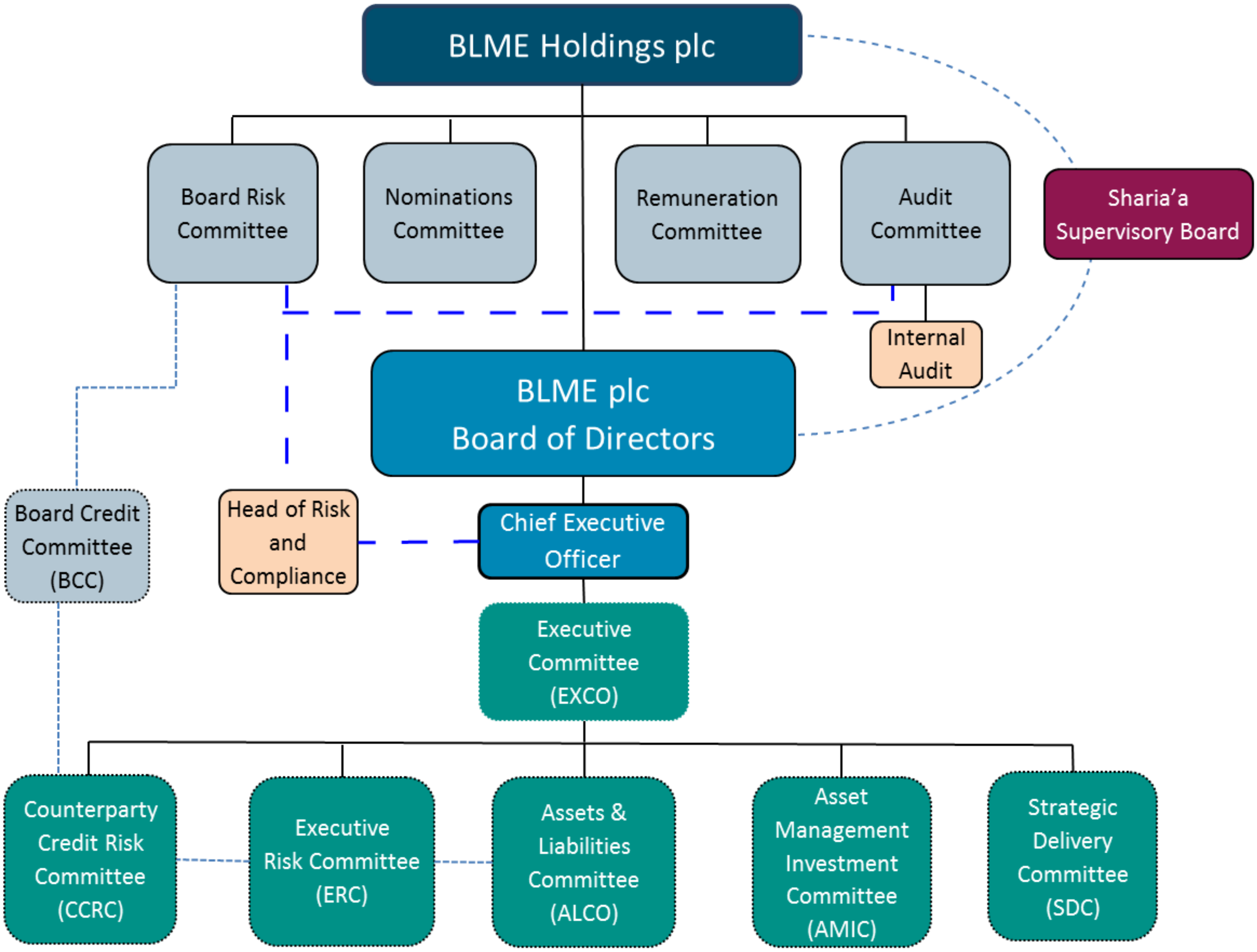
Peter Bulkeley
Company Secretary
29 February 2016

Corporate governance report

The Company complied with the Corporate Governance Principles as set out in section 3.2 of the DFSA Markets Rules throughout 2015. Neil Holden was appointed as the Senior Independent Director when Michael Williams was appointed as Chief Executive Officer on 13 May 2015.

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, which determines risk appetite in line with the Group's defined strategic objectives. Risk appetite adherence is monitored through a formalised process of risk identification, control assessment and performance monitoring. Board and executive committee structures have been implemented, together with clearly defined roles and responsibilities for both the individuals and the committees. These committees oversee the activities of the Group and help ensure controls are operating as designed. These structures, including individual department business plans, ensure that appropriate financial and human resources are in place to deliver the Group's strategic objectives. Policies and behavioural standards have been established and reiterated to all staff through regular training programmes, including anti-money laundering and financial crime, the UK Bribery Act, conflicts of interest and treating customers fairly.

Board and Committees



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

The Board of Directors

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

As at 31 December 2015 the Board of Directors comprised two Executive Directors:

- Michael Williams – Chief Executive Officer
- Richard Williams – Executive Director

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

- Adel Abdul Wahab Al-Majed – Non-executive Chairman
- Sheikh Abdullah Jaber Al-Ahmed Al-Sabah – Deputy Chairman of the Board
- Neil Holden – Senior Independent Director and Chairman of Nominations Committee and Remuneration Committee
- Frank Vermeulen – Chairman of Audit Committee (Independent)
- David Williams – Chairman of Risk Committee (Independent)
- Zeyad Al-Mukhaizeem

The appointment of Directors is considered by the Nominations Committee and ratified by the Board. Pursuant to the provisions of the Company's Articles of Association, any Director who has been appointed by the Board during the financial year, rather than at a general meeting of Shareholders, must stand for election by the Shareholders at the first Annual General Meeting following their appointment. With the exception of David Williams, all of the current Directors were re-elected at the Company's first Annual General Meeting which was held on 5 June 2014. Following that inaugural Annual General Meeting the Directors must stand for re-election by the Shareholders at least every three years.

Non-executive Directors are appointed for three-year renewable terms, which may be terminated by giving three months' notice.

All the Directors have access to the advice and services of the Company Secretary, who is responsible for ensuring compliance with Board procedures and applicable regulations. Independent professional advice is available to the Directors at BLME's expense where they judge it necessary to discharge their duties as Directors.

Board Meetings

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

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

Board Committees

The Board has delegated to the Committees of the Company the responsibility to review and make recommendations to the full Board. The Board Committees operate within clearly defined terms of reference which can be found on the Group's website. The composition of the Committees changed during the year following the appointment of Michael Williams as Chief Executive Officer in May 2015, the resignation of Humphrey Percy from the Board in June 2015 and after the appointment of David Williams as a new independent non-executive director in October 2015.

Board and Committee meetings attendance record 2015

	Board			**Nominations Committee**		**Audit Committee**		**Risk Committee**		**Remuneration Committee**	
	Regular attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend
Executive Directors											
Michael Williams	4	5	9								
Humphrey Percy	2	4	6								
Richard Williams	6	8	15								
Non-executive Directors											
Adel Abdul Wahab Al-Majed	6	8	15								
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah	6	8	15			7	8	5	6	6	7
Michael Williams	2	3	6	2	2			2	2	4	4
Frank Vermeulen	6	9	15	7	7	8	8	6	6	3	3
Neil Holden	6	8	15	7	7	8	8	6	6	7	7
Zeyad Al-Mukhaizeem	6	9	15			8	8	4	4	7	7
David Williams	3	2	5	1	1			3	3		

Of the 15 board meetings held during the year, six were regular meetings and nine were ad hoc meetings. The ad hoc meetings covered a broad variety of topics including approving the Interim and Annual Reports, approving the appointment of a new independent non-executive Director, approving the AGM resolutions and notice of AGM, consenting to short notice of the BLME AGM and consenting to short notice of and appointing proxies to vote at a BLME General Meeting to approve a £25 million reduction of the BLME Share Premium account. All serving directors were invited to these ad hoc meetings and provided with board papers, but were not always able to attend at short notice. The Executive Directors regularly attend the Audit Committee and Risk Committee meetings as Guests.

Board Audit Committee

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

The Committee's main responsibility is to review any reports from management, the internal auditor, and the external auditor regarding the accounts and the internal control systems implemented throughout the Group, along with consideration of both interim and annual accounts. It also makes recommendations to the Board on the appointment of the auditors and the audit fee.

The Board considers that the members of the Audit Committee possess recent and relevant financial experience. The Audit Committee has unrestricted access to the Group's auditors. The external auditor, KPMG, provide non-audit services in addition to the provision of audit services. In the year ending 31 December 2015, non-audit services provided by KPMG comprised advice with regards to Corporation tax, VAT and other miscellaneous services. Further details regarding the fees paid to KPMG for these services are included in Note 12 on page 63.

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

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

More information regarding the Group's Audit Committee is included in the Audit Committee report on page 24.

Board Risk Committee

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

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

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

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 three committees of the Bank responsible for risk oversight (being ALCO, CCRC and ERC). The day-to-day independent oversight of risk is performed by the Bank's Risk Department. This process is supported by Finance Department's internal control role in monitoring adherence to risk limits, management action triggers and regulatory limits.

Board Remuneration Committee

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

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

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

Board Nominations Committee

The Nominations Committee is chaired by Neil Holden and comprises Frank Vermeulen and David Williams.

The Nominations Committee is responsible for matters relating to the composition of the Board, including the appointment of new Directors, and making recommendations to the Board as appropriate. The Committee is also responsible for overseeing the annual performance evaluation of the Board, its principal Committees and the Chairman.

The Nominations Committee identifies qualified candidates to be Directors, through a robust and prudent process, with the use of external consultants as necessary. All candidates must be approved by the PRA.

Chairman and Chief Executive

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

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

b. Executive management is led by the Chief Executive Officer, Michael Williams, 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 Group Finance Director, Richard Williams, assists the Chief Executive Officer in managing the business.

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

Board balance

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

During the year ended 31 December 2015, two of the Directors were Executive directors; on average three were Non-executive Directors who were considered by the Company to be independent.

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

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

Information and professional development

The Board is supplied in a timely manner with information in a form, and of a quality appropriate to enable it to discharge its duties. The Company Secretary is responsible for ensuring the Directors receive accurate, timely and clear information, which is provided by operational management and enhanced or clarified where necessary.

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.

The Group has in place systems and controls to ensure adherence with the disclosure requirements of the DFSA Markets Rules including mechanisms to monitor compliance with the requirements relating to corporate governance, Connected Persons, Restricted Persons, Related Party or Related Party Transactions and control of Inside Information. As the first line of defence management test the adequacy of the systems and controls that are in place. They are also periodically tested independently through the Compliance Monitoring Plan providing a second line of defence and by thorough reviews conducted by Internal Audit as the third line of defence. The findings of these reports and subsequent tracking of the remedial actions required are monitored by the appropriate internal committees and by the Audit Committee to ensure all open action points are closed and the adequacy of all systems and controls are maintained.

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

Relations with Shareholders

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

The Chairman maintains a strong relationship with the major Shareholders, and Shareholder activity is reported to the Board via the Chairman.

No steps are taken to prevent Shareholders consulting with other Shareholders on issues concerning their basic Shareholder rights and the Board works to protect all Shareholders from any oppressive or abusive action by other Shareholders.

Investor Relations is a strategic management responsibility that integrates finance, communications, marketing and compliance to enable the most effective two-way communication between the Group and the investment community. It enables a full appreciation of the Group's business activities, strategy and prospects and allows the market to make an informed judgement about the fair value and appropriate ownership of the BLME Group. Investor Relations takes many forms, for example:

- Meetings with analysts
- Meetings with investors
- Handling investors' requests
- Official reporting
- Company press releases
- Annual and Interim reports
- Investor Relations section on the Bank's website (https://www.blme.com/investor-relations/)

The BLME Group Investor Relations team members are:

- Richard Williams – Executive Director
- Chris Power – Chief Financial Officer
- Waleed Al-Omar – Head of Investor Relations
- Michelle Arnold – Head of Marketing and Communications
- Peter Bulkeley – Company Secretary

Since the launch of BLME in July 2007, the Bank has developed a culture of active and open communication with its individual and institutional Shareholders via various channels such as written notifications, and face-to-face meetings.

The Company will hold an Annual General Meeting ("AGM") each year in addition to any other general meetings held during the year. All Shareholders who are entitled to receive notice under the Articles of Association are given written notice at least 21 clear days prior to every AGM and at least 14 clear days for other general meetings. All Shareholders are entitled to attend, speak and vote in person or via their appointed proxy holder(s). The Chairman of the Company and the respective Chairs of the Board Committees are in attendance at the general meetings to address Shareholders' questions.

During 2015, BLME management continued to meet with shareholders and engage with analysts, and participated in two investor Conferences. In March 2015, BLME participated in an EFG Hermes One-On-One conference in Dubai. In September 2015, BLME participated in a similar EFG Hermes conference held in London.

The Group's Company Secretary, supported by the Head of Investor Relations, continues to assist Shareholders in establishing trading accounts with their custodian or broker by moving their shares out of the "omnibus" account that the Company has set up at Deutsche Bank as a custodian bank. The Group continues to engage with Shareholders, research analysts and the media to provide greater understanding of the Bank.

Sharia'a Supervisory Board report

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

To the Shareholders of BLME Holdings plc

Assalamu Alaikum wa Rahmat Allah wa Barakatuh.

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

We, the Sharia'a Supervisory Board of BLME Holdings plc, have reviewed and monitored the operations, agreements and transactions conducted by the Group during the period 1 January 2015 to 31 December 2015 and have reviewed the BLME Holdings plc Annual Report and Accounts for the year ended 31 December 2015. We conducted our reviews to form an opinion as to whether the BLME Group has complied with the principles of the Sharia'a and with specific fatwa rulings and guidelines issued by the Sharia'a Supervisory Board.

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

1. The operations, agreements and transactions entered into and conducted by the BLME Group during the year 1 January 2015 to 31 December 2015 and which were reviewed by the Sharia'a Supervisory Board are in compliance with the principles of the Sharia'a.
2. The distribution of profits and the sharing of losses in terms of the investment accounts at the BLME Group are in compliance with the principles of the Sharia'a.
3. All income and profit generated by the BLME Group during the year 1 January 2015 to 31 December 2015 has been derived from Sharia'a compliant sources.

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

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

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

Signed on behalf of the Sharia'a Supervisory Board of BLME Holdings plc

Sheikh Dr. Abdulaziz Al-Qassar
Chairman
29 February 2016

Audit Committee report
Statement from the Chairman of the Board Audit Committee

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

Audit Committee Guests
KPMG – (external auditor)
PwC – (internal audit)
Michael Williams – Chief Executive Officer
Richard Williams – Executive Director
Stephen Mapes – Head of Risk & Compliance

Dear Shareholder,

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

To ensure it fulfils its responsibilities under its terms of reference the Committee establishes an annual agenda. This includes reviewing the annual Internal Audit plan, utilising BLME's Operational Risk Register, to ensure it applies appropriate emphasis to the key risk areas. The Committee also monitors and reviews the effectiveness of the outsourced Internal Audit function in conducting this plan by reviewing the regular reports and assessing management's responses including their effectiveness in delivering the recommended changes. The Committee also reviews reports received from management on key business areas, with particular emphasis on compliance, internal controls and operational risk, and regularly assesses the Group's accounting policies and financial reporting processes including assessing significant judgements and estimates contained within the financial statements. Where appropriate, the Committee requires additional assurance and during 2015 we requested the Internal Auditor to review preparations for the Senior Managers Regime; it was pleasing that no significant changes were required to management's preparations for this new regulation.

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

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

The Committee also makes recommendations to the Board on the appointment of the external auditors and has unrestricted access to BLME's auditors. The external auditor, KPMG, provide non-audit services in addition to the provision of audit services. In the year ending 31 December 2015, non-audit services provided by KPMG comprised advice with regards to Corporation tax, VAT and other miscellaneous services.

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

- a review of non-audit services provided to the Group and related fees
- discussion with the auditors of any relationships with the Group and any other parties that could affect independence or the perception of independence
- a review of the auditor's own procedures for ensuring the independence of the audit firm and partners and staff involved in the audit, including oversight of the rotation of the audit partner in 2015
- obtaining written confirmation from the auditors that, in their professional judgement, they are independent

Frank Vermeulen
Chairman, Board Audit Committee
29 February 2016

Remuneration report

Statement from the Chairman of the Board Remuneration Committee

Dear Shareholder,

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

Remuneration Committee Guests
Kepler Associates (advisor)
Paul Riordan – HR Director
Peter Bulkeley – Company Secretary

As Chairman of the Board Remuneration Committee I am pleased to introduce the Remuneration Report for 2015 to provide information regarding the BLME Group's remuneration policy and decisions.

Business performance in 2015 was disappointing and is commented upon in more detail in the Chairman's and Chief Executive Officer's statements on pages 5 to 8. As a result of a continuing desire to make a step change in the cost/income ratio of the Bank and to facilitate ongoing investment in Wealth Management, a restructuring was undertaken in the second half of 2015 (in addition to the changes made in the latter part of 2014). In line with the Board's realignment of the Bank's core objectives with a newly focussed strategy and a forward looking Risk Appetite, a number of key hires have been made in our Wealth Management Division, notably in Dubai.

Remuneration Policy

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

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

2015 Remuneration Committee Activity

- Approval of updates to the regulatory Remuneration Policy Statement and categorisation of Code Staff
- Annual review of staff salaries in conjunction with a salary benchmarking survey
- Review and approval of share scheme awards and performance assessment against targets for DABS
- Review and approval of Executive Directors remuneration including leavers and joiners
- Review and approval of the remuneration of the Chairman of the Board
- Approval of the bonus pool and discretionary bonuses for senior staff including leavers and joiners
- Approval of share option awards to senior and key staff including the first awards made under the Deferred Incentive Plan Scheme ("DIPS")

Remuneration report

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

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

A discretionary bonus forms part of the Group's remuneration package. For senior executives and Code Staff (employees who have been designated as Code Staff in accordance with the PRA / FCA Combined Handbook) a portion of the annual discretionary bonus is deferred (and subject to forfeiture on leaving employment unless classified as a good leaver) over a three year period into the Deferred Annual Bonus Scheme ("DABS") with future pay-outs linked to the share price performance of the Company. Due to the disappointing financial performance in 2015, the Committee has decided that the discretionary cash bonuses due to be paid in March 2016 will be limited to a maximum individual amount of £25,000.

During the year, the first options were granted in conjunction with the new Deferred Incentive Plan Scheme ("DIPS"). The DIPS is a five-year plan open to all Group employees whereby employees sacrifice a portion of their salary in exchange for being granted strike price options to acquire shares in the Company subject to a maximum market value limit of £30,000 at grant date. The options are granted under BLME's existing Approved Share Option Plan ("ASOP") and Unapproved Share Option Plan ("USOP") schemes.

The Group has Shareholder approval to make awards up to an aggregate maximum of 10% of the Company's issued share capital over a 10 year period. Awards made in 2015 across all share schemes (including DIPs and DABs) totalled the equivalent of 3.0% of the issued share capital (2014: 1.6%) and the total number of options in issue as at 31 December 2015 represented 5.2% of the issued share capital (31 December 2014: 3.4%).

Neil Holden
Chairman, Board Remuneration Committee
29 February 2016

Additional information on the structure of our share-based payment schemes, including our Deferred Annual Bonus Scheme, and all awards made under these schemes is provided in the Share-based payments note on pages 63 to 68.

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

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

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

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

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

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

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

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

Independent auditor's report
To the members of BLME Holdings plc

We have audited the financial statements of BLME Holdings plc for the year ended 31 December 2015 set out on pages 30 to 109. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the Parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditor

As explained more fully in the Statement of Directors' Responsibilities set out on page 27, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2015 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Parent company's financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept by the Group, or returns adequate for our audit have not been received from branches not visited by us; or

- the Group financial statements are not in agreement with the accounting records and returns; or

- certain disclosures of directors' remuneration specified by law are not made; or

- we have not received all the information and explanations we require for our audit.

Zaffarali Khakoo
Senior Statutory Auditor
For and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
London
29 February 2016

Consolidated income statement

For the year 1 January 2015 to 31 December 2015

	Note	2015 £000	2014* £000
Income			
Income from financing and investing activities	5	60,099	54,564
Returns to financial institutions and customers	6	(21,508)	(21,334)
Net margin		38,591	33,230
Fee and commission income		2,551	2,872
Fee and commission expense		(651)	(266)
Net fee income		1,900	2,606
Net fair value losses on investment securities	7	(1,922)	(529)
Net fair value gains on investment properties	20	4,707	2,667
Operating lease income		15,131	21,027
Other operating income	8	4,925	5,959
Total operating income		**63,332**	**64,960**
Expenses			
Personnel expenses	10	(16,518)	(16,644)
Operating lease depreciation	24	(12,025)	(16,286)
Other depreciation and amortisation	23,25	(787)	(436)
Other operating expenses	12	(20,067)	(17,805)
Change in third party interest in consolidated funds	34	(1,673)	(1,199)
Total operating expenses		**(51,070)**	**(52,370)**
Operating profit before impairment charges		**12,262**	**12,590**
Net impairment charge on financial assets and operating leases	14	(20,659)	(11,602)
Net operating (loss) / profit before tax		**(8,397)**	**988**
Tax credit / (expense)	15	1,547	(15)
(Loss) / profit for the year		**(6,850)**	**973**
		Pence	**Pence**
Earnings per share			
Basic earnings per share	16	(3.55)	0.50
Diluted earnings per share	16	(3.55)	0.50

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

* Certain prior period figures have been reclassified to be consistent with current year presentation as set out in Note 1.

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year 1 January 2015 to 31 December 2015

	2015 £000	2014 £000
Income		
(Loss) / profit for the year	(6,850)	973
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss if specific conditions are met:		
Foreign currency translation differences for foreign operations	53	3
Foreign currency translation differences for cash flow hedging reserve	(136)	(182)
Changes in fair value of cash flow hedges taken to equity	535	808
Change in fair value of available-for-sale financial assets taken to equity	366	798
Income tax on other comprehensive income	(133)	(256)
Other comprehensive income for the year net of income tax	**685**	**1,171**
Total comprehensive (loss) / profit for the year attributable to equity holders of the Parent company	**(6,165)**	**2,144**

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2015

	Note	2015 £000	2014* £000
Assets			
Cash and balances with banks		88,732	45,993
Due from financial institutions	*18*	23,690	187,620
Due from customers		-	5,038
Investment securities	*19*	194,712	188,134
Financing arrangements	*21*	613,753	606,050
Finance lease receivables	*22*	282,607	257,966
Operating lease assets	*24*	39,641	52,228
Investment properties	*20*	26,790	28,580
Property and equipment	*23*	2,111	357
Intangible assets	*25*	2,262	1,633
Goodwill	*34*	4,769	-
Other assets	*26*	17,183	6,025
Current tax asset		717	500
Deferred tax assets	*15*	3,303	1,595
Total assets		**1,300,270**	**1,381,719**
Liabilities			
Due to financial institutions	*27*	681,597	626,868
Due to customers	*28*	321,473	471,444
Profit rate swaps	*9*	1,369	2,236
Third party interest in consolidated funds	*34*	42,694	25,151
Other liabilities	*29*	15,370	12,255
Total liabilities		**1,062,503**	**1,137,954**
Equity			
Share capital	*32*	48,933	48,933
Merger reserve	*33*	16,000	16,000
Other reserve		15,226	15,226
Capital redemption reserve		50	50
Fair value reserve		537	151
Cash flow hedging reserve		(1,382)	(1,628)
Share-based payment reserve		1,484	1,410
Foreign currency translation reserve		(9)	(63)
Retained earnings		156,928	163,686
Total equity attributable to equity holders of the Bank		**237,767**	**243,765**
Total liabilities and equity		**1,300,270**	**1,381,719**

These financial statements were approved by the Board of Directors on 29 February 2016 and were signed on its behalf by:

Michael Williams
Chief Executive Officer

Richard Williams
Executive Director

* Certain prior period figures have been reclassified to be consistent with current year presentation as set out in Note 1.

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Company statement of financial position

As at 31 December 2015

	Note	2015 £000	2014 £000
Assets			
Investment in subsidiary	*19*	241,933	241,859
Total assets		**241,933**	**241,859**
Liabilities			
Other liabilities		1	1
Total liabilities		**1**	**1**
Equity			
Share capital	*32*	48,933	48,933
Merger reserve	*33*	16,000	16,000
Share-based payment reserve		1,484	1,410
Retained earnings		175,515	175,515
Total equity attributable to equity holders of the Parent Company		**241,932**	**241,858**
Total liabilities and equity		**241,933**	**241,859**

These financial statements were approved by the Board of Directors on 29 February 2016 and were signed on its behalf by:

Michael Williams
Chief Executive Officer

Richard Williams
Executive Director

Company Registration Number: 08503102

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year 1 January 2015 to 31 December 2015

	2015	2014
	£000	**£000**
Cash flows from operating activities		
(Loss) / profit for the period	(6,850)	973
Adjusted for:		
Exchange differences	(529)	28
Fair value gains on investment properties	(4,707)	(2,667)
Fair value losses on investment securities	157	111
(Gains) / losses on disposal of intangible asset	(33)	115
Provision for impairment	20,659	11,602
Depreciation and amortisation	12,812	16,722
(Gains) / losses on disposal of property and equipment	(896)	184
Share-based payment awards	166	54
Accretion of instruments held under financing arrangements	-	(13)
Mark to market movement in profit rate swaps	1,667	44
Gain on other asset	-	(745)
Tax (credit) / expense	(1,547)	15
	20,899	26,423
Net increase in operating assets:		
Due from financial institutions	163,814	(54,230)
Due from customers	5,038	(5,038)
Financing arrangements	75,398	(123,413)
Finance lease receivables	(128,506)	37,157
Operating lease assets	(152)	9,778
Other assets	(15,740)	1,968
	99,852	(133,778)
Net increase in operating liabilities:		
Due to financial institutions	66,469	(37,744)
Due to customers	(149,873)	162,991
Third party interest in consolidated funds	2,882	2,549
Cash settlement of share-based payment awards	-	(841)
Other liabilities	(7,579)	2,019
	(88,101)	128,974
Corporation tax paid	(200)	(501)
Net cash inflow from operating activities	**32,450**	**21,118**
Purchase of property and equipment	(1,012)	(93)
Purchase of intangible assets	(1,229)	(715)
Purchase of investment properties	(3,860)	(4,057)
Sale of investment properties	10,357	2,484
Purchase of investment securities	(188,627)	(243,192)
Sale of investment securities	176,926	192,184
Net cash outflow from investing activities	**(7,445)**	**(53,389)**
Subscriptions to consolidated funds	30,557	13,248
Redemptions from consolidated funds	(14,854)	(3,479)
Net cash inflow from financing activities	**15,703**	**9,769**
Net change in cash and cash equivalents	**40,708**	**(22,502)**
Cash and cash equivalents at the beginning of the year	45,993	65,650
Exchange differences in respect of cash and cash equivalents	2,031	2,845
Cash and cash equivalents at the end of the year	**88,732**	**45,993**

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Company statement of cash flows

For the year 1 January 2015 to 31 December 2015

	2015	2014
	£000	£000
Net increase in operating liabilities		
Other liabilities	-	1
	-	1
Cash flows from financing activities		
Redemption of preference shares held by BLME	-	(50)
Dividend paid in respect of redeemable preference shares	-	(1)
Net cash (outflow) / inflow from financing activities	-	(51)
Net change in cash and cash equivalents	**-**	**(50)**
Cash and cash equivalents at the beginning of the period	-	50
Cash and cash equivalents at the end of the period	**-**	**-**

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

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

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

Cash flow hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments.

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

Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

The **Merger reserve** and **Other reserve** arose when the BLME Scheme of Arrangement took effect on 2 October 2013. More information regarding the impact of the BLME Scheme of Arrangement on the Group's capital structure is included in Notes 32 and 33.

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

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)

For the year ended 31 December 2014	Share capital	Merger reserve	Other reserve	Capital redemption reserve	Fair value reserve	Cash flow hedging reserve	Share-based payment reserve	Retained earnings	Foreign currency translation reserve	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2013	48,983	16,000	15,226	-	(524)	(2,122)	3,210	162,075	(66)	242,783
Profit for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**973**	**-**	**973**
Other comprehensive income / (expense)										
Foreign currency translation	-	-	-	-	-	(182)	-	-	3	(179)
Changes in fair value of cash flow hedges	-	-	-	-	-	808	-	-	-	808
Recognition of tax asset on cash flow hedge reserve	-	-	-	-	-	(133)	-	-	-	(133)
Change in fair value of AFS financial assets	-	-	-	-	798	-	-	-	-	798
Tax on change in fair value of AFS financial assets	-	-	-	-	(123)	-	-	-	-	(123)
Total other comprehensive income	**-**	**-**	**-**	**-**	**675**	**493**	**-**	**-**	**3**	**1,171**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**675**	**493**	**-**	**973**	**3**	**2,144**
Contributions by and distributions to owners										
Redemption of preference shares held by BLME	(50)	-	-	50	-	-	-	-	-	-
Repurchase of one A ordinary share held by BLME	-	-	-	-	-	-	-	-	-	-
Equity-settled share-based payment awards	-	-	-	-	-	-	54	-	-	54
Settlement of share-based payment awards by BLME	-	-	-	-	-	-	(687)	-	-	(687)
Transfer to other liabilities	-	-	-	-	-	-	(652)	-	-	(652)
Transfer to Retained Earnings	-	-	-	-	-	-	(516)	516	-	-
Settlement of own shares by BLME Holdings EBT	-	-	-	-	-	-	-	123	-	123
Total transactions with owners	**(50)**	**-**	**-**	**50**	**-**	**-**	**(1,801)**	**639**	**-**	**(1,162)**
Balance at 31 December 2014	**48,933**	**16,000**	**15,226**	**50**	**151**	**(1,629)**	**1,409**	**163,687**	**(63)**	**243,765**

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

Cash flow hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments.

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

Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

The **Merger reserve** and **Other reserve** arose when the BLME Scheme of Arrangement took effect on 2 October 2013. More information regarding the impact of the BLME Scheme of Arrangement on the Group's capital structure is included in Notes 32 and 33.

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

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Company statement of changes in equity

For the year ended 31 December 2015

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

Merger reserve, capital reduction and retained earnings

The merger reserve was created by the BLME Scheme of Arrangement which took effect on 2 October 2013 and represents the excess of the net asset value of BLME of £239.9 million over the £48.9 million nominal value of the ordinary shares issued to the former shareholders of BLME (see Note 32).

£175 million of this merger reserve was capitalised through an allotment and issue of 175 million Deferred Shares of £1 each to BLME on 2 October 2013. These deferred shares were subsequently cancelled on 7 October 2013, thus creating a distributable reserve in the books of the Company equal to the nominal value of the Deferred Shares so cancelled.

Share-based payment reserve

The share-based payment reserve represents the amortised portion of the fair value of equity instruments issued under the BLME and the Company's share incentive schemes and accounted for as equity-settled share-based payments. Pursuant to the BLME Scheme of Arrangement, which took effect on 2 October 2013, the obligations under all of the BLME share incentive schemes were assumed by the Company for nil consideration. This assumption of liability during 2013 was treated as an injection of equity and recognised as a capital contribution within the accounts of BLME. The settlement of share based payment awards by BLME includes the reclassification of the Deferred Annual Bonus Scheme ("DABS") from equity-settled to cash-settled accounting in June 2014. The transfer to retained earnings represents the recycling of credits previously recognised within the Share Based Payment Reserve in relation to DABS options which have lapsed.

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Company statement of changes in equity (continued)

For the year ended 31 December 2014

	Share capital	Merger reserve	Share-based payment reserve	Retained earnings	Total
	£000	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2013	48,983	16,000	3,210	175,000	243,193
Loss for the year	-	-	-	-	-
Other comprehensive income / (expense)	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	0	0
Contributions by and distributions to owners					
Settlement of share-based payment awards by BLME	-	-	(1,339)	-	(1,339)
Transfer to Retained Earnings in relation to DABS	-	-	(515)	515	-
Redemption of preference shares held by BLME	(50)	-	-	-	(50)
Repurchase of one A ordinary share held by BLME	-	-	-	-	-
Equity-settled share-based payment awards	-	-	54	-	54
Total transactions with owners	**(50)**	**-**	**(1,800)**	**515**	**(1,335)**
Balance at 31 December 2014	**48,933**	**16,000**	**1,410**	**175,515**	**241,858**

Merger reserve, capital reduction and retained earnings

The merger reserve was created by the BLME Scheme of Arrangement which took effect on 2 October 2013 and represents the excess of the net asset value of BLME of £239.9 million over the £48.9 million nominal value of the ordinary shares issued to the former shareholders of BLME (see Note 32).

£175 million of this merger reserve was capitalised through an allotment and issue of 175 million Deferred Shares of £1 each to BLME on 2 October 2013. These deferred shares were subsequently cancelled on 7 October 2013, thus creating a distributable reserve in the books of the Company equal to the nominal value of the Deferred Shares so cancelled.

Share-based payment reserve

The share-based payment reserve represents the amortised portion of the fair value of equity instruments issued under the BLME and the Company's share incentive schemes and accounted for as equity-settled share-based payments. Pursuant to the BLME Scheme of Arrangement, which took effect on 2 October 2013, the obligations under all of the BLME share incentive schemes were assumed by the Company for nil consideration. This assumption of liability during 2013 was treated as an injection of equity and recognised as a capital contribution within the accounts of BLME. The settlement of share based payment awards by BLME includes the reclassification of the Deferred Annual Bonus Scheme ("DABS") from equity-settled to cash-settled accounting in June 2014. The transfer to retained earnings represents the recycling of credits previously recognised within the Share Based Payment Reserve in relation to DABS options which have lapsed.

The notes on pages 40 to 109 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

Reporting entity
BLME Holdings plc (“the Company”) is a company domiciled in the United Kingdom. The address of the Company’s registered office is Cannon Place, 78 Cannon Street, London, EC4N 6HL. The Company’s principal activity is to act as a holding company for Bank of London and The Middle East plc (“the Bank” or “BLME”), which is an independent wholesale bank involved in investment, corporate banking, private client banking and asset management. The consolidated financial statements of the Group for the year ended 31 December 2015 comprise BLME Holdings plc and its subsidiaries (together referenced as “the Group”).

The Company was inserted as a holding company of the Bank during 2013 pursuant to a Scheme of Arrangement, which is explained in more detail in Note 32. The transaction was outside the scope of IFRS 3 and therefore no business combination occurred.

The following terms are used in the financial statements:

Murabaha

A Murabaha contract is a deferred sale of goods at cost plus an agreed profit mark-up under which one party purchases goods from a supplier and sells the goods to another party at cost price plus an agreed mark-up. The delivery of the goods is immediate whilst payment is deferred. Murabaha has a variety of applications and is often used as a financing arrangement, for instance for working capital and trade finance.

Commodity Murabaha

A Commodity Murabaha contract (a subset of Murabaha) is often used as a liquidity management tool by financial institutions. The Commodity Murabaha is today the mainstay of the Islamic interbank short term liquidity market. In these transactions the commodity, usually a London Metal Exchange base metal, is sold on a deferred basis with a mark-up. The mark-up is close to conventional money market levels.

Wakala

Wakala means agency and is often used in an arrangement where one party (the principal) places funds with another (the agent). The agent invests funds on the behalf of the principal for an agreed fee or profit share.

Ijara

An Ijara is a contract allowing the granting of the right to use an asset by one party to another which equates to the leasing of an asset in return for rental payments. Ijara is typically used for medium to long term financing of real estate, equipment, machinery, vehicles, vessels or aircraft.

Mudaraba

A Mudaraba is a partnership contract in which a capital owner (Rab al Mal) enters into a contract with a partner (Mudarib) to undertake a specific business or project. The Mudarib provides the labour or expertise to undertake a business or activity. Profits are shared on a pre-agreed ratio but losses are borne by the Rab al Mal unless negligence of the Mudarib is demonstrated.

Musharaka

An agreement under which the Islamic bank provides funds which are mingled with the funds of the business enterprise and others. All providers of capital are entitled to participate in the management but not necessarily required to do so. The profit is distributed among the partners in predetermined ratios, while the loss is borne by each partner in proportion to his/her contribution.

Sukuk

Sukuk (also referred to as Islamic bonds) are certificates that reflect ownership in an underlying asset. Profits are calculated according to the performance of the underlying asset or project. Sukuk are usually issued by Structured Entities (“SE”) which are set up to acquire and to issue financial claims on the assets. Such financial claims represent a proportionate beneficial ownership for a defined period when the risk and the return associated with cash-flows generated by the underlying asset are passed to the Sukuk holders. Sukuk are commonly used as funding and investment tools.

Istisna

An Istisna contract is usually used for construction finance. The asset is not in existence at the start of the contract and is built or manufactured according to detailed specifications defined by the client, and delivered at the agreed date and price. Payment is deferred. Istisna contracts are commonly applied in project finance, construction finance and pre-export finance where the bank acts as an intermediary between the producer and the ultimate client.

Profit rate swaps

A profit rate swap is a contract between two parties where each counterparty agrees to pay either a fixed or floating rate denominated in a particular currency to the other counterparty providing a means of exchanging fixed rate profit rate risk for floating rate risk – or vice versa.

Participation agreement

A participation agreement is an agreement executed between the relevant SE and the Bank. The main objective of this agreement is to facilitate the required funding to enable the SE to acquire leased assets or investment property and to convey the beneficial ownership of the leased equipment or investment property to the Bank. Under this agreement the risks and rewards are transferred to the Bank and the SE is indemnified against actual losses that arise as a result of any lease or investment property transaction it enters into except in cases where it misappropriates any funds.

1. Basis of preparation

a. Presentation of financial statements

The Group and Company have prepared their financial statements in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the EU and effective for the Group’s reporting for the year ended 31 December 2015. IFRS comprise accounting standards issued by the International Accounting Standards Board (“IASB”) and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and its predecessor body.

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The results form the basis for making judgements about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. During the year, the Group re-assessed the manner in which it recognises fees received in its

Corporate Banking division and concluded that these should be recognised on an effective yield basis; refer to Note 2 b ii and Note 5.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3 and Note 36.

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

During the year, the Group re-classified Hire Purchase, Istisna and Ijara transactions from “Financing arrangements” to “Finance lease receivables” to be consistent with the requirements of IAS 17. As at 31 December 2014, £88.7 million of Hire Purchase and £8.9 million of Istisna and Ijara transactions were included within “Financing arrangements”.

The Directors have reviewed the business activities and financial position of the Group and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. In making this assessment the Directors have considered a wide range of information about the current and future condition of the Group including the strategic direction, activities and risks that affect the financial position. The Directors also considered the Group’s exposure to the oil & gas and commodities industries in light of the prolonged oil price decline and obtained comfort from the Liquid Asset Buffer held by the Bank in addition to the strong relationships between the Group and its liquidity providers. Furthermore, the Directors have assessed how the oil price decline has affected the Group’s major funders and noted that the impact has been minimal to date. The Directors have also assessed the 2016 budget and future plans. For these reasons the financial statements have been prepared on a going concern basis.

b. New standards and interpretations adopted

The following amendments to standards are effective from 1 January 2015 but have not had a significant impact on the Groups measurement or disclosures:

- Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)
- Annual Improvements to IFRSs 2010-2012 Cycle – various standards
- Annual Improvements to IFRSs 2011-2013 Cycle – various standards

c. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations that are effective for annual periods beginning after 1 January 2015 have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt any of these standards early, where adopted by the EU and early adoption is permitted.

i. IFRS 9 Financial Instruments

IFRS 9 will replace the existing standard on the recognition and measurement of financial instruments (IAS 39) and requires all financial assets to be classified and measured on the basis of the entity’s business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. In addition, IFRS 9 introduces a new, expected-loss impairment model that will require more timely recognition of expected credit losses. Furthermore, IFRS 9 includes a substantially reformed model for hedge accounting, with enhanced disclosures about risk management activity. The standard does not explicitly address macro hedge accounting strategies, which are being considered in a separate project by the International Accounting Standards Board that will give further guidance in due course.

The Group has started the process of evaluating the impact of this standard and it is expected that there will be an increase in the total level of impairment allowances, since all financial assets will be assessed for at least 12-month expected credit loss ("ECL") and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39 as applied in our current impairment assessment.

The mandatory effective date for IFRS 9 is 1 January 2018 and the Group does not plan to adopt this standard early.

ii. IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue from customers is recognised (except for contracts that are within the scope of the accounting standards on leases, insurance contracts and financial instruments). The standard introduces a five-step model to determine when to recognise revenue and at what amount; the model specifies that revenue should be recognised when (or as) an entity transfers control of goods or services to a customer at the amount to which the entity expects to be entitled.

The mandatory effective date is 1 January 2018 and the Group does not plan to adopt this standard early. IFRS 15 is not expected to have a material effect on the Group's financial statements.

iii. IFRS 16 Leases

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

- Lessee accounting model: there will be a single accounting model with no lease classification test. All leases will be on-balance sheet and will result in the recognition of a Right of Use asset and lease liability i.e. treated as a purchase of an asset on a financed basis. BLME will need to consider the impact of its office leases in addition to company cars and any leased computer/office equipment.

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

The Group does not plan to adopt this standard early.

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

The amendments to IAS 38 introduce a rebuttable presumption that the use of revenue-based amortisation methods for intangible assets is inappropriate. This presumption can be overcome only when revenue and the consumption of economic benefits of the intangible asset are 'highly correlated', or when the intangible asset is expressed as a measure of revenue. In addition, the amendments to IAS 16 explicitly state that revenue-based methods of depreciation cannot be used for property, plant and equipment although this will have no impact on BLME as our policy is to depreciate on a straight line basis over 3 or 4 years (depending on asset type).

The mandatory effective date is 1 January 2016.

d. Basis of consolidation

i. Subsidiaries

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

ii. **Structured Entities ("SE")**

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

iii. **Employee Benefit Trust ("EBT")**

An EBT acts as an agent for the purpose of the employee share-based compensation plans. Accordingly, the EBT is included within the Group's consolidated financial statements.

e. Consolidation of foreign operations

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

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

f. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investment property and financial instruments, specifically investment securities and profit rate swaps, which are stated at their fair value. Financial instruments are recognised on a trade date basis.

g. Functional and presentation currency

The financial statements are presented in Sterling, which is also the Company's functional currency. Supplementary information has been provided in Notes 9, 13, 20, 30, 34, 35 and 36 to enhance the understanding of the reader. The method of translation is explained in the foreign currency note.

2. Significant accounting policies

a. Foreign currency

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

Non-monetary assets and liabilities, which are measured at historical cost, are translated into the functional currency at the effective historical rate used on the date of initial recognition. Foreign exchange for non-monetary items measured at fair value is determined at the spot rate at the time the fair value is determined. The associated foreign exchange differences for non-monetary assets and liabilities go to the same place that the gains and losses are booked to, i.e. other comprehensive income or the income statement.

b. Revenue recognition

i. Murabaha, Wakala, Mudaraba, Sukuk, Ijara, Istisna and Participation Agreement income and expense

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

The Group has an available-for-sale Sukuk portfolio. Sukuk reported by the Group as a result of the consolidation of the BLME Sharia’a Umbrella Fund SICAV-SIF have been classified under the fair value option as investment securities at “fair value through profit and loss”. Any fair value gain or loss is accounted for in the consolidated income statement in the line “net fair value gains on investment securities”. In addition the Group had a small portfolio of Sukuk held in a trading book which was also marked to market and accounted for as “fair value through profit and loss”.

ii. Fees and commission

Fees and commission which are not recognised on an effective yield basis over the life of the financial instruments to which they relate, such as fees for negotiating transactions for third parties, underwriting fees and commission, and non-discretionary asset management fees are recognised in revenue when it is probable that the economic benefit will flow to the Group. This will normally be at the point when the activity to which the fees and commission relate has been completed.

c. Financial assets and financial liabilities

The Group classifies its financial assets in the following categories: ‘due from financial institutions’; ‘financing arrangements’; and ‘investment securities’. Investment securities can be either financial assets at fair value through profit and loss or available-for-sale financial assets. Management determines the classification of financial assets and liabilities at initial recognition.

Financial assets are designated upon initial recognition as fair value through profit and loss, if the financial asset is managed and its performance evaluation is on a fair value basis.

i. Due from financial institutions and financing arrangements

Due from financial institutions and financing arrangements are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available-for-sale. These assets are initially recognised at fair value including direct and incremental transaction costs. These are subsequently measured at amortised cost using the effective profit share basis and any impairment losses are deducted.

ii. Investment securities

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

Financial assets are classified in this category if they are held for trading, or if they are designated by management under the fair value option. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group’s documented risk management or investment strategy.

- **Available-for-sale**

Available-for-sale assets are either debt or equity non-derivative financial assets that are designated as available-for-sale ("AFS"). The assets are intended to be held for an indefinite period of time, but may be sold in response to liquidity requirements or changes in profit rates, exchange rates or equity prices. They are initially recognised at fair value including direct and incremental transaction costs. They are` subsequently held at fair value. Gains and losses arising from changes in the fair value of AFS financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly within a separate component of equity, until the financial assets are derecognised or impaired at which time the cumulative gain or loss previously recognised within equity is transferred to the income statement. For debt instruments, income is determined using the effective profit share rate and recognised in the income statement. Dividends on equity instruments are recognised in the income statement when the Group's right to receive payment is established.

iii. Offsetting financial assets and financial liabilities

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

iv. Derecognition of financial assets

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

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

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

v. Impairment of financial assets and forbearance

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or portfolio of financial assets is impaired. A financial asset or a portfolio of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or portfolio of financial assets that can be reliably estimated.

Objective evidence that a financial asset or portfolio of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

i. significant financial difficulty of the issuer or obligor
ii. a breach of contract, such as default or delinquency in profit or principal payments
iii. the Group granting to the client, for economic or legal reasons relating to the client's financial difficulty, a concession that the financier would not otherwise consider
iv. it becoming probable that the client will enter bankruptcy or other financial reorganisation
v. the disappearance of an active market for that financial asset because of financial difficulties
vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

- adverse changes in the payment status of clients in the portfolio; or
- national or local economic conditions that correlate with defaults on the assets in the portfolio.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a portfolio of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

In assessing collective impairment, the Group uses historical information on the timing of recoveries, the amount of loss incurred and an estimated emergence period. Management also estimates a probability of default and loss given default across the business divisions using external ratings companies and data. Note 3a provides further information on the areas of estimation uncertainty inherent in calculating a collective impairment charge.

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

- **Forbearance**

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

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

Further disclosures on forbearance can be found on pages 96 to 97 in Note 36.

- **Assets carried at amortised cost**

If there is objective evidence that an impairment loss on exposures and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a loan has a variable profit rate, the discount rate for measuring any impairment loss is the current effective profit rate determined under the contract.

The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

- **Available-for-sale assets**

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a portfolio of financial assets is impaired. In the case of equity investments classified as available-for-sale ("AFS"), a significant or prolonged decline, typically greater than 20% or over nine months, in the fair value of the security below its cost is considered evidence of impairment. If any such evidence exists for AFS equity instruments, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that equity instrument previously recognised in profit or loss, is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

In the case of AFS debt instruments, impairment is assessed against the impairment indicators discussed in detail on page 46. If there is objective evidence that an impairment loss has occurred, the cumulative loss, measured as the difference between the asset's amortised cost and current fair value, less any impairment loss on the debt instrument previously recognised in the income statement, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. There were no reversals in 2015 (2014: one).

vi. Financial liabilities

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

vii. Determining fair value

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

viii. Derivatives and hedge accounting

Derivatives are recognised initially, and are subsequently re-measured, at fair value. Fair values of over-the-counter derivatives (profit rate swaps) are obtained using valuation techniques, including discounted cash flow models.

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

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments and, if the latter, the nature of the risks being hedged. When derivatives are designated as hedges, BLME classifies them as either: (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); or (ii) hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value hedge or cash flow hedge provided certain criteria are met.

- **Hedge accounting**

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

Fair value hedge

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

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

Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity within the cash flow hedging reserve. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement under “Other operating income / expenses” as applicable.

Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss. When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement under “Other operating income / expenses” as applicable.

- **Hedge effectiveness testing**

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

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

- **Sharia’a compliant derivatives (hereafter described as profit rate swaps, “PRSs”) that do not qualify for hedge accounting**

All gains and losses from changes in the fair values of PRSs that do not qualify for hedge accounting are recognised immediately in the income statement. These gains and losses are reported in ‘Other operating income / expenses’ as applicable.

d. Collateral and netting

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

- **Collateral**

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

- **Netting**

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

e. Investment property

Properties held for long term rental yields not occupied by the Group are classified as investment property. This category includes investment properties reported by the Group as a result of the consolidation of the BLME Sharia'a Umbrella Fund SICAV-SIF. More detail is provided in Note 20 and Note 34.

The Group has elected to adopt the fair value model under IAS 40; as such investment property is measured initially at cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are conducted annually by independent external professionally qualified valuation agents.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred. Changes in fair value are recorded in the income statement within "Net fair value gains / (losses) on investment property".

f. Property and equipment

i. Recognition and measurement

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

ii. Depreciation

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

- Computer equipment – 3 years
- Fixtures and fittings – 4 years
- Office equipment – 3 years
- Motor vehicles – 4 years
- Leasehold improvements – 4 years or over the life of the lease, whichever is shorter

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

g. Intangible assets

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

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

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

h. Impairment of property and equipment and intangible assets

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

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

i. Other assets

Other assets include prepayments associated with legal fees incurred in the set-up of trades and amounts owed by HMRC in respect of VAT and corporation tax overpayments.

Additionally, within other assets are returned leased assets which are stated at the lower of cost and net realisable value. When returned leased assets are not readily convertible into cash, the policy is to dispose of such assets at auction. Net realisable value is the estimated selling price observed at recent auctions less any applicable costs.

j. Operating leases

- **Lessor**

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

- **Lessee**

  Operating lease rentals payable by the Bank are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

k. Finance leases

Assets leased to customers under agreements which transfer substantially all the risks and rewards associated with ownership, other than legal title, are classified as finance leases. Finance charges receivable are recognised on the balance sheet and income is recognised over the period of the lease so as to give a constant rate of return on the net cash investment in the lease, taking into account all receipts associated with the lease.

l. Employee benefits

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

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

m. Share-based payments

The Group operates equity-settled share-based incentive schemes for employees. The cost of equity-settled share-based payment arrangements is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight line basis over the vesting period. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions upon which the equity instruments were granted. Market performance conditions are reflected as an adjustment to the fair value of equity instruments at the date of grant, so that an award is treated as vesting irrespective of whether the market performance condition is satisfied, provided all other conditions are satisfied.

Vesting conditions, other than market performance conditions, are not factored into the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis, no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

Where an award has been modified, as a minimum, the expense of the original award continues to be recognised as if it had not been modified. Where the effect of a modification is to increase the fair value of an award or increase the number of equity instruments, the incremental fair value of the award or incremental fair value of the extra equity instruments is recognised in addition to the expense of the original grant. The incremental fair value is calculated by comparing the fair value of the modified grant with the fair value of the original grant at the modification date. The incremental fair value of the modified grant is recognised over the remaining vesting period.

n. Own shares

Own shares are held by the EBT and comprise own shares that have not vested unconditionally to employees of the Group. Own shares are recorded at cost and are deducted from Group retained earnings.

o. Provisions

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

p. Income tax

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

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

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

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

q. Cash and cash equivalents

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

r. Other receivables

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

s. Segmental information

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

t. Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss that is attributable to ordinary Shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is calculated by adjusting the profit or loss that is attributable to ordinary Shareholders and the weighted-average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

u. Investment in subsidiary undertaking

The investment in subsidiary undertaking in the Company's financial statements is stated at the IFRS net asset value of the Bank at the effective date of the BLME Scheme of Arrangement (which becomes the effective cost of investment) less impairment. The investment in subsidiary undertaking is assessed for impairment where there is an indication of impairment. Where impairment exists, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss recognised in the statement of comprehensive income.

v. Business combinations and goodwill

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

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

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

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

a. Key sources of estimation uncertainty

Allowance for credit losses

Assets accounted for at amortised cost are evaluated monthly for impairment on a basis described in Note 2c (v) and Note 36a (v). In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual financing arrangements. This evidence may include observable data indicating that there has been an adverse change in the payment status of counterparties in a portfolio, or national or local economic conditions that correlate with defaults on assets in the portfolio. The specific counterparty component of the total allowance for impairment applies to claims evaluated individually and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the present value of estimated cash flows considered recoverable is approved by the Counterparty Credit Risk Committee.

Collectively assessed impairment allowances cover credit losses inherent in portfolios of items with similar credit risk characteristics when there is objective evidence to suggest that they contain impaired claims, but the individual impaired items cannot yet be identified. In assessing the need for collective loss allowances, management considers factors such as credit quality, portfolio size, concentrations and economic factors. In order to estimate the required allowance, assumptions are made to define the way inherent losses are modelled and to determine the required input parameters set out in Note 2 c v, based on historical experience and current economic conditions.

b. Determining fair values

The Group's accounting policy on fair value measurements is in accordance with IFRS 13 Fair Value Measurement and is discussed in Note 36.

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

Level 1: Valuation is based upon quoted market price in an active market for an identical instrument. This category comprises Sukuk held at fair value through profit and loss and Sukuk held at fair value designated as available-for-sale.

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

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

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

Fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments the Group determines fair values using other valuation techniques.

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

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

4. Segmental information

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

Corporate Banking
Corporate Banking provides debt financing for UK mid-market companies ranging from FTSE250 companies to family owned businesses. Our facilities are provided by our specialist product teams covering: Leasing, Property Finance, Trade Finance, Acquisition Finance, ABL Finance and Islamic Capital Markets ("ICM"). Facilities are either separate or offered as one package. We have provided senior financing syndicated facilities and have introduced financing counterparties from the GCC for additional capital. ICM organises and participates in syndicated transactions and sells down assets from the Bank's financing portfolio.

Wealth Management

Wealth Management includes the Group's complementary businesses of Private Banking and Asset Management. The Private Banking business focuses on providing private banking services, in particular, residential lending for central London property acquisitions, to high net worth individuals. The Asset Management business offers Sharia'a compliant fund management services and funds based on a Luxembourg platform.

Treasury

The Treasury Division funds the Group's financing activities in Corporate Banking and Wealth Management, manages the Group's capital and liquidity and provides Sharia'a compliant hedging, yield and FX structures.

Information regarding the results of the Group's three reportable segments, Corporate Banking, Wealth Management and Treasury is included in the following two pages. Performance is measured based on net segment contribution as included in the internally generated management information of the Group utilised by the Executive Committee. Segment contribution is stated after charging (or crediting) funding costs between the segments in respect of the segment assets or liabilities which either require or generate funding. There are no other significant transactions between segments.

For the year ended 31 December 2015

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

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 2014

	Treasury Division £000	Corporate Banking* £000	Wealth Management* £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	4,893	25,672	2,665	-	33,230
Operating lease income	1,624	19,403	-	-	21,027
Net fee income	665	1,742	188	11	2,606
Net fair value losses on investment securities	(28)	-	(501)	-	(529)
Net fair value gains on investment properties	-	-	2,667	-	2,667
Other operating income	31	3,663	2,265	-	5,959
Total operating income	**7,185**	**50,480**	**7,284**	**11**	**64,960**
Directly attributable segment expenses	(3,978)	(5,638)	(4,757)	-	(14,373)
Operating lease depreciation	-	(16,286)	-	-	(16,286)
Net impairment charge on financial assets	-	(10,722)	(880)	-	(11,602)
Change in third party interest in consolidated funds	-	-	(1,199)	-	(1,199)
Net segment contribution	**3,207**	**17,834**	**448**	**11**	**21,500**
Common costs not directly attributable to segments					(20,512)
Net operating profit before tax					**988**
Reportable segment assets	**421,125**	**852,440**	**102,795**	**5,359**	**1,381,719**

* Islamic Capital Markets was transferred from Wealth Management to Corporate Banking with effect from 1 January 2015. Accordingly, certain prior period comparatives have been reclassified to be consistent with current year presentation.

Entity wide disclosures

Geographical analysis of non-current assets

	31 December 2015 £000	31 December 2014 £000
United Arab Emirates	210	237
Luxembourg	31,437	29,653
United Kingdom	50,045	42,683
USA	11,011	16,245
Others	53	5
Total	**92,756**	**88,823**

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

5. Income from financing and investing activities

	2015	2014
Income from:	**£000**	**£000**
Financial institutions:		
Murabaha income	122	336
Wakala income	217	202
Financing arrangements:		
Finance lease income	8,810	11,031
Hire Purchase income	7,732	3,236
Istisna and Ijara income	89	85
Mudaraba income	135	109
Murabaha income	36,772	34,092
Musharaka income	51	59
Sukuk income	5,522	5,029
Wakala income	649	385
	60,099	**54,564**

During the year, the Group re-assessed the manner in which it recognises fees received in its Corporate Banking division and concluded that these should all be recognised on an effective yield basis. The amounts relating to prior years were considered immaterial and consequently included in the current year; £2.6 million has been included in the income statement in the "Income from financing and investing activities" caption.

6. Returns to financial institutions and customers

	2015	2014
	£000	**£000**
Customer deposits	11,332	12,678
Murabaha	9,431	7,713
Wakala	745	943
	21,508	**21,334**

7. Net fair value losses on investment securities

	2015	2014
	£000	**£000**
Net realised losses on sale of investment securities	(1,765)	(418)
Net unrealised losses on investment securities	(157)	(111)
	(1,922)	**(529)**

8. Other operating income

	2015	2014
	£000	**£000**
Gains on leased asset sales	2,026	2,918
Rental income from investment properties	1,968	1,931
Other	931	1,110
	4,925	**5,959**

9. Profit rate swaps

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. PRSs may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described under the relevant headings below.

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

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

Group	2015 Cash flow hedge $000	2015 Cash flow hedge £000	2015 Fair value hedges $000	2015 Fair value hedges £000
Profit rate swaps	57,000	38,652	108,000	93,235

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

With regard to PRSs, the notional contract amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Fair value hedges

BLME's fair value hedges consist of PRSs that are used to protect against changes in the fair value of fixed rate financial instruments due to movements in market rates and to accommodate the Group's risk management policy. For effective fair value hedges, all changes in the fair value of the PRSs and in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item is amortised to the income statement on an even yield basis over the remainder of the hedging period.

Fair value of PRSs designated as fair value hedges:

Group and Bank	2015 Fair value assets £000	2015 Fair value liabilities £000	2014 Fair value assets £000	2014 Fair value liabilities £000
Profit rate swaps	-	1,100	-	912

Gains or losses arising from fair value hedges:

Group and Bank	2015 £000	2014 £000
Net profit rate swap (liability) / asset as at 1 January	(912)	101
Gains / (losses):		
Exchange translation	(3)	9
On hedging instruments through the income statement	103	(158)
On effective hedges	(288)	(864)
Net profit rate swap liability as at 31 December	**(1,100)**	**(912)**

The gains and losses on ineffective portions of fair value hedges are recognised immediately in "Other operating income / expense". During the year to 31 December 2015 a gain of £0.1 million (2014: £0.2 million) was recognised due to hedge ineffectiveness.

Cash flow hedges

The Group's cash flow hedges consist of US dollar denominated PRSs that are used to protect against exposures to variability in future cash flows on selected US dollar liabilities placed by financial institutions. The objective of the hedge relationship is to minimise the volatility of cash flows in respect of US dollar floating rate liabilities due to fluctuations in US dollar market rates. A macro approach is taken in designating the hedge relationship as described in IAS 39 and the hedged item is a portfolio of existing and future highly probable cash outflows. Gains and losses on effective cash flow hedges are initially recognised directly in other comprehensive income ("OCI") and accumulate in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows affect the income statement.

Fair value of PRSs designated as cash flow hedges:

Group and Bank	2015 Fair value assets £000	2015 Fair value liabilities £000	2014 Fair value assets £000	2014 Fair value liabilities £000
Profit rate swaps	-	269	-	1,324

Gains or losses arising from cash flow hedges:

Group and Bank	2015	2014
	£000	£000
Net profit rate swap liability as at 1 January	(1,324)	(2,074)
Gains / (losses):		
Exchange translation	(75)	(126)
On hedging instruments through the income statement	595	68
On hedging instruments through OCI	535	808
Net profit rate swap liability as at 31 December	**(269)**	**(1,324)**

The gains and losses on ineffective portions of such PRSs are recognised immediately in 'Other operating income / expense'. During the year to 31 December 2015, a gain of £0.6 million (2014: £0.1 million) was recognised due to hedge ineffectiveness.

Contractual notional balances of PRSs designated for cash flow hedging purposes

The schedules of contractual notional balances on which the expected profit cash flows arise as at 31 December 2015 and 31 December 2014 respectively are as follows:

Group	Less than 3 months	1 year or less but more than 6 months	Greater than 1 year	2015 Total
	£000	£000	£000	£000
Liabilities	16,953	1,356	20,343	38,652

Group	Less than 3 months	1 year or less but more than 6 months	Greater than 1 year	2014 Total
	£000	£000	£000	£000
Liabilities	-	51,303	-	51,303

This table reflects the profit rate re-pricing profile of the underlying hedged items. The Group adopts a macro cash flow hedging strategy to match the existing rollover or forecast liabilities. Therefore the Group does not expect any maturity mismatch between the hedged liabilities and profit rate swaps at maturity.

10. Personnel expenses

	2015	2014
	£000	**£000**
Wages and salaries	12,543	13,121
Social security costs	1,499	1,343
Defined contribution pension scheme costs	1,084	1,022
Sharia'a Supervisory Board fees	62	57
Recruitment costs	645	600
Other staff costs	685	501
	16,518	**16,644**

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

	2015	2014
	Number*	**Number**
Period end	148	124
Average for the period - management	7	6
Average for the period - non-management	128	110

* The 2015 number includes employees from Renaissance Asset Finance Limited for the first time.

11. Directors' emoluments

	2015	2014
	£000	**£000**
Directors' emoluments	1,042	1,201
Pension contributions	-	17
	1,042	**1,218**

The aggregate emoluments of the highest paid director was £0.4 million (2014: £0.5 million), and pension contributions of £nil (2014: £nil) were made on his behalf. During the year, compensation for loss of office amounting to £0.4 million was expensed in relation to a director who resigned during the year (2014: £0.3 million).

12. Other operating expenses

	2015	2014
	£000	**£000**
Advertising and market development	284	2,124
Board and SSB related expenses	418	397
Communications and IT costs	1,645	1,060
Consultancy	1,066	1,522
Legal and professional fees	4,966	3,215
Loss on foreign exchange transactions and translation	529	28
Other operating charges	8,663	7,965
Rent and other occupancy costs	2,496	1,494
	20,067	**17,805**

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

	2015	2014
	£000	£000
Auditors remuneration		
Audit of financial statements: Year end	325	260
Audit of financial statements: Interim report	75	59
Tax services	36	27
Other services	128	105
	564	**451**

13. Share-based payments

During the year £0.3 million (2014: £0.1 million) was charged to the income statement in respect of share-based payment transactions arising under the following employee share schemes in accordance with the Group's reward structures:

	2015	2014
	£000	£000
Approved Share Option Plan ("ASOP")	15	18
Unapproved Share Option Plan ("USOP")	118	11
Executive Share Option Scheme ("ESOP")	9	26
Deferred Annual Bonus Scheme ("DABS")	91	47
Deferred Incentive Plan Scheme ("DIPS")	24	-
	257	**102**

As referred to in Note 32, a corporate reorganisation was implemented on 2 October 2013 by means of a Court-approved Scheme of Arrangement under sections 895 to 899 of the UK Companies Act.

All existing options under the Bank of London and The Middle East plc share incentive plans lapsed as a result of the BLME Scheme of Arrangement and replacement options were offered by BLME Holdings plc on substantially the same terms and conditions. The replacement options shall be treated as granted at the same time as the original options and the exercise of the replacement options shall be exercisable in the same manner as the existing options. The issue of these replacement options has been accounted for under IFRS 2 as a modification with no incremental fair value arising that would require amortisation to the income statement over the remaining vesting period.

Calculation of fair values

The fair values of equity-settled share options, measured at the date of grant of the option, are calculated using a Black-Scholes model. The fair value of the options granted during the year, together with the main assumptions used in the Black-Scholes model for the share option awards, is included in the following tables:

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

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

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

The expected volatility was determined by reference to the historical volatility of the FTSE 350 Banks Index.

Approved share options

Approved share options were granted to employees under the “BLME Approved Share Option Plan” up to a market value limit of £30,000 to each individual on the date of grant. The options may vest after three years and are exercisable up to the tenth anniversary of the date of grant, after which they lapse.

ASOPs	Number of options 2015	Weighted average excercise price (pence) 2015	Number of options 2014	Weighted average excercise price (pence) 2014
Outstanding at 1 January	1,213,837	118.5	520,226	154.7
Granted in the year	185,000	45.0	782,824	99.4
Forfeited in the year	(175,972)	127.7	(89,213)	162.5
Outstanding at 31 December	**1,222,865**	**106.0**	**1,213,837**	**118.5**
Exercisable at 31 December	**279,961**		**289,508**	

The weighted average remaining contractual life of the above ASOPs outstanding at the balance sheet date was 7.6 years (2014: 8.3 years). The weighted average exercise price is 106.0 pence (2014: 118.5 pence).

During 2010 options were issued in parallel to the existing approved options which had been granted during 2008 and 2009. These new "parallel" options were granted to staff over the same number of shares as their existing approved options but with an exercise price of 5 pence per share as against an exercise price of 6.5 pence per share for their existing approved options. The old and new options will operate in parallel, meaning that staff will be able to choose which to exercise. When one option is exercised, the other option will lapse. Therefore, although participating staff now have two approved options, they will only be able to exercise one of them.

Parallel ASOPs	Number of options 2015	Number of options 2014
Outstanding at 1 January	76,908	95,367
Granted in the year	-	-
Forfeited in the year	(3,076)	(18,459)
Outstanding at 31 December	**73,832**	**76,908**
Exercisable at 31 December	**73,832**	**76,908**

The weighted average remaining contractual life of the above parallel options outstanding at the balance sheet date was 4.2 years (2014: 5.2 years). The weighted average exercise price is 125 pence (2014: 125 pence). All of these options were exercisable at the balance sheet date (2014: all). The issue of these approved parallel options in 2010 has been accounted for under IFRS 2 as a modification with the incremental fair value being amortised to the income statement over the remaining vesting period.

Unapproved share options

Unapproved share options are granted under the "BLME Unapproved Share Option Plan" to employees who already have received approved share options up to the market value limit of £30,000. The options may vest after three years and are exercisable up to the tenth anniversary of the date of grant, after which they lapse.

USOPs	Number of options 2015	Weighted average excercise price (pence) 2015	Number of options 2014	Weighted average excercise price (pence) 2014
Outstanding at 1 January	1,840,727	101.5	24,611	162.5
Granted in the year	2,687,500	28.3	1,819,192	100.5
Forfeited in the year	(54,705)	84.5	(3,076)	162.5
Outstanding at 31 December	**4,473,522**	**57.6**	**1,840,727**	**101.5**
Exercisable at 31 December	**21,536**		**12,306**	

The weighted average remaining contractual life of the above USOPs outstanding at the balance sheet date was 9.1 years (2014: 9.5 years). The weighted average exercise price is 57.6 pence (2014: 101.5 pence).

Deferred annual bonus scheme

Awards were first made to employees under the "BLME Deferred Annual Bonus Scheme" in 2008. The Group introduced the scheme to ensure that the long term interests of certain employees were aligned with the interests of Shareholders. Participating in the scheme entitles the employee to receive a matching award at no cost providing certain conditions, including a performance condition, are met. Performance conditions are set and monitored by the Remuneration Committee.

Under the original scheme rules the employee was required to surrender a percentage of their annual discretionary bonus in return for a conditional right to receive shares in the Bank at the vesting date being three years following the award date. During 2010 the existing awards were modified so that they took the form of nil cost options. The modified awards gave employees options, to acquire the same number of shares as the original award, which can be exercised at any point from the original vesting date until the tenth anniversary of the original award date. No incremental fair value arose as a result of this modification.

During 2012 employees were given the opportunity to have their vested DABS options from earlier years settled in cash. The resultant cash payment of £2.3 million was accounted for as a deduction against the share-based payment reserve. The DABS scheme was reclassified as a cash-settled share-based payment scheme in 2012 with £1.2 million being reclassified from the share-based payment reserve to other liabilities. There was no excess payment over the fair value of the award at the settlement date requiring to be recognised as an expense under IFRS 2.

Following the listing of the Company on Nasdaq Dubai in October 2013, the DABS scheme was reclassified back to being an equity-settled share-based payment scheme.

During 2014 employees were given the opportunity to have their vested DABS options from earlier years settled in cash. The resultant cash payment of £0.7 million was accounted for as a deduction against the share-based payment reserve. The DABS scheme was reclassified as a cash-settled share-based payment scheme in June 2014 with £0.7 million being reclassified from the share-based payment reserve to other liabilities. There was no excess payment over the fair value of the award at the settlement date requiring to be recognised as an expense under IFRS 2.

DABS	Number of nil cost options 2015	Number of nil cost options 2014
Outstanding at 1 January	875,610	1,265,198
Awarded and deferred	1,698,749	476,823
Awarded under matched award	-	108,362
Forfeited in the year	(1,062,921)	-
Exercised in the year	(396,244)	(974,773)
Outstanding at 31 December	**1,115,194**	**875,610**
Exercisable at 31 December	**65,431**	**65,431**

The weighted average remaining contractual life of the above nil cost options outstanding at the balance sheet date was 8.5 years (2014: 8.4 years). The weighted average exercise price was nil (2014: nil).

Executive share option scheme

Share options were first granted to senior management under the BLME Unapproved Share Option Plan in 2009. The options granted in 2009 and 2010 were split equally into employment options and performance options. Employment options vest upon completion of service periods, performance options vest on meeting or surpassing targets for growth in the Net Asset Value of the Group.

The ESOP awards were made in four equal tranches with different vesting periods. The expected option life is dependent on the behaviour of option holders and is incorporated into the model on the basis of best estimate.

ESOPS	Number of options 2015	Number of options 2014
Outstanding at 1 January	2,688,943	2,688,943
Granted in the year	-	-
Forfeited in the year	(400,534)	-
Outstanding at 31 December	**2,288,409**	**2,688,943**
Exercisable at 31 December	**2,256,884**	**2,625,867**

The weighted average remaining contractual life of the executive share options outstanding at the balance sheet date was 3.8 years (2014: 4.7 years). The weighted average exercise price is 162.5 pence (2014: 162.5 pence).

Deferred Incentive Plan Scheme ("DIPS")

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

DIPS	**Number of options 2015**	**Number of options 2014**
Outstanding at 1 January	-	-
Granted in the year	1,295,713	-
Forfeited in the year	(354,407)	-
Outstanding at 31 December	**941,306**	**-**
Exercisable at 31 December	**-**	**-**

The weighted average remaining contractual life of the above DIPS options outstanding at the balance sheet date was 9.2 years (2014: n/a). The weighted average exercise price was 45.0 pence (2014: n/a).

14. Impairments of financial assets and operating leases

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

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

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

2015 includes a collective impairment charge in accordance with IAS 39, reflecting the Group's maturing business. Refer to Note 2c v and Note 3a for the factors considered in deriving the collective impairment charge for the year.

Group			2014
	Specific	Collective	Total
Impairments of financial assets:	**£000**	**£000**	**£000**
Balance at 1 January 2014	22,633	-	22,633
Exchange translation and other movements	(765)	-	(765)
Income statement:			
Gross impairment charge for the year	11,718	-	11,718
Amount recovered during the year	(116)	-	(116)
Net impairment charge for the year	**11,602**	**-**	**11,602**
Amounts written off during the year	-	-	-
Balance as at 31 December 2014	**33,470**	**-**	**33,470**
Being impairments against:			
Financing arrangements	33,269	-	33,269
Finance lease receivables	-		-
Operating lease assets	201	-	201
Balance as at 31 December 2014	**33,470**	**-**	**33,470**

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

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

Group		
	31 December 2015	**31 December 2014**
	£000	**£000**
Opening net carrying balance	22,797	17,631
Exchange translation and other movements	287	596
Change in allowance for impairment	7,188	(3,326)
Classified as impaired during the year	41,761	8,199
Transferred to not impaired during the year	(9,349)	-
Amounts written off	(14,301)	-
Disposals	(6,617)	(303)
Closing net carrying balance	**41,766**	**22,797**

The table below sets out an analysis of the gross and net carrying amount of impaired financial assets and operating leases as at 31 December 2015 by statement of financial position line, by country and by economic sector. The impairment against operating leases is related to the future estimated value of the leased item at the end of the lease term i.e. against residual value. As a result, this is a physical asset risk rather than a credit risk. The portfolio is valued regularly by external third parties.

Group

As at 31 December 2015	Gross exposure £000	Specific impairment £000	Collective impairment £000	Net exposure £000
Analysed by statement of financial position line:				
Financing arrangements	53,329	(30,624)	(2,462)	20,243
Finance lease receivables	24,995	(4,951)	(767)	19,277
Operating lease assets	2,342	(136)	-	2,206
Other assets	187	(30)	-	157
Other financial assets	-	-	(117)	(117)
Balance as at 31 December 2015	**80,853**	**(35,741)**	**(3,346)**	**41,766**
Analysed by country:				
Bahrain	2,373	(339)	-	2,034
Cayman Islands	12,330	(11,597)	-	733
Dubai	3,539	(383)	-	3,156
France	2,634	(2,634)	-	-
Saudi Arabia	6,781	(595)	-	6,186
United Kingdom	51,712	(20,118)	(3,346)	28,248
USA	1,484	(75)	-	1,409
Balance as at 31 December 2015	**80,853**	**(35,741)**	**(3,346)**	**41,766**
Analysed by economic sector:				
Financial Services				
GCC Financial Institutions	5,912	(722)	-	5,190
Manufacturing	6,781	(595)	-	6,186
Real estate	20,062	(10,896)	-	9,166
Transportation and storage	45,464	(20,894)	-	24,570
Waste management	2,634	(2,634)	-	-
Others	-	-	(3,346)	(3,346)
Balance as at 31 December 2015	**80,853**	**(35,741)**	**(3,346)**	**41,766**

Group

As at 31 December 2014	Gross exposure £000	Specific impairment £000	Net exposure £000
Analysed by statement of financial position line:			
Financing arrangements	54,811	(33,269)	21,542
Operating lease assets	1,456	(201)	1,255
Balance as at 31 December 2014	**56,267**	**(33,470)**	**22,797**

Analysed by country:			
Bahrain	3,207	(321)	2,886
Cayman Islands	11,660	(7,767)	3,893
France	2,774	(1,991)	783
Turkey	13,567	(13,567)	-
United Kingdom	23,603	(9,623)	13,980
USA	1,456	(201)	1,255
Balance as at 31 December 2014	**56,267**	**(33,470)**	**22,797**

Analysed by economic sector:			
Financial Services			
GCC Financial Institutions	3,207	(321)	2,886
Manufacturing	13,567	(13,567)	-
Real estate	23,603	(9,623)	13,980
Transportation and storage	13,116	(7,968)	5,148
Waste management	2,774	(1,991)	783
Balance as at 31 December 2014	**56,267**	**(33,470)**	**22,797**

15. Taxation

Group	2015 £000	2014 £000
UK Corporation Tax		
- current tax for the year	(20)	(244)
Overseas tax for the year	15	8
Deferred tax for the year	(1,542)	251
Tax (credit) / charge in income statement	**(1,547)**	**15**

The tax credit for the year is lower (2014: higher) than the standard rate of corporation tax which is explained as follows:

Group	2015	2014
	£000	£000
Reconciliation of effective tax rate		
(Loss) / profit on ordinary activities	(8,397)	988
(Loss) / profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 20.25% (2014: 21.5%)	(1,700)	213
Expenses not deductible for tax purposes	206	60
Overseas taxes	-	24
Tax exempt income	(75)	(38)
Share-based payment transactions	40	108
Effect of change in tax rates	21	(13)
Other adjustments related to leases and intangibles	(141)	(185)
Gains on other assets	(123)	(160)
Prior year adjustment to deferred tax	225	6
Tax (credit) / charge in income statement	**(1,547)**	**15**

The main UK Corporation Tax rate was reduced from 23% to 21% with effect from 1 April 2014 and a further reduction from 21% to 20% with effect from 1 April 2015. The Chancellor's Summer Budget on 8 July 2015 included a proposal to reduce the UK Corporation Tax rate from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020 – these proposed changes were substantively enacted into UK law on 18 November 2015. The deferred tax assets recognised below have been calculated using a corporation tax rate of 20% (31 December 2014: 20%) as the impact of the rate reduction is not expected to be material to the Group.

Tax recognised in other comprehensive income

Group	2015	2014
	£000	£000
Cash flow hedging reserve	(153)	(133)
Fair value reserve	20	(123)
	(133)	**(256)**

Deferred tax

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. It is estimated that the tax losses carried forward will be utilised by the end of the year ended 31 December 2018.

Movements in deferred tax balances

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

Group - 2014	Balance at 1 January £000	Recognised in profit or loss £000	Recognised in OCI £000	Balance at 31 December £000
Property, equipment and software	162	192	-	354
Tax losses carried forward	1,311	(146)	-	1,165
Cash flow hedges	66	-	(18)	48
Share-based payment transactions	325	(297)	-	28
Tax assets	**1,864**	**(251)**	**(18)**	**1,595**

16. Earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary shareholders and the number of basic weighted average ordinary shares. When calculating the diluted earnings per share, the weighted average number of shares in issue is adjusted for the dilutive effects of all dilutive share options and awards.

Earnings per share	2015 pence	2014 pence
Basic	(3.55)	0.50
Diluted	(3.55)	0.50

Profit attributable to ordinary shareholders	2015 £000	2014 £000
(Loss) / profit attributable to shareholders (basic)	(6,850)	973
(Loss) / profit attributable to shareholders (diluted)	(6,850)	973

Weighted average number of ordinary shares	2015 Number	2014 Number
Number of ordinary shares of 25p in issue	195,733,691	195,733,691
Share held in Treasury by the BLME Holdings EBT	(2,601,478)	(2,601,478)
Weighted average number of shares (basic) at 31 December	193,132,213	193,132,213
Effect of dilutive share options in issue	2,115,194	875,610
Weighted average number of shares (diluted) at 31 December	195,247,407	194,007,823

17. Profit attributable to equity Shareholders of the Company

BLME Holdings plc is a non-trading parent company therefore none of the consolidated profit for the financial year has been dealt with in the accounts of the Company (2014: £761).

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account of the parent has not been presented.

18. Due from financial institutions

Group

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

Group

	0 - 3 months	4 - 12 months	2014 Total
	£000	£000	£000
Murabaha	82,501	1,090	83,591
Wakala	98,698	5,331	104,029
	181,199	**6,421**	**187,620**

19. Investment securities

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

Group	Listed	Unlisted	2014 Total
	£000	£000	£000
Fair value through profit and loss			
Sukuk	46,022	1,580	47,602
Available-for-sale			
Equity	345	3,339	3,684
Sukuk	136,848	-	136,848
	183,215	**4,919**	**188,134**

Company	Listed	Unlisted	2015 Total
	£000	£000	£000
Investment in subsidiary			
Bank of London and The Middle East plc	-	241,993	241,993

Company	Listed	Unlisted	2014 Total
	£000	£000	£000
Investment in subsidiary			
Bank of London and The Middle East plc	-	241,859	241,859

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

Pursuant to the scheme and as explained in Note 13, all existing options under the Bank's share incentive plans lapsed and replacement options were offered on substantially the same terms and conditions. Furthermore, the Bank was relieved of its obligations under the share incentive plans and those responsibilities were assumed by the Company for no consideration. As this transaction was a non-monetary transaction for no consideration with a parent company, it was in effect additional investment in the Bank by the Company.

Company	2015	2014
	£000	£000
Investment in subsidiary		
Opening balance	241,859	243,144
Settlement of share-based payment awards by BLME	(92)	(1,339)
Equity-settled share-based payment awards	166	54
Closing balance at 31 December	**241,933**	**241,859**

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

20. Investment properties

Group	2015	2014
	£000	£000
Valuation at 1 January	28,580	24,340
Purchases at cost	3,860	4,057
Disposals	(10,357)	(2,484)
Movements in fair value *	4,707	2,667
Valuation at 31 December	**26,790**	**28,580**

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

The Group accounts for its investment properties under IAS 40 "Investment property" using a fair value model. The investment properties are valued by independent external professionally qualified valuation agents based on current prices in an active market and are classified as Level 2 for the purposes IFRS 13. Further detail on the valuation technique used can be found on page 100 in Note 36.

The purchases at cost relate to the Group's investment in the BLME Light Industrial Building Fund compartment of the BLME Sharia'a Umbrella Fund SICAV SIF which is consolidated into the Group's results as disclosed in Note 34. Two UK based commercial properties were purchased by the Fund for £3.6 million during the year (2014: three for £3.8 million), comprising industrial and office units in Irlam and Warrington. The acquisition costs associated with these purchases were £0.3 million (2014: £0.3 million).

The income statement includes rental income from the investment properties of £2.0 million (2014: £1.9 million) in the line "Other operating income" and direct operating expenses of £0.6 million (2014: £0.8 million) including repairs and maintenance in the line "Other operating expenses".

21. Financing arrangements

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

Group	Less than 1 year	1 - 5 years	Over 5 years	2014* Total
	£000	£000	£000	£000
Murabaha	463,979	157,900	21	621,900
Mudaraba	-	3,298	-	3,298
Musharaka	-	2,655	-	2,655
Sukuk	2,210	9,256	-	11,466
	466,189	**173,109**	**21**	**639,319**
Provision for impairment				(33,269)
				606,050

* Hire purchase, Istisna and Ijara balances have been reclassified from Financing arrangements to Finance lease receivables as described in Note 1a.

22. Finance lease receivables

Group	2015	2014*
	£000	£000
Gross investment in finance lease receivables		
Within one year	66,542	76,995
One to five years	86,846	100,465
Over five years	7,343	6,921
	160,731	184,381
Hire purchase		
Within one year	57,762	36,095
One to five years	98,278	61,239
Over five years	83	-
	156,123	97,334
Unearned future income on finance leases	(12,116)	(15,040)
Unearned future income on hire purchase	(16,344)	(8,709)
Provision for impairment	(5,718)	-
Amounts written off	(69)	-
Net investment in finance leases & hire purchase	**282,607**	**257,966**
The net investment in finance leases comprises:		
Within one year	55,312	69,723
One to five years	81,031	92,959
Over five years	6,939	6,658
	143,282	**169,340**
The net investment in hire purchase comprises:		
Within one year	49,447	31,998
One to five years	89,797	56,628
Over five years	81	-
	139,325	**88,626**

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

* Hire purchase, Istisna and Ijara balances have been reclassified from Financing arrangements to Finance lease receivables as described in Note 1a.

23. Property and equipment

Group	Computer Equipment	Office Equipment	Fixtures & Fittings	Motor Vehicles	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2014	558	110	2,105	21	2,794
Additions	72	-	21	-	93
Disposals	(198)	(32)	(230)	-	(460)
At 31 December 2014	432	78	1,896	21	2,427
At 1 January 2015	432	78	1,896	21	2,427
Additions	77	30	1,828	-	1,935
Disposals	-	(29)	(869)	(21)	(919)
At 31 December 2015	**509**	**79**	**2,855**	**-**	**3,443**
Depreciation					
At 1 January 2014	422	105	1,615	3	2,145
Charge for the year	88	2	108	5	203
Disposals	(142)	(30)	(106)	-	(278)
At 31 December 2014	368	77	1,617	8	2,070
At 1 January 2015	368	77	1,617	8	2,070
Charge for the year	66	5	80	2	153
Disposals	-	(29)	(852)	(10)	(891)
At 31 December 2015	**434**	**53**	**845**	**-**	**1,332**
Net Book Value					
At 1 January 2014	136	5	490	18	649
At 31 December 2014	64	1	279	13	357
At 31 December 2015	**75**	**26**	**2,010**	**-**	**2,111**

24. Operating lease assets

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

Group	At 31 December 2013 £000	Additions 2014 £000	Disposals 2014 £000	Depreciation 2014 £000	Translation differences 2014 £000	At 31 December 2014 £000
Gross carrying amount	133,289	6,438	(46,977)	-	3,729	96,479
Less depreciation	(56,069)	(2,341)	33,102	(16,286)	(2,456)	(44,050)
	77,220	**4,097**	**(13,875)**	**(16,286)**	**1,273**	**52,429**
Provision for impairment						(201)
						52,228

Rental receipts under operating leases	**2015**	**2014**
Future rentals are as follows:	**£000**	**£000**
Less than one year	6,523	12,220
Between one and five years	10,981	13,487
More than five years	138	-
	17,642	**25,707**

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

25. Intangible assets

Group	**2015**	**2014**
Cost	**£000**	**£000**
Opening balance	3,936	3,434
Additions	1,290	715
Disposals	(60)	(213)
Closing balance	**5,166**	**3,936**
Depreciation and impairment losses		
Opening balance	2,303	2,168
Charge for the year	633	233
Disposals	(32)	(98)
Closing balance	**2,904**	**2,303**
Net Book Value	**2,262**	**1,633**

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

26. Other assets

Group	2015	2014
	£000	£000
VAT recoverable	2,670	-
Accrued income	81	205
Collateral deposits*	466	686
Prepayments	5,381	2,203
Other receivables and assets	8,585	2,931
	17,183	**6,025**

* The Group has pledged cash collateral deposits of £0.5 million (2014: £0.7 million) as security against rental payments on its premises.

27. Due to financial institutions

Group	2015	2014
	£000	£000
Reverse Murabaha	588,023	548,296
Wakala	93,574	78,572
	681,597	**626,868**

28. Due to customers

Group	2015	2014
	£000	£000
Customer deposits	305,253	457,444
Security deposits	16,220	14,000
	321,473	**471,444**

29. Other liabilities

Group	2015	2014
	£000	£000
Trade payables	883	221
VAT payable	33	1,510
Deferred income	229	469
Social security and income tax	532	318
Accruals	7,081	7,199
Other creditors	6,612	2,538
	15,370	**12,255**

30. Commitments under operating leases

During the year, there was a commitment for the Group under an operating lease for the Bank's premises at 1st Floor, Sherborne House, 119 Cannon Street, London, EC4N 5AT for a ten year period from 20 April 2007 to 19 April 2017, at an annual rental of £0.3 million, with an initial rent free period. However, the Bank negotiated an exit of this lease and consequently the Group and Bank's commitment under this lease at year-end is £nil (2014: £0.8 million). During the year £0.6 million (2014: £0.3 million) was recognised as an expense in the income statement in respect of this operating lease.

There is a commitment at the year-end under a non-cancellable operating lease for the Bank's Wealth Management Division's premises at 12 Manchester Square, London W1U 3PP for a twenty year period (with a ten year break clause) from 23 June 2008 to 22 June 2028, at an annual rental of £0.5 million with an initial rent free period (2014: £0.5 million). In 2014, the disclosure was prepared on the basis that the break clause was likely to be exercised. However, management's current view is that the Bank will continue to occupy the premises and hence 2015 is disclosed on this basis.

Manchester Square	**2015**	**2014**
	£000	**£000**
Future minimum rentals are as follows:		
Lease expiring between one and five years	-	1,585
Lease expiring in more than five years	5,662	-
	5,662	**1,585**

During the year £0.4 million was recognised as an expense in the income statement in respect of this operating lease (2014: £0.4 million).

During the year, the Bank entered into a new non-cancellable operating lease for the Bank's main office premises at Cannon Place, 78 Cannon Street, London EC4N 6HL for a fifteen year period (with a ten year break clause) from 11 September 2015 to 10 September 2030, at an annual rental of £0.9 million with an initial rent free period.

Cannon Place	**2015**	**2014**
	£000	**£000**
Future minimum rentals are as follows:		
Lease expiring in more than five years	14,043	-
	14,043	**-**

During the year £0.2 million was recognised as an expense in the income statement in respect of this operating lease (2014: £nil).

There is a commitment at the year-end under a non-cancellable licence agreement for the Bank's Corporate Banking Regional office premises at Lowry House, 17 Marble Street, Manchester M2 3AW for a one year period from 1 April 2015 to 31 March 2016, at an annual licence fee of £0.03 million (2014: £nil).

Lowry House	**2015**	**2014**
	£000	**£000**
Future minimum rentals are as follows:		
Lease expiring between one and five years	8	-
	8	**-**

During the year £0.02 million was recognised as an expense in the income statement in respect of this operating lease (2014: £nil).

There is a commitment at the year-end under a non-cancellable operating lease for the Bank's representative office in Dubai for a three year period from 15 November 2015 to 14 November 2018, at an annual rental of AED 0.7 million, which was equivalent to £0.1 million at the balance sheet date (2014: AED 0.7 million / £0.1 million), with an initial rent free period.

Dubai office	**2015**	**2014**
	£000	**£000**
Future minimum rentals are as follows:		
Lease expiring in less than five years	355	96
	355	**96**

During the year £0.1 million (2014: £0.1 million) was recognised as an expense in the income statement in respect of this operating lease.

There is a commitment for the Group at the year-end under a non-cancellable operating lease for the premises of Renaissance Asset Finance Limited, a deemed subsidiary of the Bank, at 137 High Street, Brentwood, Essex CM14 4RZ, for a seven year period (with a four year break clause).

Brentwood	**2015**	**2014**
	£000	**£000**
Future minimum rentals are as follows:		
Lease expiring between one and five years	-	-
Lease expiring in more than five years	280	-
	280	**0**

During the year £0.02 million was recognised as an expense in the income statement in respect of this operating lease (2014: £nil).

There is a commitment for the Group and Bank at the year-end under a non-cancellable licence agreement for the premises of MKL Construction Equipment Finance Limited, a 60% joint venture of the Bank, at Marubeni Komatsu Limited, Padgets Lane, Redditch B98 0RT, for a five year period from 25 September 2015 to 25 September 2020, at an annual rental of £0.07 million (2014: £nil).

Redditch	**2015**	**2014**
	£000	**£000**
Future minimum rentals are as follows:		
Lease expiring between one and five years	-	-
Lease expiring in more than five years	21	-
	21	**0**

During the year £0.01 million was recognised as an expense in the income statement in respect of this operating lease (2014: £nil).

31. Contingent liabilities

In 2013, BLME Holdco Limited, a subsidiary of BLME, charged its holding of 100 ordinary shares of £1 each in BLME (UK) GP Limited, its 100% subsidiary, to LIBF Funding PCC – transacting in respect of its cell LIBF Funding Cell One PC – in relation to a financing agreement on behalf of BLME Light Industrial Building L.P., a partnership entity within the BLME Sharia'a Umbrella Fund SICAV SIF. There has been no change to this agreement during 2015.

32. Share capital and share premium

Group	Number of shares	Share capital £000
At 31 December 2013	195,783,692	48,983
Redemption of preference shares held by BLME	(50,000)	(50)
Repurchase of one A ordinary share held by BLME	(1)	0.001
At 31 December 2014	**195,733,691**	**48,933**
At 31 December 2015	**195,733,691**	**48,933**

Company	Ordinary shares of 25p each £000	Deferred shares of £1 each £000	A Ordinary shares of £1 each £	Redeemable Preference shares of £1 each £000	Total issued share capital £000
Allotted, called up and fully paid					
At 31 December 2013	48,933	-	1	50	48,983
Redemption of preference shares held by BLME	-	-	-	(50)	(50)
Repurchase of one A ordinary share held by BLME	-	-	(1)	-	(0.001)
At 31 December 2014	**48,933**	**-**	**-**	**-**	**48,933**
At 31 December 2015	**48,933**	**-**	**-**	**-**	**48,933**

Upon its incorporation on 24 April 2013, the issued share capital of the Company was as follows:

(a) 50,000 Redeemable Preference Shares; and
(b) 1 ordinary share of £1.00.

These shares were issued to BLME on 24 April 2013 as the sole shareholder in consideration for an undertaking to pay cash. By an ordinary resolution passed on 10 May 2013, the issued ordinary share of £1.00 in the capital of the Company was re-designated as an A Ordinary Share. On 20 June 2013 the ordinary share capital and preference share capital of the Company was paid-in in full by BLME for cash consideration totalling £50,001.

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

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

i. instead of having its issued share capital owned by BLME's Shareholders, Bank of London and The Middle East plc is now a wholly-owned subsidiary of BLME Holdings plc

ii. instead of owning a given number of Bank of London and The Middle East plc shares, each BLME Shareholder now beneficially owns approximately one BLME Holdings plc share for every 25 Bank of London and The Middle East plc shares that it held prior to the BLME Scheme of Arrangement becoming effective

iii. BLME Holdings plc became the new holding company of the BLME Group.

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

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

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

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

i. the BLME Scheme of Arrangement

ii. the cancellation of the Scheme shares

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

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

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

A merger reserve was created in the books of the Company upon the BLME Scheme of Arrangement becoming effective on 2 October 2013. The majority of this merger reserve was capitalised through an allotment and issue of 175 million Deferred Shares of £1 each to BLME which were cancelled on 7 October 2013, thus creating a distributable reserve in the books of the Company equal to the nominal value of the Deferred Shares so cancelled.

The Court hearing confirming the Company Reduction of Capital was held on 7 October 2013 and the Company Reduction of Capital became effective on that date.

33. Merger reserve

Company	**2015**	**2014**
	£000	**£000**
Opening balance at 1 January	**16,000**	**16,000**
Closing balance at 31 December	**16,000**	**16,000**

As referred to in Note 32 above, a corporate reorganisation of BLME was implemented on 2 October 2013 by means of a Court-approved scheme of arrangement under sections 895 to 899 of the UK Companies Act.

A merger reserve of £191 million was created in the books of the Company upon the BLME Scheme of Arrangement becoming effective on 2 October 2013. This merger reserve balance arising represents the excess of the net asset value of BLME of £239.9 million over the nominal value of the ordinary shares issued to the former shareholders of BLME of £48.9 million (see Note 32).

£175 million of this merger reserve was capitalised through an allotment and issue of 175 million Deferred Shares of £1 each to BLME on 2 October 2013. These deferred shares were subsequently cancelled on 7 October 2013, thus creating a distributable reserve in the books of the Company equal to the nominal value of the Deferred Shares so cancelled.

34. Subsidiaries and other entities

Subsidiaries (not structured entities)	Place of business & Country of incorporation	BLME interest in equity capital	Issued equity capital
Directly held:			
Bank of London and The Middle East plc	England & Wales	100%	£48,933,422
Indirectly held:			
BLME Asset Management Limited	England & Wales	100%	£2
BLME Holdco Limited	England & Wales	100%	£102
BLME Holdings EBT	Jersey	100%	£100
BLME Limited	England & Wales	100%	£2
BLME Nominees LIBF Limited	England & Wales	100%	£100
BLME (UK) GP Limited	England & Wales	100%	£100
BLME Umbrella Fund Management Sarl	Luxembourg	100%	US$ 25,000
Global Liquidity Solutions Limited	England & Wales	100%	£1
MKL Construction Equipment Finance Limited	England & Wales	60%	£1,000
Renaissance Asset Finance Limited	England & Wales	100%	£250,000
Renaissance Trade Finance Limited	England & Wales	100%	£2
Renaissance Property Finance Limited	England & Wales	100%	£2

As the Group owns, or can exercise an option to obtain, 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.

Renaissance Asset Finance Limited ("RAF") provides small ticket asset finance to the SME sector across the UK. With effect from 30 June 2015, the Group has consolidated RAF in these financial statements. The Group's management has determined that it has control of the entity due to an option to purchase 100% of RAF's issued voting share capital becoming exercisable on 30 June 2015. Under IFRS 10, this results in the Group deeming to have power over, and control of, RAF. Consequently, the transaction is deemed to be a business combination under IFRS 3. The consideration transferred of £4.3 million is comprised of the fair value of the option (£3.5 million) and the option exercise price (£0.75 million). Further contingent consideration is dependent on RAF management satisfying hurdles as set out in the Option Promise Agreement in 2018, 2019 and 2020. The Group has recognised £2.2 million as contingent consideration and represents its fair value at balance sheet date. If the option was exercisable from the start of the reporting period, consolidated net margin of the Group would have been approximately £34.6 million (i.e. an additional £0.9 million) and consolidated loss for the period of the Group would have been approximately £0.5 million higher.

Goodwill arising from this transaction has been recognised as follows:

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

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

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

The goodwill is attributable to management's demonstrable track record in establishing similar companies and the expected cash flows arising from the company's client base. None of the goodwill recognised is expected to be deductible for tax purposes. Fair value has been determined by undertaking a discounted cash flow analysis of future cash flows of the business using market discount rates.

Under IFRS 3, a measurement period of up to one year can be utilised to assess the valuation of net assets acquired as a result of a business combination. If new information obtained within one year of the date of the deemed acquisition about facts and circumstances that existed at the date of the deemed acquisition identifies adjustments to the above amounts or any additional provisions that existed at the date of deemed acquisition, then the accounting for the acquisition will be revised. At the balance sheet date, management re-measured the fair value of the option to include the contingent consideration.

Goodwill impairment assessment

The recoverable amount of the goodwill was based on value in use, estimated using discounted cash flows. The key assumptions used in this assessment were cash flow projections including management approved projections for five years representing management's best estimate of business volumes and margins discounted at a market rate using internal and external sources of information (12%). The base case cash flows would need to reduce by 72% before the recoverable amount falls below the carrying amount.

Asset Management seed capital investment

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

Compartment (not structured entities)	Share Class	Holdings 2015	Holdings 2014
BLME Income Fund	Management	1	1
	B	25,741.369	25,741.369
	C	24,995.251	24,995.251
	G	1,234.491	1,234.491
	M	198.766	198.766
BLME Global Sukuk Fund	A	8,239.545	8,239.545
BLME Light Industrial Building Fund	A	10,027.628	10,027.628

These holdings represent a majority interest in all three active compartments of the BLME Sharia'a Umbrella Fund SICAV SIF which are therefore deemed to be controlled by the Group and thus consolidated into the Group's results. The overall holding in the BLME Sharia'a Umbrella Fund SICAV SIF is approximately 57.6% (2014: 67.9%) of the shares issued. The Group recognised an expense of £1.7 million (2014: £1.2 million) in the income statement line "Change in third party interest in consolidated funds" relating to the minority interest of third party investors in the fund. The minority interest of 42.4% (2014: 32.1%) has been reported in the Group's balance sheet liabilities line "Third party interest in consolidated funds".

There are two active structured entities ("SE") (2014: five) that do not qualify as subsidiaries under UK law but which are consolidated under IFRS 10 as the substance of the relationship is that the entities are deemed to be controlled by the Group. These entities are deemed to be controlled by the Group because the relationships between the Group and the SEs are governed by participation agreements which allow the Group to exercise power over the SEs in addition to being exposed to, and having rights over, the variable returns from its involvement with the SEs. Furthermore, the Group has the ability to use its power to affect its returns from its involvement in the SEs.

The two entities are as follows:

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

Lease assets owned by the SEs are reported as Group operating lease assets amounting to £10.6 million (2014: £15.8 million).

The BLME Holdings EBT holds a stock of own shares acquired at a cumulative cost of £4.2 million (31 December 2014: £4.2 million) which has been deducted from retained earnings in the Condensed Consolidated Statement of Changes in Equity. The BLME Holdings EBT did not purchase any own shares during the year (2014: nil). No stamp duty costs were incurred by the Group on behalf of the BLME Holdings EBT during the year (2014: nil).

- **Significant restrictions**

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of Bank of London and The Middle East Plc's assets and liabilities are £1,300 million and £1,063 million respectively (2014: £1,382 million and £1,138 million respectively).

- **Interests in unconsolidated structured entities**

The Group has a 40% participation in a syndicated loan made to a Cayman Islands structured entity to which the Group has an exposure of $18.1 million / £12.3 million (2014: $18.1 million / £11.6 million). The SE is financed by a syndicate of financial institutions. The carrying amount of this participation is $1.1 million / £0.7 million (2014: $6.1 million / £3.9 million), which is included within "Financing arrangements". The carrying amount represents the maximum exposure to loss arising from the Group's interest in this unconsolidated structured entity. No income was received during the year from the entity (2014: nil) nor are there any liquidity arrangements, guarantees or other commitments with third parties that may affect the fair value or risk of the Group's interest in this unconsolidated structured entity (2014: none).

- **Contractual arrangements and financial support**

The Group does not have any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated or unconsolidated structured entity (2014: none).

The Group did not provide financial support to any of its consolidated or unconsolidated structured entities during 2015 (2014: nil) and does not have any current intentions to provide such support (2014: none).

35. Related parties

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

	2015	**2014**
	£000	**£000**
Boubyan Bank K.S.C		
Wakala placement	98,325	70,446
Wakala deposit taking	11,168	26,640
Foreign exchange transactions	-	654
The Public Institution for Social Security		
Reverse Murabaha	570,865	530,667

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

Included within:	**2015**	**2014**
	£000	**£000**
Cash and balances with banks		
Nostros	1,244	2,191
Due from financial institutions		
Wakala placement	-	7,383
Due to financial institutions		
Wakala deposit taking	11,175	7,151

On 22 September 2010 the Group entered into a five year marketing and advisory services agreement with Boubyan Bank K.S.C. The Bank paid KWD 0.5 million per annum, which was equivalent to £1 million at the 31 December 2014 balance sheet date, annually in arrears for the services with the first payment made on 30 September 2011. In return Boubyan Bank committed to providing a comprehensive range of marketing and advisory initiatives. As at 31 December 2015, the aggregate cost of these services had been fully recognised in the income statement through the "Other operating expenses" line.

On 4 April 2011 the Group was appointed by Boubyan Bank as agent under a two year facility agency agreement with Boubyan Bank K.S.C in relation to a master Murabaha facility agreement between Boubyan Bank K.S.C and a client of Boubyan Bank K.S.C for the purpose of the acquisition and development of a property in London. For this service, the Group received a facility agency fee of £124,000 during the first year of the agreement and £62,000 in the second year of the agreement. The fee was payable in four equal quarterly instalments each year. On 25 June 2013 the facility agency agreement with Boubyan Bank K.S.C was amended so that the Group also received an extension facility agency fee of £124,000 in four equal quarterly instalments commencing with effect from 4 April 2013.

As at 31 December 2015, Boubyan Bank K.S.C held 25.62% of the Company's shares (2014: 25.62%). A Non-executive Director who joined the Board on 6 December 2012, and was appointed Chairman on 31 March 2014, is the current Chief Executive Officer and Vice-Chairman of Boubyan Bank K.S.C.

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

Included within:	2015	2014
	£000	**£000**
Reverse Murabaha	585,426	534,808

As at 31 December 2015, The Public Institution for Social Security held 7.67% of the Company's shares (2014: 7.67%). The Group's Vice Chairman holds the position of Deputy Director General for Investment of The Public Institution for Social Security.

There were foreign currency forward contracts totalling £0.06 million with PDQFX Limited as at 31 December 2015 (2014: none). The Company's former Chief Executive Officer holds a 50% interest in PDQFX Limited (2014: 50%)

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

	2015	2014
	£000	**£000**
Key management emoluments *	760	958
Bank contributions to pension plans	-	17
	760	**975**

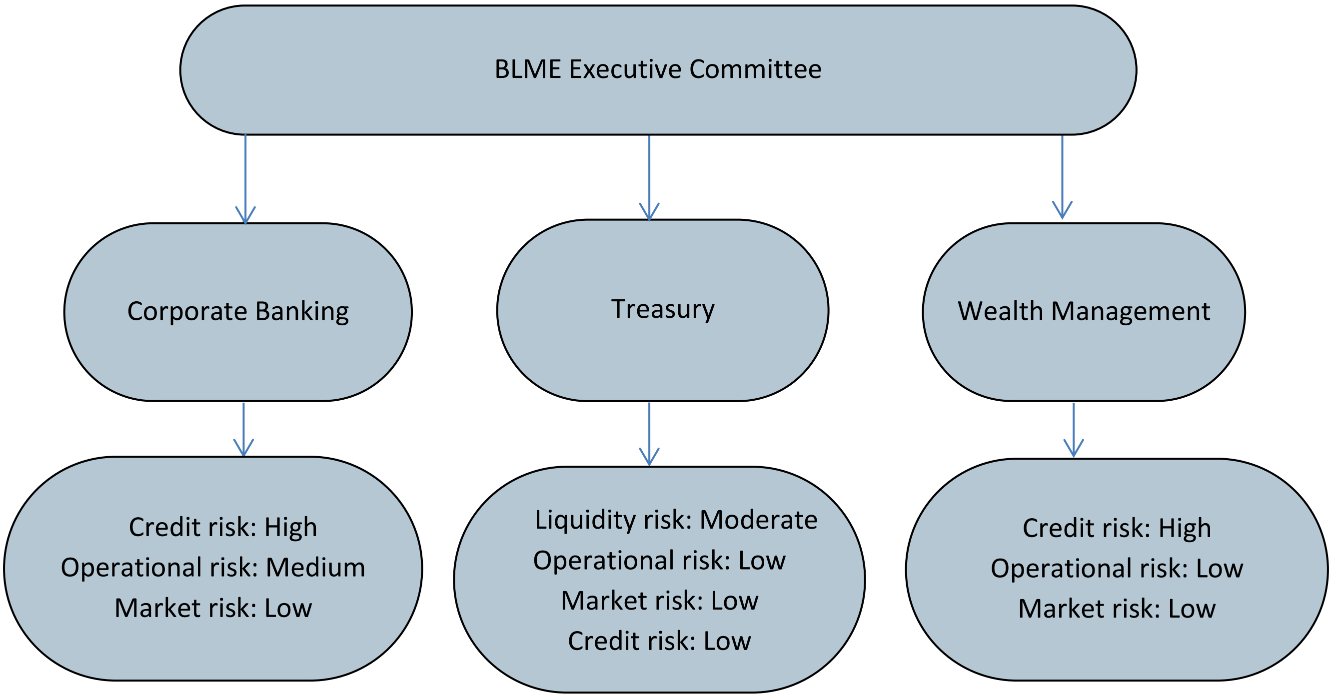
* Key management emoluments includes share-based payments of £0.01 million (2014: £0.03 million).

36. Financial risk management

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

- credit risk
- liquidity risk
- market risk
- operational risk

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



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

Risk management framework

The Group operates an integrated risk framework which defines the basic components for the identification, assessment, measurement, management, monitoring and reporting of risks. Responsibilities are organised in accordance with the "three lines of defence" where:

1. Line management, (including Senior Management and Executives), is responsible for ensuring that a risk and control environment is established as part of the day-to-day operations (1st line of defence)
2. Oversight functions such as Risk Management and Compliance are responsible for designing policies, setting direction, ensuring compliance and providing oversight for Board and Audit Committee members (2nd line of defence)
3. Assurance is provided by the independent Internal Audit function (3rd line of defence)

The management of risk in the Group is founded on defining the risk appetite for each class of risk in line with business strategy. Governance structures are put in place to oversee the strategic priorities and to manage the defined risk appetite for each class of risk. For each risk category a range of risk management techniques and limits under an independent control framework are established. This is supported by a stress testing programme that defines a Stress Test Guidance Parameter for each main risk type. Stress testing seeks to ensure that risks remain within the Group's stated risk appetite and capital allocation. These processes take place within an approved Risk framework ensuring that:

- Systems and controls are in place to manage the day-to-day business. These are performed with segregation of duties, reporting and escalation procedures
- Committee and Governance structures exist to oversee the effective operation of the internal control framework and to seek to ensure that the management of risk conforms to regulatory guidelines and the particular risk appetite of the business, as determined by the Board. This is re-enforced by the independent advisory and monitoring functions of Risk Management and Compliance

- An additional layer of independent risk assurance is provided by the internal auditing process, and by the programme of regular independent review that the Board Risk Committee and the Audit Committee undertake on behalf of the Board

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed to reflect changes in market conditions, products and services offered.

The principal risks faced by the Group are described below, together with details of how these risks are managed (which have not changed significantly during the year). Quantitative information indicates the amounts of such risks at the reporting date. The amounts at the reporting date are indicative of the amounts of such risks which have been experienced throughout the period.

a. Credit risk

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

i. Management of credit risk

The Group manages credit risk by the use of Portfolio Limits and Target Market Criteria within the Group's Credit Risk Management Policy. These sector and business based expressions of credit risk appetite provide guidance on the acceptable level of credit exposure by counterparty rating, country and sector, including the adequacy of collateral. Credit risks are monitored on a daily basis and regularly re-assessed for creditworthiness.

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

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

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

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

ii. Exposure

The tables below present the Group's maximum exposure to credit risk on balance sheet financial instruments as at 31 December 2015, before taking account of any collateral held or other credit enhancements. Management believes that the amounts at the reporting date are indicative of the amounts at risk throughout the period.

Group	2015 £000	2014 £000
Cash and balances with banks	88,732	45,993
Due from financial institutions		
Murabaha	23,690	86,861
Wakala	-	100,759
Due from customers	-	5,038
Investment securities	194,712	188,134
Financing arrangements	613,753	606,050
Finance lease receivables	282,607	257,966
Total credit exposure	**1,203,494**	**1,290,801**

The Group had 54 off balance sheet letters of guarantee outstanding at 31 December 2015 (2014: 80) with a total exposure of £21.2 million (2014: £28.4 million). These letters of guarantee mainly relate to short dated Trade Finance and ABL Finance facilities with a maturity of less than six months.

iii. Exposure by country of incorporation of the borrower

The Group assets were dispersed across the following countries:

Group	2015	2014
	£000	£000
GCC countries		
Bahrain	1,722	24,691
Kuwait	29,638	78,721
Qatar	21,129	50,726
Saudi Arabia	158,752	82,068
United Arab Emirates	51,393	93,291
EEA countries		
France	1,375	26,976
Ireland	9,482	-
Luxembourg	10,043	8,715
Norway	-	5,401
United Kingdom	847,201	776,022
Other countries		
Bermuda	-	4,188
British Virgin Islands	6,471	19,506
Cayman Islands	7,573	3,707
Djibouti	1,896	2,655
Guernsey	10,347	-
Hong Kong	4,241	23,508
Indonesia	1,007	1,579
Jersey	7,273	-
Malaysia	5,402	32,466
Pakistan	517	318
Singapore	-	3,207
South Africa	131	486
South Korea	3,981	6,599
Switzerland	-	4,810
Turkey	9,690	20,790
USA	14,230	20,371
Total credit exposure	**1,203,494**	**1,290,801**

iv. Exposure by economic sector

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

Group	2015	2014
	£000	£000
Financial services		
GCC financial institutions	156,119	213,984
UK financial institutions	128,414	112,543
European financial institutions	7,713	31,008
Other financial institutions	19,017	54,519
Mining and quarrying	6,799	-
Manufacturing	56,895	33,753
Real estate	374,935	319,363
Transportation and storage	128,418	147,729
Government	58,221	52,774
Wholesale / Retail	47,610	119,170
Oil and Gas	23,651	29,548
Commodities	92,035	63,368
Energy	4,585	11,638
Construction	27,936	42,765
Telecoms	1,783	17,403
Others	69,363	41,236
Total credit exposure	**1,203,494**	**1,290,801**

v. Credit risk quality

The Group's credit quality and direct investments are managed by CCRC and the Assets and Liabilities Committee respectively, under the oversight of the Executive Committee and, in the case of CCRC, Board Credit Committee. Credit quality is assessed using techniques that include information from the major External Credit Assessment Institutions ("ECAI") as well as BLME internal ratings for customers who are not externally rated. BLME internal ratings are assigned an ECAI rating for comparison purposes. The table below shows the breakdown of credit quality as at 31 December 2015. Of the total portfolio 28% (2014: 31%) was directly rated by at least one of the ECAI, with 72% (2014: 69%) mapped using internal ratings.

For counterparties not rated by the major ECAI the Group determines underlying counterparty credit quality by use of its internal credit rating procedures. These procedures assess in combination, the financial and managerial strength, business model robustness, collateral value and availability and the sector and geography of the counterparty concerned. Following this assessment an internal BLME rating is allocated. BLME's internal ratings range from "aa" considered very strong to "b" considered relatively weak.

Group

At 31 December 2015	ECAI ratings		BLME Internal Rating		Unrated	
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade	Unlisted Equity Investments	Total
	£000	£000	£000	£000	£000	£000
Cash and balances with banks	88,732	-	-	-	-	88,732
Due from financial institutions	23,690	-	-	-	-	23,690
Due from customers	-	-	-	-	-	-
Investment securities	190,596	-	-	-	4,116	194,712
Financing arrangements	16,921	6,382	203,058	387,392	-	613,753
Finance lease receivables	8,813	2,446	70,879	200,469	-	282,607
Total credit exposure	**328,752**	**8,828**	**273,937**	**587,861**	**4,116**	**1,203,494**

Group

At 31 December 2014	ECAI ratings		BLME Internal Rating		Unrated	
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade	Unlisted Equity Investments	Total
	£000	£000	£000	£000	£000	£000
Cash and balances with banks	45,993	-	-	-	-	45,993
Due from financial institutions	143,023	3,207	19,244	22,146	-	187,620
Due from customers	-	-	5,038	-	-	5,038
Investment securities	153,078	8,792	21,890	1,265	3,109	188,134
Financing arrangements	9,824	9,599	203,408	383,219	-	606,050
Finance lease receivables	24,787	4,168	116,361	112,650	-	257,966
Total credit exposure	**376,705**	**25,766**	**365,941**	**519,280**	**3,109**	**1,290,801**

The Group’s cash balances, due from financial institutions balances and investment securities were neither past due nor impaired as at 31 December 2015 and as at 31 December 2014.

Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	2015	2014	2015	2014
	£000	£000	£000	£000
Neither past due nor impaired	560,253	566,979	256,901	257,697
Past due but not impaired	33,257	17,529	6,429	269
Gross exposure associated with impairment provision	53,329	54,811	24,995	-
Less: allowance for impairments	(33,086)	(33,269)	(5,718)	-
Total	**613,753**	**606,050**	**282,607**	**257,966**
Past due but not impaired	**£000**	**£000**	**£000**	**£000**
Past due up to 30 days	8,980	17,529	5,742	269
Past due 30 to 60 days	24,277	-	687	-
Past due 60 to 90 days	-	-	-	-
Past due over 90 days	-	-	-	-
Total	**33,257**	**17,529**	**6,429**	**269**

The past due but not impaired balances as at 31 December 2015 include £29.8 million (2014: £11.6 million) relating to four (2014: three) real estate transactions where the facility balances are lower than the collateral values. The Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. An analysis of impairments is provided in Note 14 “Impairment of financial assets and operating leases”.

Forbearance

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

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

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

A concession refers to either of the following actions:

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

Evidence of a concession includes:

- A difference in favour of the debtor between the modified and the previous terms of the contract

- Cases where a modified contract includes more favourable terms than other debtors with a similar risk profile could have obtained from the Bank

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

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

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

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

The exposure continues to be reported as forborne until such time as all of the conditions are met. The conditions are assessed on a monthly basis.

Based on the credit exposures existing as at 31 December 2015 there had been eleven instances (2014: two):

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

The carrying value as at 31 December 2015 of exposures relating to forborne counterparties with no specific impairment charge was £30.5 million, which represents 2% of the Group's total assets (2014: £13.2 million and 1%). In all cases, the Bank has appropriate collateral to sufficiently cover the amount outstanding.

- **Allowance for impairment**

The Group has established a policy to monitor impairment events that could lead to losses in its asset portfolio. This policy covers specific loss events for individual significant exposures as well as for events that relate to collective losses on groups of homogenous assets that have yet to be identified and assessed individually for impairment.

The Group writes off a balance (and any related allowances for impairment) when the Credit Risk Department determines that the balance is uncollectible. This determination would be reached after considering information such as the occurrence of significant changes in the counterparty's financial position such that the counterparty can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

vi. Collateral

The Group monitors the market value of its collateral on an on-going basis which, dependent upon the collateral type, can vary from monthly to at least once a year. As at 31 December 2015, collateral represented 60% (2014: 56%) of the Group's total credit exposure.

Financial assets and non-financial assets obtained by the Group by taking possession of collateral held as security against financing arrangements and finance leases and held at the year-end are shown below:

Assets obtained by taking possession of collateral	**2015**	**2014**
	£000	**£000**
Real estate	6,346	6,346
Total	**6,346**	**6,346**

The real estate collateral balances reported above relate to a property under the appointment of an LPA receiver. Negotiations with third parties have progressed and the Bank believes the collateral will be realised at a value that will provide an exit without the need for further impairment charges.

Group	**2015 Exposure**	**2015 Collateral**	**2014 Exposure**	**2014 Collateral**
	£000	**£000**	**£000**	**£000**
Cash and balances with banks	88,732	-	45,993	-
Due from financial institutions	23,690	-	187,620	-
Due from customers	-	-	5,038	-
Investment securities	194,712	-	188,134	-
Financing arrangements	613,753	465,080	606,050	509,075
Finance lease receivables	282,607	244,294	257,966	209,178
Total credit exposure	**1,203,494**	**709,374**	**1,290,801**	**718,253**

Group analysis of collateral	**2015**	**2014**
	£000	**£000**
Plant and equipment	278,260	304,794
Property	298,547	280,115
Raw materials/ finished stock	132,567	133,344
Total credit exposure	**709,374**	**718,253**

In addition, the Group holds financial guarantees of £47.4 million (2014: £16.2 million) against financing arrangements.

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

As at 31 December 2015, 90% (2014: 89%) of the Group's property lending exposure had a loan-to-value ratio equal to or less than 70%.

vii. Offsetting financial assets and liabilities

Whilst the Bank has entered into Master Agreements with counterparties that allow the Bank to obtain collateral which, if an event of default occurs, permits settlement of all outstanding transactions with each counterparty on a net basis; no such commercial arrangements have been transacted and accordingly there are no offsetting financial assets and liabilities which require disclosure under the amendments to IFRS 7.

viii. Fair value of financial assets and liabilities

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

Group	Note	**2015 Carrying value £000**	**2015 Fair value £000**	**2014 Carrying value £000**	**2014 Fair value £000**
Due from financial institutions	i	23,690	*	187,620	*
Due from customers	i	-	-	5,038	*
Investment securities	ii	194,712	195,266	188,134	188,134
Financing arrangements	iii	613,753	*	606,050	*
Finance lease receivables	iv	282,607	*	257,966	*
Due to financial institutions	iv	681,597	*	626,868	*
Profit rate swaps liability	iv	1,369	1,369	2,236	2,236
Due to customers	iv	321,473	*	471,444	*

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

Notes

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

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

iii. Fair value reflects screen based quotes from third party pricing providers where appropriate and available or values based on current profit rates with reference to residual maturity from balance sheet date.

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

Valuation of Financial Instruments

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

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

Group	**2015 Level 1 £000**	**2015 Level 2 £000**	**2015 Level 3 £000**	**2015 Total £000**
Investment securities	190,909	-	3,803	194,712
Investment properties	-	26,790	-	26,790
Profit rate swaps liability	-	1,369	-	1,369

Group	2014	2014	2014	2014
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment securities	183,216	1,579	3,339	188,134
Investment properties	-	28,580	-	28,580
Profit rate swaps liability	-	2,236	-	2,236

During the year, there were no transfers between Level 1 and Level 2 fair value measurements (2014: none) and no transfers into or out of Level 3 fair value measurements (2014: none). Transfers between levels would occur at the date of the event or change in circumstances that caused the transfer.

The investment properties are valued by an independent professional firm of qualified surveyors in accordance with the RICS Valuation – Professional Standards, incorporating the International Valuation Standards, Global and UK edition (2014) – 'the Red Book'. The properties are all held for investment purposes and have been valued on the basis of Market Value, defined within the Red Book as:

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

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

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

There have been no changes to the methodologies used in valuing the level 2 and 3 assets (2014: none).

The following table shows a reconciliation from the beginning balances to the ending balances for fair value measurements in Level 3 of the fair value hierarchy.

Group	2015	2014
Investment securities	£000	£000
Balance at 1 January	3,339	2,714
Total gains / (losses) recognised in:		
- profit or loss*	(214)	(195)
- other comprehensive income**	549	89
Purchases	130	781
Sales	(1)	(50)
Balance at 31 December	**3,803**	**3,339**

** This amount is included in "net fair value losses on investment securities" in the income statement*
*** This amount is included in "changes in fair value of available-for-sale financial assets taken to equity" in the statement of comprehensive income*

Of the £0.2 million recognised in the income statement (2014: £0.2 million), £0.2 million (2014: £0.02 million) is attributable to the change in unrealised gains or losses relating to those assets held at the balance sheet date.

The reconciliation for investment properties is included in Note 20.

ix. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2015.

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

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

Group	2014 Fair value through profit and loss	2014 Available-for-sale	2014 Financial assets at amortised cost	2014 Total
Assets	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	-	-	45,993	45,993
Due from financial institutions	-	-	187,620	187,620
Due from customers	-	-	5,038	5,038
Investment securities:				
Sukuk	47,602	136,848	-	184,450
Equity	-	3,684	-	3,684
Financing arrangements	-	-	606,050	606,050
Finance lease receivables	-	-	257,966	257,966
Other assets (excluding prepayments)	745	-	3,077	3,822
Total financial assets	**48,347**	**140,532**	**1,105,744**	**1,294,623**

Group	2014 Profit Rate Swaps designated as fair value hedging instruments	2014 Profit Rate Swaps designated as cash flow hedging instruments	2014 Financial liabilities at amortised cost	2014 Total
Liabilities	**£000**	**£000**	**£000**	**£000**
Due to financial institutions	-	-	626,868	626,868
Due to customers	-	-	471,444	471,444
Profit rate swaps	912	1,324	-	2,236
Total financial liabilities	**912**	**1,324**	**1,098,312**	**1,100,548**

b. Liquidity risk

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

The Treasury Division is responsible for monitoring the liquidity profile of financial assets and liabilities, including projected cash flows from current and future business. This area maintains a portfolio of short-term money market assets and marketable securities and seeks to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis in accordance with guidelines issued by ALCO and approved by Board Risk Committee. Overall, the management of liquidity risk is conducted in accordance with the Group's Liquidity Risk Management Policy and its annual Individual Liquidity Adequacy Assessment, as required by the Prudential Regulatory Authority. Included in the ILAA is BLME's Contingency Funding Plan that details actions during a liquidity stress.

Over and above regulatory liquidity, ALCO establishes its own liquidity performance measures and prudential guidelines. These include a series of early warning triggers and management data on liability stability (i.e. the likelihood of deposits being withdrawn), liability diversification and reserve liquidity. As at 31 December 2015, the Group held £962 million (2014: £1,053 million) of term deposits and held £2.4 million (2014: £2.7m) of secondary market assets.

Residual contractual maturities of financial assets

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2015 Total £000
Cash and balances with banks	88,732	-	-	-	-	88,732
Due from financial institutions	21,522	2,315	-	-	-	23,837
Due from customers	-	-	-	-	-	-
Investment securities	5,688	419	29,120	164,798	2,989	203,014
Financing arrangements	280,287	79,452	132,028	158,279	-	650,046
Finance lease receivables	7,109	22,719	88,688	185,124	7,427	311,067
	403,338	**104,905**	**249,836**	**508,201**	**10,416**	**1,276,696**

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2014 Total £000
Cash and balances with banks	45,993	-	-	-	-	45,993
Due from financial institutions	171,539	9,685	6,442	-	-	187,666
Due from customers	5,042	-	-	-	-	5,042
Investment securities	44,156	-	9,533	137,086	-	190,775
Financing arrangements	227,684	115,928	97,378	207,498	20	648,508
Finance lease receivables	251	4,104	39,380	248,589	19,247	311,571
	494,665	**129,717**	**152,733**	**593,173**	**19,267**	**1,389,555**

The tables above show the contractual, undiscounted cash flows of the Group's financial assets. The Group is the senior lender in all of its lending exposures, with the exception of one financing arrangement in which it is the mezzanine lender (2014: one). The exposure to this counterparty is £8.2 million (2014: £8.4m).

None of the Group's assets have been pledged as collateral apart from cash collateral deposits of £0.5 million (2014: £0.7m) as security against rental payments on the Group's premises. Consequently, all of the Group's assets are unencumbered.

Residual contractual maturities of financial liabilities

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

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	2014 Total £000
Due to financial institutions	35,559	100,718	484,497	12,488	633,262
Due to customers	44,546	21,685	142,862	295,265	504,358
Profit rate swaps	209	202	646	1,179	2,236
	80,314	**122,605**	**628,005**	**308,932**	**1,139,856**

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

Whilst BLME has sufficient assets in the short dated time buckets to cover its short dated liabilities as they become due, it also holds a significant Liquid Asset Buffer ("LAB") (in line with the Prudential Regulation Authority BIPRU rules) of £115.3 million as at 31 December 2015 (2014: £110.2 million). These LAB holdings have been greater than the regulatory liquidity requirement throughout the year (unaudited).

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

Group	2015 £000	2014 £000
Cash and cash equivalents	88,732	45,993
Highly liquid securities (including LAB)	190,909	183,216
Total	**279,641**	**229,209**

As at 31 December 2015, there are no limitations on the use of the liquidity reserve held by the Group (2014: none).

c. Market risks

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

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

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

Group **31 December 2015**	**Note**	**Carrying amount**	**Market risk measure** **Trading portfolio**	**Non-trading portfolio**
Assets subject to market risk		**£000**	**£000**	**£000**
Cash and cash equivalents		88,732	-	88,732
Due from financial institutions	18	23,690	-	23,690
Due from customers		-	-	-
Investment securities	19	194,712	64,788	129,924
Financing arrangements	21	613,753	-	613,753
Finance lease receivables	22	282,607	-	282,607
Operating lease assets	24	39,641	-	39,641
Investment properties	20	26,790	-	26,790
Liabilities subject to market risk		**£000**	**£000**	**£000**
Due to financial institutions	27	681,597	-	681,597
Due to customers	28	321,473	-	321,473
Profit rate swaps	9	1,369	-	1,369

Group **31 December 2014**	**Note**	**Carrying amount**	**Market risk measure** **Trading portfolio**	**Non-trading portfolio**
Assets subject to market risk		**£000**	**£000**	**£000**
Cash and cash equivalents		45,993	-	45,993
Due from financial institutions	18	187,620	-	187,620
Due from customers		5,038	-	5,038
Investment securities	19	188,134	47,602	140,532
Financing arrangements	21	606,050	-	606,050
Finance lease receivables	22	257,966	-	257,966
Operating lease assets	24	52,228	-	52,228
Investment properties	20	28,580	-	28,580
Liabilities subject to market risk		**£000**	**£000**	**£000**
Due to financial institutions	27	626,868	-	626,868
Due to customers	28	471,444	-	471,444
Profit rate swaps	9	2,236	-	2,236

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

i. Profit rate risk

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

As at 31 December 2015, the Group's net profit rate sensitivity to profit and loss on its fixed and variable rate assets, and its capital and reserves, as measured by the discounted value of a one basis point change in market rates, was

£0.006 million (2014: £0.01 million). 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 2015		At 31 December 2014	
	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000
Increase in profit & loss	1,893	-	4,008	-
Decrease in profit & loss	-	1,749	-	2,954
Increase in equity	2,447	-	1,456	-
Decrease in equity	-	2,386	-	555

ii. Credit spread risk

During the year, the Bank operated a Sukuk Trading Book, within which the portfolio size and individual issuer risks were limited to modest proportions since BLME does not have a material appetite for Trading Risk. These positions were exited during the year and as such, no credit spread risk existed at 31 December 2015 (31 December 2014: Value of trading book: £3.4 million / impact on equity and profit & loss of a 10% change in sukuk trading prices: £0.3 million).

iii. Foreign exchange risk

Foreign exchange risk is the risk that the value in a non-Sterling asset or liability position will fluctuate due to changes in currency rates. The Bank does not take significant foreign exchange positions and the majority of risk relates to earnings on US Dollar assets and US Dollar liabilities whose maturities are broadly matched. The Board has established position and stop loss limits to ensure that positions and revaluation results are subject to independent daily monitoring and reporting to senior management.

	At 31 December 2015 £000	At 31 December 2014 £000
Resultant FX revaluation gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	22	109
	Year to 31 December 2015 £000	**Year to 31 December 2014 £000**
Net foreign exchange loss for the period	(528)	(25)

iv. Equity price risk

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

d. Operational risk

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

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

Senior Management ensures the identification and assessment of operational risk through a Risk and Control Self-Assessment ("RCSA") process. Technology risk (including CyberSecurity and Information Risk) surrounding core banking systems is perceived to be the area of risk that concerns most business areas and is compounded by a high inherent End User Computing risk. Operational risk events are reported through a centralised risk management system accessible to all staff; the resolution of an event is monitored by a network of operational risk 'champions' located within each business unit and support function.

Basel III requires capital to be retained for operational risk, which the Group has calculated to be £6.4 million using the Basic Indicator Approach (2014: £5.4 million) (unaudited).

e. Capital adequacy

At 31 December 2015 and throughout the year the Bank complied with the capital requirements that were in force as set out by the Prudential Regulation Authority ("the PRA"). The PRA adopted the Basel III requirements with effect from 1 January 2014.

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

	2015	2014
Audited	**£000**	**£000**
Tier 1 Capital - CET1		
Ordinary share capital	48,933	48,933
Share premium	180,623	205,624
Retained earnings / (losses)	7,361	(10,630)
Total Tier 1 capital	**236,917**	**243,927**
Unaudited		
Deductions from Tier 1 capital		
Intangible assets	(2,262)	(1,633)
Others	(1,003)	(179)
Total Tier 1 capital after deductions	**233,652**	**242,115**
Tier 2 capital	3,346	-
Total Tier 2 capital	**3,346**	**-**
Total Tier 1 and Tier 2 capital	**236,998**	**242,115**
Deductions from Tier 1 and Tier 2 capital:		
Investment in BLME Sharia'a Umbrella Fund SICAV SIF	(34,494)	(52,820)
Investment in DMJ II LLC	-	-
Investment in group companies	-	-
Total regulatory capital	**202,504**	**189,295**

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

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

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

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

	2015 £000 (unaudited)	2014 £000 (unaudited)
Pillar 1 capital requirements		
Credit risk	97,618	93,270
Market risk - foreign currency PRR	267	239
Counterparty risk capital component	100	252
Operational risk	6,434	5,403
Total Pillar 1 capital requirement	**104,419**	**99,164**
Total regulatory capital in place	**202,504**	**189,295**
Excess of capital in place over minimum requirement under Pillar 1	**98,085**	**90,131**

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

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

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

BLME will continue to prudently employ capital and maintain appropriate capital adequacy, liquidity and leverage ratios. BLME reported to the PRA ratios above the minimum requirement throughout 2015. The capital planning process continues to incorporate these measures.

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