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Bank of London & The Middle East

BLME Holdings plc
Annual Report and Financial Statements
For the year ended 31 December 2019

Registered number 08503102

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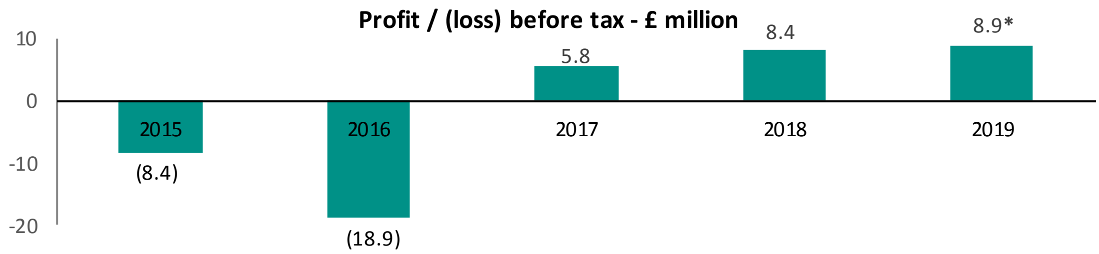
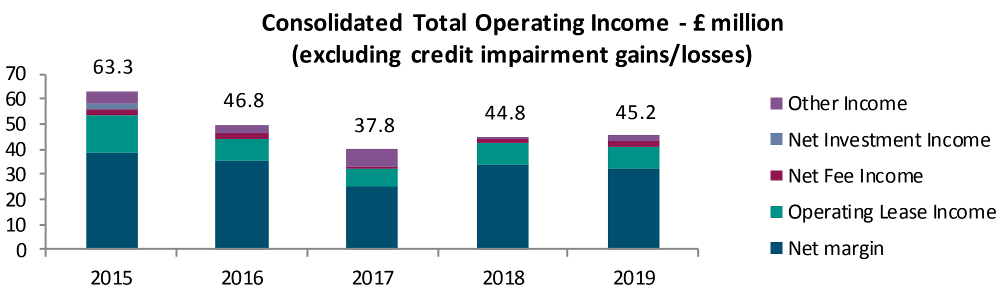
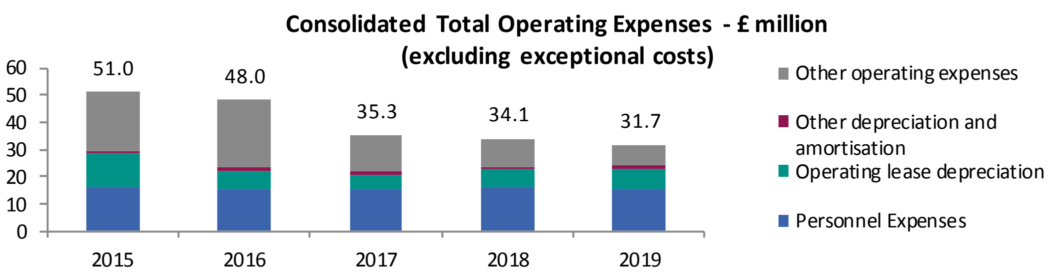
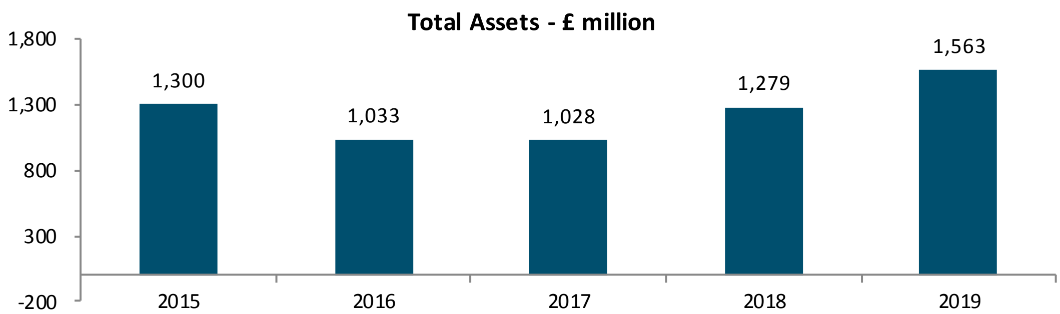
2019 GROUP HIGHLIGHTS FOR BLME HOLDINGS PLC

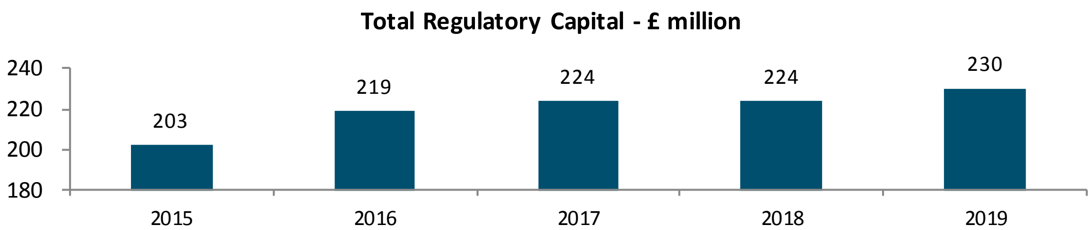
The Group's profit before tax for the year ended 31 December 2019 was £8.9 million (2018: £8.4 million).











*exceptional costs of £2.9m were incurred in 2019 in relation to the acquisition of the Group by Boubyan

CHAIRMAN'S STATEMENT

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

Dear Shareholders

I am pleased to report another year of excellent performance for the Group with 2019 profit before tax of £8.9 million despite challenging market conditions and exceptional expenses of £2.9 million relating to the Boubyan Bank K.S.C.P. ("Boubyan") acquisition.

In December 2019 BLME Holdings plc (the "Company") announced a recommended cash offer for the Company of $1.05 per share from Boubyan, our largest Shareholder. The offer from Boubyan was announced as unconditional on 27 January 2020 and was closed on 19 February 2020 at which point Boubyan held 71.08% of the Company.

In deciding to recommend the offer to our Shareholders, the Board considered the well-established relationship between the Group and Boubyan, the natural synergies between the two organisations and the Group's strong performance. Those members of the Company's Board who work for Boubyan, including myself, abstained from the decision-making process and discussions.

We believe the acquisition of the Company by Boubyan will open up new geographic markets for the Group and provide access to the Boubyan client base and products. Boubyan's strength and external credit rating will enable the Group to enhance liquidity to support growth. Our customers will start to see the benefits of closer ties with Boubyan as we work together to realise our ambitions for the Group to become a leading UK provider of Sharia'a Compliant wealth solutions to GCC clients.

During the year, the Company created Walbrook Asset Finance Limited ("Walbrook"), a subsidiary for our lease finance business. We are proud to have launched Walbrook which is well positioned for growth, to better service our leasing client base and add value to the Group.

Given the recent global onset of COVID-19, we expect there to be an impact on our future results due to a deterioration of our customers' collateral and their recoverability. Notwithstanding, the Group is taking contingency measures to reduce this impact as much as practicable.

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

Adel Abdul Wahab Al-Majed
Chairman
18 March 2020

Naming convention and abbreviations:
The expression "the Group" refers to BLME Holdings plc and its subsidiaries. BLME Holdings plc ("the Company") is the immediate parent company and is listed on Nasdaq Dubai.
The name of the principal subsidiary, Bank of London and The Middle East plc is shortened to "BLME" or "the Bank" in narrative text.

CHIEF EXECUTIVE OFFICER'S STATEMENT

2019 has been another year of progress, growth and increased profitability for the Group. We have continued to deliver against our wealth-focused strategy despite challenging market conditions and political uncertainty.

We have grown our client base, diversified our funding and, importantly, we have achieved this within our conservative risk appetite. We have continued to implement successfully our strategy and this is reflected in our strong 2019 results.

Financial Performance

Our commitment, focus and determination resulted in our Profit before tax increasing by 6% to £8.9 million in 2019. For the third consecutive year Net Operating Income excluding credit impairment losses increased, to £45.2 million for 2019 from £44.8 million in 2018. The Group's Balance Sheet has grown in 2019 by just over 20% to £1.6 billion from £1.3 billion in 2018.

In 2019 we incurred one-off exceptional costs of £2.9 million related to the recommended offer and acquisition of the Company. Despite these costs, expenses were managed tightly and I am pleased to note that there has been a reduction in expenses to £31.7 million, excluding exceptional costs, from £34.1 million. Our cost:income ratio excluding exceptional costs has continued to reduce and is now 64% (72% in 2018).

The Acquisition of BLME Holdings plc by Boubyan

2020 will bring many opportunities to the Group and our clients. The acquisition by Boubyan, our founding shareholder, will bring the Group closer to achieving our long-term objectives. We are confident that this new ownership structure will result in new and exciting prospects, products and services to the Group and our clients.

Boubyan will complete a full strategic review of the Group which will inform a refreshed business plan for 2020 and beyond. As announced in the Offer Document, Boubyan intends the Group to continue to operate as a standalone group within the wider Boubyan business. There is no intention to make any material changes to the Group's operations and places of business.

Risk Management

Throughout 2019 we have maintained a cautious risk appetite, which is demonstrated by the low proportion of non-performing financing assets in our financing portfolio which now sits at 1.5%. A net impairment loss of £1.8m reflects our discipline in underwriting quality assets, credit risk management and the recovery of distressed assets (£2.3m loss in 2018).

Operational risk, particularly cyber risk and conduct risk, have remained a priority for the Group. Whilst we had no major operational events, we continue to carefully manage our risks and frequently test our defences and business recovery plans.

Future

We will continue to closely monitor market conditions and political and economic developments ensuring that we maintain and continue to enhance our robust risk management framework.

In 2020, the Wealth Management division will build on their success in 2019 and focus on long-term and sustainable growth. Both Real Estate Finance and Real Estate Investment Solutions will continue to leverage their experience and excellent market reputations to support our clients to invest in and finance market leading real estate.

I am delighted with the successful delivery of the significant strategic initiative for the Group in setting up Walbrook for our lease finance business. Walbrook is well positioned for growth, to service better our leasing client base and add value to the Group.

Given the recent global onset of COVID-19, we expect there to be an impact on our future results due to a deterioration of our customers' collateral and their recoverability. Notwithstanding, the Group is taking contingency measures to reduce this impact as much as practicable.

I am very proud of our staff and the achievements and performance of the Group in 2019 and look forward to 2020 which will be full of challenges and opportunities.

Giles Cunningham
Chief Executive Officer
18 March 2020

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 the Company's owner group, Boubyan Bank K.S.C.P, having previously held the position of Chairman. From 1980 to 2009 Adel worked for National Bank of Kuwait where he held a number of positions including Deputy Chief Executive Officer and General Manager. Adel is currently the Chairman of Kuwait Banking Association.

Executive Directors

Giles Cunningham – Chief Executive Officer

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

Chris Power – Chief Financial & Chief Operating Officer

Chris joined the Group in September 2015. He graduated from the London School of Economics and holds an MBA. He qualified as a chartered accountant at Deloitte in London in 1986 and became an FCA and progressed to become a Senior Manager heading up the Hong Kong Banking and Securities Group of Deloitte. Chris joined the ABN Amro Group in 1994, heading the Corporate Control and Compliance function for Asia before becoming joint CFO/COO of the listed Bank in Asia. In 2004, Chris became a Corporate Executive Vice President of ABN Amro's Top Executive Group heading up the control function for South America based in Brazil. In 2008 he joined CLS Group Holdings AG (the world's foreign exchange settlement utility) as the Chief Financial Officer and in 2010 was the Group Finance Director of the Board.

Non-executive Directors

Michael Williams (Senior Independent Director)

As well as being the Senior Independent Director of BLME Holdings plc, Michael Williams is also the Chairman of the Nominations Committee. As Senior Independent Director Michael chaired the Independent Board of Directors during the period leading up to the recent successful takeover offer from Boubyan Bank. He joined the Group in 2012 and held positions including Chairman of the Nominations Committee and of the Risk Committee prior to being appointed Chief Executive Officer on an interim basis between May 2015 and March 2016. He is a qualified banker with an extensive background in international finance. He has held a number of senior and board level positions in the UK and in the Middle East. Prior to joining the Board of the Company, 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.

David Williams (Independent)

David Williams joined the Group in October 2015 as an Independent Non-Executive Director and Chairman of the Risk Committee. He is a senior credit risk professional with 28 years of experience in international banking operating at executive and board level in the Middle East, Europe and Asia. Over a career with Barclays PLC his executive roles included Wholesale Credit Risk Director of the Barclays Group and Chief Credit Officer at Barclays Capital. David was a Non-executive Board Director of LCH Clearnet Group Ltd. David is a former British Army officer and is currently Chairman of veterans charity Haig Housing Trust and Deputy Chairman of Care for Veterans.

Jabra Ghandour

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

Calum Thomson (Independent)

Calum Thomson joined the Board of BLME Holdings plc in April 2017 as Chairman of the Audit Committee and a member of the Risk Committee, Nominations Committee and the Remuneration Committee. He has over 25 years of experience in the Financial Services industry and was at Deloitte LLP for 21 years, specialising in the Financial Services sector. During his career at Deloitte he has led the global and UK asset management groups. Calum qualified as an accountant at EY, from there he went on to work at Lloyds of London's Regulatory Review department. His experience includes clients in the Middle East, Malaysia, UK and the US covering wealth management, private banking, private equity and the General Insurance Markets. Calum is a Non-executive Director and Audit Committee Chair of The Diverse Income Trust plc, AVI Global Trust plc, Baring Emerging Europe plc, Standard Life Private Equity plc and Adam Smith Advisory Group Limited and a Non-executive Director of Schroder Pension Management Ltd and Schroder Unit Trusts Ltd.

Joanne Hindle (Independent)

Joanne Hindle joined the Board of BLME Holdings plc as an Independent Non-executive Director in July 2018. She chairs the Remuneration Committee and sits on the Audit, Risk and Nominations Committees. She has over 30 years of experience in the financial services industry having held both executive and board level positions. Over her career Joanne has been Corporate Services Director at Unum Limited and Director of Pensions Development at NatWest Life. Amongst her portfolio of non-executive board positions, Joanne is Chairman of Shepherd's Friendly Society, and until December 2019 was a legal and compliance consultant for AXA Assistance and formerly was Chairman of Holmesdale Building Society.

Bader Abdullah Al Kandari

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

GROUP STRATEGIC REPORT

THE BUSINESS MODEL

BLME Holdings plc (the "Company") operates as the holding company of The Bank of London and The Middle East plc ("BLME" or "the Bank") which is one of the largest Islamic banks in Europe. BLME aims to become the leading UK provider of Wealth Management solutions to GCC clients, complemented by market leading Real Estate and Trade Finance offerings. BLME operates under the ethical principles of Islamic finance.

The Bank is authorised by the Prudential Regulatory Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA).

In December 2019 the Company announced a recommended cash offer for the Company of $1.05 per share from Boubyan, our largest Shareholder. The offer from Boubyan was announced as unconditional on 27 January 2020 and was closed on 19 February 2020 at which point Boubyan held 71.08% of the Company. Boubyan has been the Company's largest shareholder since the Bank launched in 2006 with active representation on the Boards of BLME and the Company. This acquisition will provide the Group, and Boubyan, with new growth opportunities, additional routes to market and leaves the Group well positioned to serve our current and future clients together.

Wealth Management

Private Banking leverages our Real Estate capabilities to provide a range of solutions that meet the requirements of our High Net Worth Clients.

During 2019 the focus was on growing our client base and developing products in line with their requirements and investment appetite. As a result we have launched additional products including Real Estate Investment Mandates and a digital concierge service. Our distribution capabilities have improved with the Dubai International Financial Centre office now a fully operational branch with a retail endorsement providing the perfect base to connect with our clients in the GCC and MENA region.

Real Estate remains the asset class of choice for GCC Wealth Management clients and we continued to execute investment transactions. In 2019 we purchased the leasehold rights to the Head Office building of British Gas in Scotland which has been successfully sold down to our Wealth Management clients.

Real Estate Finance continues to provide finance to small and medium sized Real Estate developers, investors and High Net Worth Individuals looking to invest in UK property across all sectors. Our Real Estate Finance business has strong links to our GCC clients with over a third of the portfolio having ultimate beneficial owners from the region.

Commercial Finance

Commercial Finance provides competitive financing solutions to the UK mid-market and supports companies with links to the GCC region. Our clients range from multinational corporations to family businesses generally earning a minimum operating profit of £1 million across a variety of sectors. The facilities offered typically range in size from £1 million - £20 million and the credit approval process is centralised in the London office. During the year, the Group successfully achieved its significant strategic initiative in setting up Walbrook Asset Finance Limited ("Walbrook") which will take on the lease finance business from the Bank. Walbrook is well positioned for growth, to service better the leasing client base and add value to the Group in 2020 and beyond.

Commodity Trade Finance is a profitable, successful part of the Group and has managed the business within our cautious risk appetite. It provides financing for the import and export of goods, inventory and receivables in addition to working capital facilities.

Treasury

The Treasury division manages the Bank and Group's capital, liquidity and funding, ensuring that the Group operates within its market and liquidity risk appetites. To this end Treasury ensures funding sources are diversified and at cost effective rates.

A priority for Treasury is to continue to diversify our source of funding. 2019 was a successful year with the Group reducing single depositor concentration risk from 52% to 13%. To support this effort Treasury reduced the minimum deposit for our award winning Premier Deposit Account product from £10,000 to £1,000. We have seen the benefits of the increased efficiency and improved customer experience in digitalising our successful savings products. This has been achieved through further automation and integration of the Customer Relationship Management (CRM) system.

The funding requirements of Walbrook to service and grow the leasing client base will be facilitated by the Bank's Treasury division as part of its role of managing the Group liquidity requirements.

STRATEGY AND OBJECTIVES

We are proud of our efforts in delivering strong performance and good profits for the third consecutive year. We continue to monitor and manage our costs closely. We want to create sustainable value for all of our stakeholders.

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

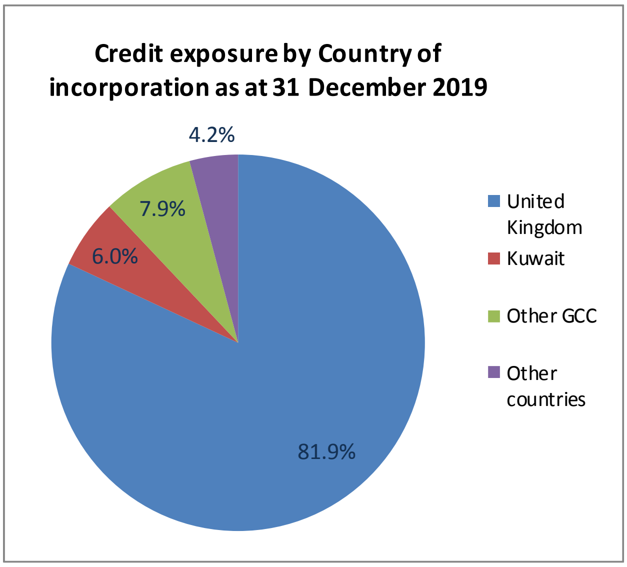
FINANCIAL RESULTS

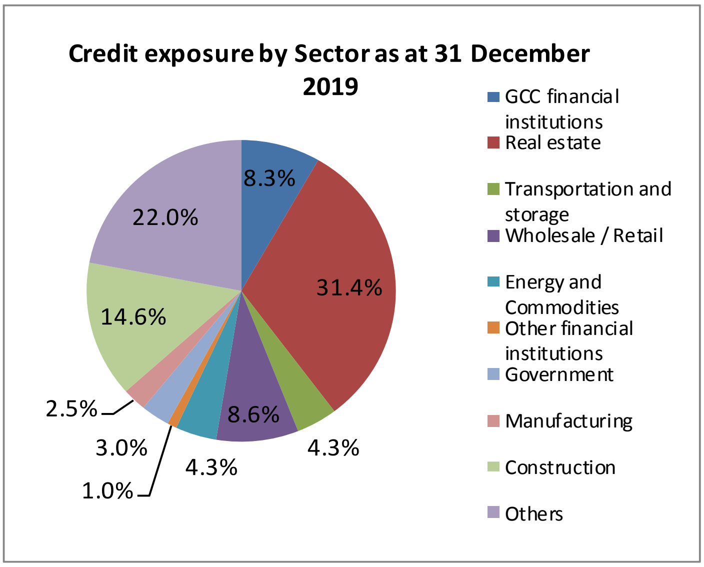
The financial statements for the year ended 31 December 2019 are shown on pages 40 to 49. The profit before tax and profit after tax for the year amounted to £8.9 million (2018: £8.4 million) and £7.5 million (2018: £11.2 million) respectively. This included £2.9m of exceptional non-recurring costs in relation to the acquisition by Boubyan. Below are the highlights of the financial performance and the position as at 31 December 2019.

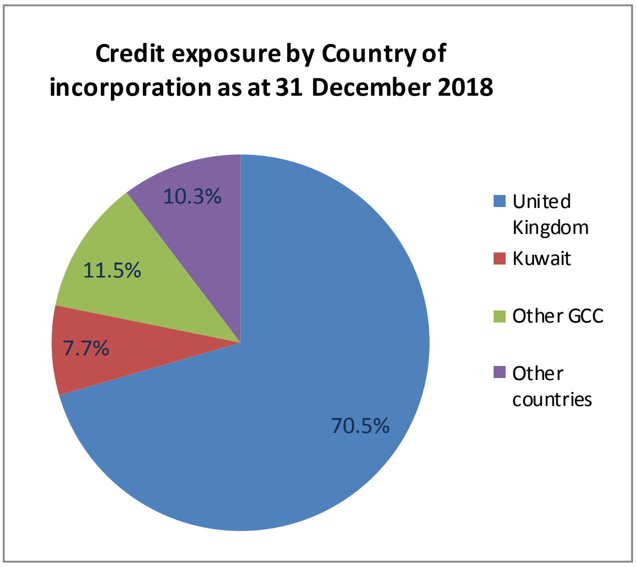
Key performance indicators - £ million	**2019**	**2018**
Profit before tax	8.9	8.4
Consolidated total operating income (excluding credit impairment losses)	45.2	44.8
Consolidated total operating expenses (excluding exceptional costs)	31.7	34.1
Credit impairment losses	1.8	2.3
Total assets	1,563	1,279
Total regulatory capital	230	224

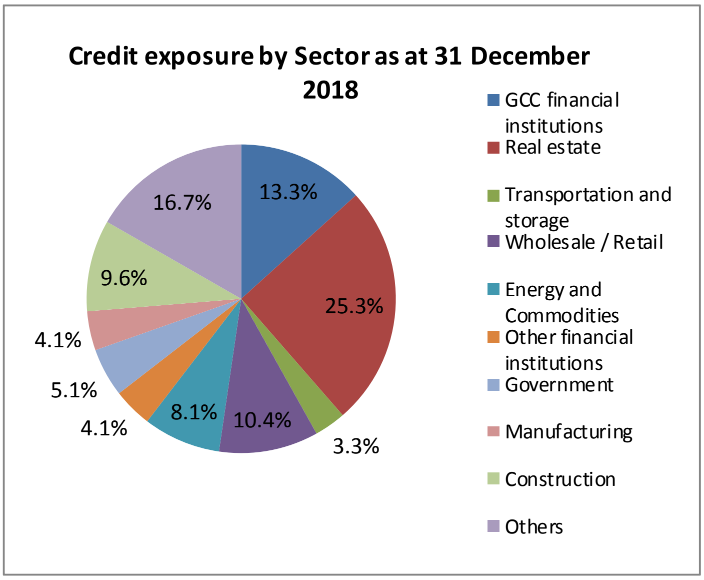
Other performance measures	**2019**	**2018**
Pre-tax return on equity	3.6%	3.6%
Cost income ratio	72%	72%
Cost income ratio (excluding exceptional costs)	64%	72%
Net fee income / total income	5.5%	4.8%
Non-performing Financing Assets to overall Financial Assets	1.5%	2.2%
Number of depositors	14,135	4,857

The charts show the credit exposure by country of incorporation and by sector. Further details can be found in Note 38.









GROUP NON-FINANCIAL INFORMATION STATEMENT

Our Stakeholders

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

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

<u>Shareholders</u>

We appreciate the support and patience our Shareholders have shown over the years and we understand how important it is to communicate openly and engage with them. On 5 December 2019, the Board of Boubyan and the Company's Independent Directors reached agreement on the terms of a recommended all cash offer by Boubyan, for the entire issued and to be issued ordinary share capital of the Company (other than the Company's shares already held by Boubyan (or its associates) and treasury shares) (collectively referred to as "the Offer"). In light of the Offer, we will ensure there is ongoing dialogue in addition to holding Annual General Meetings and sharing our annual and interim reports.

A post-acquisition strategic review will take place with Boubyan in 2020. This will provide a platform to discuss and plan how we engage with the remaining shareholders of the Company.

Customers

Our customers are central to all that we do and we work hard at being a customer centric bank with customer outcomes a priority. In June 2019 we surveyed our savings customers and had excellent results with over 89% of those surveyed 'Very Likely' or 'Likely' to recommend the Bank. The survey also identified the need to improve the Group's website especially the savings area, we prioritised this and delivered a redesigned website in September 2019.

Improvements have not been restricted to the website as we have also enhanced distribution and customer service with a retail endorsement for the DIFC Branch as a result of its successful application to the Dubai Financial Services Authority ("DFSA"). This allows the Branch to share targeted product information with targeted retail clients before full onboarding, making the process more efficient for potential clients.

In late 2019 the Bank signed an introducer's agreement with Meethaq Bank in Oman and have already seen referrals for real estate finance in the UK.

Suppliers

We rely on our suppliers to help the Group run smoothly, from day-to-day business to our future operations.

In order to maintain beneficial and productive relationships with our suppliers the Group frequently reviews supplier relationships and applies rigorous due diligence requirements.

Funding

The Group focuses effort to operate well within our market and liquidity risk appetite. As a Sharia'a Bank, cost-effective funding sources can be a challenge and reviewing funding sources will remain a priority for the Group.

With these challenges in mind we have enhanced our website, responded flexibly to rate changes and remained focussed on the customer experience. We have also built relationships with targeted providers that offer our savings product and manage the application process meaning that we can obtain funds more efficiently.

Employees

Our employees are central to our success. Over the past three years the Group has taken significant steps to ensure employees feel that their health and wellbeing is valued and supported. We are a great place to work and we look to continuously improve our culture and working environment so that our employees have the tools to succeed, and have their contribution and diversity celebrated.

As part of our efforts Group employees have access to a 'Wellbeing Hub' which provides advice on healthy living with information and support on areas ranging from exercise to financial advice through to Cognitive Behavioural Therapy. In addition to the Wellbeing Hub the Group provides annual health assessments, gym memberships and private medical Insurance. During 2019, the Group offered Mental Health Awareness training to all employees in order to better support individuals with mental health conditions by raising awareness, reducing stigma, improving productivity and doing more to lead the way amongst our peers and our industry.

We have a diverse workforce and we celebrate that diversity by proudly sponsoring cultural celebrations such as Eid, Easter, Diwali and Christmas. We support important cultural and societal initiatives such as UK Black History Month. As an Islamic bank we encourage all staff to take the Islamic Finance Qualification with 27% of the Group employees having passed the exam and another cohort of 11 employees currently studying for the qualification.

We also encourage an open dialogue with our employees so that we can identify any areas that need to be improved. This dialogue includes regular Group-wide question and answer sessions with the Executive Committee and bite-size information/training presentations from teams across the Group. Our appointed 'Conduct Champions' also play an important role in raising awareness, communicating expectations and being a source of advice and guidance. We also have an annual employee engagement survey delivered by an independent third party, which shows the Group to be a market leading employer.

We are proud of our commitment to our employees and we will continue to build a bank and workplace that makes the Group an employer of choice.

Communities and the environment

Our role and positive impact in the community is important to the Group and our stakeholders. We regularly support our employees to volunteer with and raise funds for local communities and charitable causes. As a bank we partner with a number of charities every year.

We also have introduced several initiatives to help minimise our impact on the environment which include a Cycle to Work Scheme and extensive recycling facilities such as a partnership with a company to recycle our coffee grounds. Our Head Office has a 'Very Good' BREEAM (Building Research Establishment Environmental Assessment Method) Rating and we look to minimise our energy requirements.

The Group was acknowledged by Paper Round with an annual award for its recycling achievements in 2019 with highlights including a total recycling load of 1,670kg, 20 trees saved and 2,340kg of CO_2 saved.

Conduct Risk

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

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

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

Financial Crime and Anti-Corruption and Anti-Bribery

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

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

We have also invited specialist speakers to the Group ranging from former CIA operatives to a whistleblower, who have covered topics including money laundering, cyber-crime and financial crime. These provide our staff with context regarding the risks and examples of real life experiences.

Human Rights

Our statement on modern slavery can be found on our website. When appointing customers and suppliers we take into account the Modern Slavery Act.

Whistleblowing

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties have been highlighted and discussed in detail in Note 38. The impact of other external factors impacting the local economy have been discussed in the Directors' report.

FUTURE

2019 has been a successful year for the Group. The Group has delivered good results and will now move forward under the ownership of Boubyan Bank who will provide the Group and our clients with further opportunities.

We have a strong team that is fully aligned with our goals and who drive the positive culture and success of the Group. I want to thank them for their amazing commitment and resilience in 2019. 2020 will be a period of change and significant opportunity. I would also like to thank the Chairman and the Board for their ongoing support, and I look forward to building on our success with the support of Boubyan Bank.

On behalf of the Board

Giles Cunningham
Chief Executive Officer
18 March 2020

DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2019.

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") and its subsidiaries and Walbrook Asset Finance Limited ("Walbrook"). The insertion of the Company as a holding company of the Bank was effected pursuant to a Scheme of Arrangement in 2013. The Company and its subsidiaries are collectively referred to as "the Group".

BLME is an independent, wholly Sharia'a compliant bank authorised by the UK's Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. The Bank provides a range of Sharia'a compliant banking services to businesses and individuals with a strong focus on the UK and the Middle East. The Bank operates a branch in Dubai at the Dubai International Financial Centre (DIFC). The branch has been fully operational since 2018 and in 2019 obtained a retail endorsement. The team continue to build the Bank's brand in the region. The results for the year are discussed further in the Group's strategic report.

Financial results and dividends

The financial statements for the year ended 31 December 2019 are shown on pages 40 to 49. The consolidated Group profit before tax and profit after tax for the year amounted to £8.9 million (2018: £8.4 million) and £7.5 million (2018: £11.2 million) respectively. These results include one-off exceptional costs of £2.9 million relating to the acquisition by Boubyan (2018: £Nil). The result for the stand-alone company, BLME Holdings plc, for the year was a profit of £11.3 million (2018: £6.6 million loss). The Directors do not recommend the payment of a dividend for the year ended 31 December 2019 (2018: £Nil).

During the year, BLME acquired a number of portfolios of existing leases with receivables from third party UK lessors that specialise in writing small ticket leases to a variety of counterparty types including: schools, SMEs, government bodies. The underlying assets are mostly hard assets, in particular cars and commercial vehicles.

In addition, the Wealth Management team completed the acquisition of 1 Waterfront Avenue, a Grade A office building located in Edinburgh, 100% let to Scottish Gas as their headquarters and guaranteed by Centrica plc, in August 2019. At acquisition, the Bank owned 100% of the equity of Waterfront Holdings Limited, the Jersey company which is entitled to the ultimate economic beneficial ownership of the building. As at 31 December 2019, the Bank owned 31% equity in Waterfront Holdings Limited having sold down a majority of its investment (see Notes 30 and 31). The Bank partially sold down its investment in AQ1 Limited during the year by 12% resulting in a remaining equity investment of 88% while its investment in Aspenway Limited remains unchanged at 56% (see Notes 34 and 35).

Directors and Directors' interests

The Directors who held office during the year, and their Committee memberships and functions as at 31 December 2019, were as follows:

Name and Board/Committee Chairmanships (as at 31 December 2019)	**Date of Appointment**	**Date of Resignation**	**Board Committee Memberships** (as at 31 December 2019)
Adel Abdul Wahab Al-Majed *Chairman of the Board*	26 April 2013		
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah *Vice Chairman of the Board*	26 April 2013	20 March 2019	
Giles Cunningham *Chief Executive Officer*	17 November 2016		Executive

Chris Power *Chief Financial Officer and Chief Operating Officer*	26 September 2016		Executive
Michael Williams (Senior Independent Director) *Chairman of the Nominations Committee*	26 April 2013		Nominations Remuneration Risk
David Williams (Independent) *Chairman of the Board Risk Committee*	15 October 2015		Risk Nominations Remuneration
Jabra Ghandour	25 March 2016		
Calum Thomson (Independent) *Chairman of the Audit Committee*	1 April 2017		Audit Risk Nominations Remuneration
Joanne Hindle (Independent) *Chairman of the Remuneration Committee*	1 July 2018		Remuneration Nominations Audit Risk
Bader Abdullah Al Kandari	20 March 2019		Audit Risk

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 (AGM) following their appointment. Following that AGM the Directors must stand for re-election by the Shareholders at least every three years. All of the current Directors were re-elected at the AGM in 2019 and will next offer themselves for re-election at the AGM in 2022.

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 2019 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 31 December 2019**	**Number of shares held at 31 December 2018**
Adel Abdul Wahab Al-Majed	Ordinary 25p	1,000,000	1,000,000
Michael Williams	Ordinary 25p	30,000	30,000
David Williams	Ordinary 25p	30,000	30,000
Calum Thomson	Ordinary 25p	30,000	30,000
Jabra Ghandour	Ordinary 25p	500,000	500,000
Joanne Hindle	Ordinary 25p	Nil	Nil
Giles Cunningham	Ordinary 25p	813,120	813,120
Chris Power	Ordinary 25p	30,000	30,000

With the exception of Adel Abdul Wahab Al-Majed, all of the above Directors tendered their shares as part of the recommended offer by Boubyan and no longer hold any shares in the Company at the date of this report.

Chairman's other significant commitments

Director	Company	Appointment	Date of Appointment
Adel Abdul Wahab Al-Majed (Group Chairman 31 March 2014 to present)	Boubyan Bank K.S.C.P	Chief Executive Officer and Vice Chairman	27 March 2013
	Kuwait Banking Association	Chairman	13 February 2019

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

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

Sharia'a Supervisory Board members

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

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

Financial Risk Management

The Group has exposure to the following risk categories:

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

A description of how the Group manages these risks is provided in Note 38.

As at 31 December 2019, expected credit losses (ECL) under IFRS 9 were estimated based on a range of forecast economic conditions as at that date. After Brexit on 31 January 2020, the UK entered into a transition period, expiring 31 December 2020, and disruption to business and economic activity is expected if the UK is unable to secure an agreement on trade and other areas of co-operation with the EU at the end of the transition period. The impact of this will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL under IFRS 9 in 2020.

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group has established a project to manage the transition for any of its contracts that could be affected. The Group has a Transition from IBOR project in place and is headed by a senior executive SMF. Initial information gathering to ascertain transactions referencing LIBOR as part of their Profit rate structure has taken place. Communications and announcements via the Group website as well as direct will continue to take place as the Transition project develops.

The Group have already incorporated new Alternative Rates into our systems and are in a position to originate new business using these rates. We will look to add additional functionality and services as Alternative Rates become available.

The impact of COVID-19 on business continuity has initially been managed by focusing on the IT support needed to allow for a fully remote working approach. The Group is also considering worst case scenarios of the impact of COVID-19 on the UK and global economy and managing the potential financial risk accordingly.

Political contributions

The Group made no political contributions during the year (2018: £nil).

Future developments

The business strategy and prospects for future financial years are included in the Group Strategic Report on pages 8 to 13. The material business risks are set out in Note 38 Financial Risk Management from page 106.

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.

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

Disclosure of information to auditor

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

Auditor

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

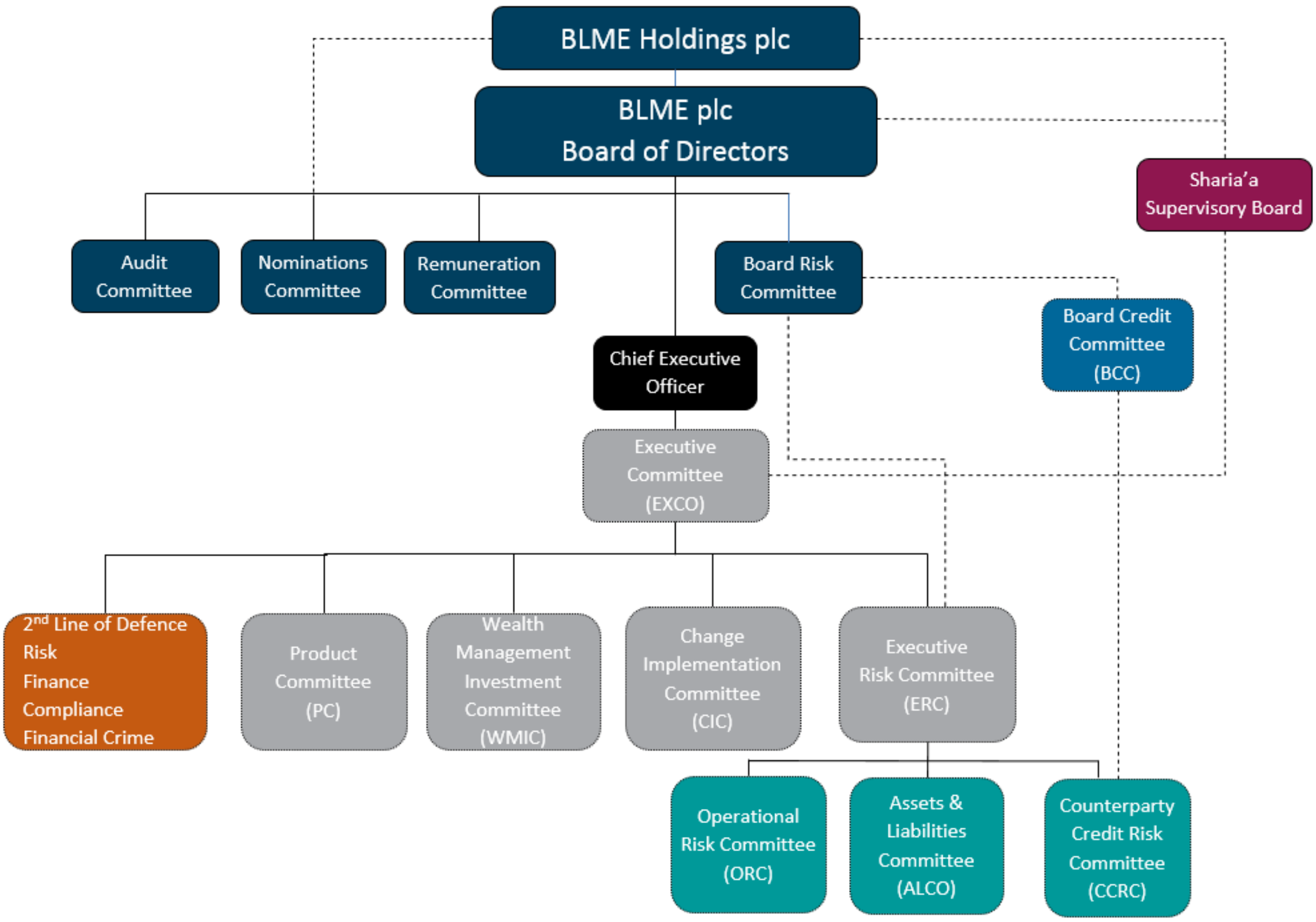
By order of the Board

Peter Bulkeley
Company Secretary
18 March 2020

CORPORATE GOVERNANCE REPORT

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

Governance structure



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

Walbrook operates as a separate company with its own Board and Committee Structure.

The Board of Directors

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

As at 31 December 2019 the Board of Directors comprised two Executive Directors:

- Giles Cunningham – Chief Executive Officer
- Chris Power – Chief Financial Officer and Chief Operating Officer

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

- Adel Abdul Wahab Al-Majed – Non-executive Chairman
- Michael Williams - Senior Independent Director and Chairman of Nominations Committee
- Calum Thomson – Chairman of Audit Committee (Independent)
- David Williams – Chairman of Risk Committee (Independent)
- Joanne Hindle – Chairman of Remuneration Committee (Independent)
- Jabra Ghandour
- Bader Abdullah Al Kandari

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, and following that meeting, 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 the Group's expense where they judge it necessary to discharge their duties as Directors.

Board Meetings

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

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

Board Committees

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

Board and Committee meetings attendance record 2019

	Board			Nominations Committee			Audit Committee		Risk Committee			Remuneration Committee		
	Regular meetings attended	Ad hoc meetings attended	Meetings eligible to attend	Meetings attended	Ad hoc meetings attended	Meetings eligible to attend	Meetings attended	Meetings eligible to attend	Meetings attended	Ad hoc meetings attended	Meetings eligible to attend	Meetings attended	Ad hoc meetings attended	Meetings eligible to attend
Executive Directors														
Giles Cunningham	7	3	10											
Christopher Power	7	3	10											
Non-executive Directors														
Adel Abdul Wahab Al-Majed	7	0	8											
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah	1	0	3				1	2	0	0	1	1	0	2
Michael Williams	7	3	10	4	1	5			4	1	5	6	1	7
David Williams	7	3	10	4	1	5			4	1	5	6	1	7
Jabra Ghandour	7	1	8											
Calum Thomson	6	3	10	3	1	5	7	7	4	1	5	6	1	7
Joanne Hindle	6	3	10	4	1	5	7	7	4	1	5	6	1	7
Bader Abdullah Al Kandari	5	0	7				4	5	1	1	3			

Of the ten board meetings held during the year, seven were regular meetings and three were ad hoc meetings. Adel Abdul Wahab Al-Majed and Jabra Ghandour did not attend two of the ad hoc full Board meetings during the year because of a potential conflict of interest arising from their employment by the Boubyan Bank group. In addition they did not attend any of the meetings of an Independent Committee of the Board that was established to consider the Offer from Boubyan Bank K.S.C.P. The approval of the Annual Report and Financial Statements, approving the notice of AGM and approving the 2019 ICAAP, ILAAP and RRP were all covered in regular scheduled Board meetings. The Executive Directors regularly attend the Audit Committee and Risk Committee meetings as guests.

Board Audit Committee

The Audit Committee is chaired by Calum Thomson (FCA) and comprises Bader Abdullah Al Kandari and Joanne Hindle.

The Committee's main responsibility is to review any reports from management, the internal auditor, and the external auditor regarding the internal control systems implemented throughout the Group, along with consideration of both Interim and Annual Report and Financial Statements. 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, Ernst & Young LLP (EY), provided non-audit services in addition to the provision of audit services. In the year ending 31 December 2019, non-audit services provided by EY comprised advice with regards to employment and overseas tax services. Further details regarding the fees paid to EY for these services are included in Note 12 on page 77.

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 25.

Board Risk Committee

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

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

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

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

Board Remuneration Committee

The Remuneration Committee is chaired by Joanne Hindle and comprises Michael Williams, David Williams and Calum Thomson.

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

More information regarding the Group's Remuneration policy is included in the Remuneration report on page 28.

Board Nominations Committee

The Nominations Committee is chaired by Michael Williams and comprises Joanne Hindle, David Williams and Calum Thomson.

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.

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 (CEO), Giles Cunningham, who has been delegated responsibility by the Board for the day-to-day management of the Group within the control and authority framework set by the Board. The CEO is supported by the Chief Financial Officer and Chief Operating Officer (CFO and COO), Chris Power, in managing the business.

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

Board balance

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

During the year ended 31 December 2019, two of the Directors were Executive Directors and; four were Non-executive Directors who were considered by the Company to be independent.

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

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

The Board of the Company will be further enhanced by the appointment of additional expertise from Boubyan. We look forward to announcing and welcoming these appointments to the Board in 2020.

Information and professional development

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

Board effectiveness review

An external review of the Board was undertaken in Q4 2018 by a specialist consultancy firm with no other connections with the Group. This independent review consisted of a review of board papers; confidential interviews with all Directors, along with selected executives who have significant interaction with the Board and its Committees; and observation of a Committee meeting and a Board meeting. The review outcomes were discussed fully with the Chairman, Senior Independent Director and the Chief Executive Officer and summarised at a Board Meeting on 8 March 2019. The final written report has been circulated to the Board and an action plan was instigated to cover key recommendations which is being overseen by the Nominations Committee.

Financial reporting

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

Internal control

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

The internal control framework covers financial, operational and compliance areas and risk management. There are limitations to any system of internal control, which can only provide reasonable but not absolute assurance with respect to the preparation of financial information, the safeguarding of assets and the possibility of misstatement or loss. As the first line of defence, management design and perform the control function. They are then periodically tested independently through the Compliance Monitoring Plan and by the Risk department providing a second line of defence. They are monitored and assured by thorough reviews conducted by internal audit acting as the third line of defence. The findings of these reports and subsequent tracking of the remedial actions required are monitored by the appropriate internal committees and by the Audit Committee to ensure all open action points are closed and the adequacy of all systems and controls are maintained.

Relations with Shareholders

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

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

We, the Sharia'a Supervisory Board of BLME Holdings plc, have reviewed and monitored the operations, agreements and transactions conducted by the Group through its offices in England and in the Dubai International Financial Centre during the period 1 January 2019 to 31 December 2019 and have reviewed the BLME Holdings plc Annual Report and Accounts for the year ended 31 December 2019. We conducted our reviews to form an opinion as to whether the Group has complied with the principles of the Sharia'a and with specific fatwa rulings and guidelines issued by the Sharia'a Supervisory Board.

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

1. The operations, agreements and transactions entered into and conducted by the Group through its offices in England and in the Dubai International Financial Centre during the year 1 January 2019 to 31 December 2019 and which were reviewed by the Sharia'a Supervisory Board are in compliance with the principles of the Sharia'a.
2. The distribution of profits and the sharing of losses in terms of the investment accounts at the Group are in compliance with the principles of the Sharia'a.
3. All profit generated by the Group during the year 1 January 2019 to 31 December 2019 has been derived from Sharia'a compliant sources.
4. The Sharia'a Supervisory Board has reviewed all income received from non-Sharia'a compliant sources during the year 1 January 2019 to 31 December 2019 and will oversee Group's dealings in the disposal of this income in a Sharia'a compliant manner.

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

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

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

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

Sheikh Dr. Abdulaziz Al-Qassar
Chairman
18 March 2020

AUDIT COMMITTEE REPORT

Statement from the Chairman of the Board Audit Committee

Audit Committee Members
Calum Thomson – Chair
Bader Abdullah Al Kandari
Joanne Hindle
Audit Committee Guests
EY – (external auditor)
BDO – (internal audit)
David Williams – INED
Chief Financial Officer and Chief Operating Officer
Chief Executive Officer
Head of Internal Audit
Chief Compliance Officer
Company Secretary

The Audit Committee met seven times during 2019.

In a meeting held on 18 March 2020, the Committee received and reviewed the results report from the external auditors on the annual audit and the Annual Report and Financial Statements for the year ended 31 December 2019 and recommended the approval of these to the Board.

During the year the Committee assessed the effectiveness of the internal audit model and as a result of their review decided that an outsourced provision of internal audit would be more effective than operating dedicated resource within the Group. As a result, in a meeting held on 7 March 2019, the Group reverted to an outsourced model for its internal audit needs and appointed BDO LLP as its internal audit partner.

BDO presented its internal audit plan for the period to 31 December 2019 which was reviewed and approved by the Committee. During the course of 2019, the Committee received and reviewed a total of twenty six individual reports from BDO and other third party assurance providers.

The Committee was also presented with the draft 2020 Internal Audit Plan based on Internal Audit's updated risk assessment.

The overall positive results of the Audit Committee effectiveness questionnaire were discussed in a meeting held on 3 October 2019.

Role of the Audit Committee

The Audit Committee's main functions are:

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

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

Significant Issues & Internal Controls

- The Committee covered various matters facing the Group including country risk ratings used by the Dubai office, Debit card transactions testing, Cyber Risk and funding and service agreements with Walbrook Asset Finance Limited.
- The Committee reviewed and challenged the level of impairments including IFRS 9 Stage 1, 2 and 3 provisions and the IFRS 9 model assumptions throughout the year.
- The Committee had a detailed review of the financial statements including the appropriateness of the accounting policies adopted for the recognition of income, allowance for expected credit losses as required by IFRS 9, the valuation of the Company's investment in its subsidiaries and adoption of IFRS 16 Leases, and recommended that the financial statements be approved by the Board.
- The Committee reviewed the Internal Auditor's risk assessment, and provided input into the audit plan for the 2019 and 2020.
- The Committee reviewed each internal audit review report issued and the key findings were discussed with Internal Audit during Committee meetings. The Committee evaluated the risk and control framework of those areas in light of the reports and recommendation and did not note any critical weaknesses in the Group's internal controls.
- Internal Audit, together with the Group's other assurance providers, issued twenty six reports for Committee review in 2019. The reports covered elements of the following activities:
    - Financial Crime
    - Credit Risk Management
    - Operations (Payroll, SCV Reporting, Facilities Documentation, Fees and Data Input)
    - IT (Cyber Risk, End User Computing and Change Management)
    - Core Business (Mortgages, Private Banking, Commodity Trade Finance, Pre-Paid Cards and Dubai Branch)
    - Prudential Reporting
    - Compliance Function.
- In addition to reviewing individual internal audit review reports, the Committee was kept up to date on the status of action taken by management to address the findings raised by Internal Audit and other assurance providers in the issued reports. This included Committee approval of any extensions to original implementation dates (as requested by management).

External Audit Process

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

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

The Audit Committee meets at least twice a year with the external auditor in the absence of Management. The external auditor provides a planning report in advance of the annual audit, a results report on their review of the Interim Report and a results report on the annual audit of the Annual Report and Financial Statements. The Audit Committee has an opportunity to question and challenge the external auditor in respect of each of these reports.

After each audit, the Audit Committee reviews the audit process and considers its effectiveness. The review of the 2019 audit concluded that the audit process had worked well, and the issues raised during the year have been adequately addressed.

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

Calum Thomson
Chairman, Board Audit Committee
18 March 2020

REMUNERATION REPORT

Statement from the Chairman of the Board Remuneration Committee

Remuneration Committee Members
Joanne Hindle – Chairman
Michael Williams – INED
David Williams – INED
Calum Thomson - INED

Remuneration Committee Guests
Giles Cunningham – CEO
Tracey Carlton – Head of HR
Bader Abdullah Al Kandari - NED
Gordon Clark – Advisor from Mercer| Kepler

The Committee met seven times during 2019. The composition of the Committee changed as a result of the retirement of Sheikh Abdullah Jaber Al Ahmed Al Sabah from the Board on 20 March 2019.

Role of the Remuneration Committee

The Remuneration Committee's main functions are to:

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

Remuneration policy

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

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

2019 activity

The Committee's activity during the year included:

- Approval of updates to the regulatory Remuneration Policy Statement and categorisation of Material Risk Takers;
- Annual review of staff salaries in conjunction with a salary benchmarking survey and considering total remuneration;
- Review of the enhanced benefits package offered to employees which aim to support their physical, mental, family and financial wellbeing;
- Review of initial gender pay gap results (although the Group is not required to formally report on this);
- Review and approval of Executive Directors, Material Risk Takers and other higher-paid staff remuneration;
- Review and approval of the remuneration of the Chairman of the Board;
- Approval of a Policy for Risk Adjustment of the Annual Bonus Pool;
- Review and challenge of the 'good/bad leaver' definition and treatment of deferred bonus awards;
- Approval of the 2019 bonus pool payable in 2020 including the discretionary bonuses for senior staff and material risk takers with mandatory deferral applied above a threshold of £25,000;

- Review and approval of the cash deferral portions due to be paid out in 2020 (from the 2017 and 2018 bonus year awards); and
- Review and approval of the performance conditions related to the vesting and exercise of share option awards for executives, senior and key staff as a result of the recommended cash offer for BLME Holdings plc by Boubyan Bank K.S.C.P. that went unconditional on 27 January 2020.

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 or pensions allowance and potentially long-term incentives. In line with the Group's Remuneration and Benefits Policy performance measures and targets are linked to business objectives.

Long-term incentives are designed with external independent expert advice and in keeping with relevant industry best practice. The Group does not apply a formulaic approach to remuneration on the grounds that this could encourage inappropriate risk taking. The pay-out levels depend on the performance of the Group, the relevant business units and the individual; forfeiture and claw-back mechanisms operate where appropriate and consistent with Sharia'a law. No options were awarded during 2019.

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

Joanne Hindle
Chairman, Board Remuneration Committee
18 March 2020
Additional information on the structure of our share-based payment schemes and all awards made under these schemes is provided in the Share-based payments note on pages 77 to 81.

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 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 European Union (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

Opinion

In our opinion:

- BLME Holdings plc's (the "Company", the "Group") consolidated financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU");
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

We have audited the financial statements of BLME Holdings plc which comprise:

Group	Parent Company
Consolidated income statement for the year ended 31 December 2019	
Consolidated statement of comprehensive income for the year ended 31 December 2019	
Consolidated statement of financial position as at 31 December 2019	Statement of financial position as at 31 December 2019
Consolidated statement of cash flows for the year ended 31 December 2019	Statement of cash flows for the year ended 31 December 2019
Consolidated statement of changes in equity for the year ended 31 December 2019	Statement of changes in equity for the year ended 31 December 2010
Related notes 1 to 38 to the financial statements, including a summary of significant accounting policies, except for note 38e marked as unaudited	Related notes 1 to 38 to the financial statements including a summary of significant accounting policies, except for note 38e marked as unaudited

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the EU and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Overview of our audit approach

Key audit matters	• Group - Improper recognition of income • Group – Adequacy and appropriateness of the allowance for expected credit losses (ECL) under IFRS 9 • Parent Company - Adequacy and appropriateness of the provision made in relation to the investment in Bank of London and the Middle East plc
Audit scope	• We performed an audit of the complete financial information of the Group and Parent Company • Our Group audit scope included all operating subsidiaries of BLME Holdings plc, all of which are audited by the engagement team
Materiality	• Overall Group materiality of £2.3million which represents 1% of net assets.

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Improper revenue recognition (Group) **Income from financing and investing activities: £57.6 million (2018: £51.3 million).** **Income from fees and commissions: £2.7 million (2018 £2.4 million).** *Refer to the Accounting policies (page 56); and Note 5 of the Consolidated Financial Statements (page 73)* The key risks of improper recognition of income arises from: (i) Income recorded from financing and investing activities might not be complete and accurate, and (ii) Fees and commissions can require judgment as to the amount and timing of recognition. The risk level remains unchanged from 2018.	Our approach focussed on: • Understanding processes and controls related to revenue recognition and testing the design and operating effectiveness of these controls with the assistance, where required, of EY IT audit professionals. • Performing analytical procedures to identify trends and corroborating movements not in line with our expectations. • Recalculating, on a sample basis, the income recognised across different product classes to ensure it has been calculated in accordance with the underlying transaction documentation. We increased our standard sample size for this transactional testing to correspond to the higher risk in this area. • Agreeing, on a sample basis, transactions to supporting transaction documentation and cash receipts for fees and commissions, challenging any judgment made over the timing of the amount recognised. We increased our standard sample size for this transactional testing to correspond to the higher risk in this area. • Performing year end cut-off testing to ensure that revenue was recognised in the correct period. • Checking to supporting evidence any adjustments to the accounting records that we have identified that have characteristics that could indicate unusual or inappropriate adjustments.	We did not identify any evidence of material misstatement in the recognition of revenue.

Adequacy and appropriateness of the allowance for expected credit losses (Group) **Financing arrangements** **2019: £883.7 million** *(ECL provision £7.0 million)* **2018: £737.5 million** *(ECL provision £10.3 million)* **Finance lease receivables** **2019: £432.6 million** *(ECL provision £2.6 million)* **2018: £256.2 million** *(ECL Provision £4.7 million)* **Off balance sheet exposures** **2019: £104 million** *(ECL Provision £0.1 million)* **2018: £137 million** *(ECL Provision £0.2 million)* *Refer to the Accounting policies (page 58); and Note 14 of the Consolidated Financial Statements (page 82)* An allowance for expected credit losses (ECL) represents management's best estimate of the losses that will occur on the existing exposures at a future date. Management have established a model to estimate the ECL for all stage 1 and stage 2 exposures. For stage 3 exposures that are held at amortised cost management have performed individual impairment assessments to calculate appropriate ECL. We focussed our testing on financing arrangements, finance lease receivables and	Our approach focused on: • Assessing the design and testing the operating effectiveness of controls within relevant processes focusing on model governance and credit monitoring of financial assets or liabilities, off balance sheet exposures, and ECL. After our assessment, we adopted a substantive audit approach; • Testing the data flow of the underlying records of the Group's inputs into the ECL model for completeness and accuracy; • With the assistance of EY model specialists, assessing the ECL model used to calculate ECL for stages 1 and 2. This included analysing governance over the model, and the approach taken by the Group to monitor inputs and outputs. • With the assistance of EY economic advisory team, reviewing the ECL model's macroeconomic narratives to ensure they are reasonable given our knowledge of the Group and Bank's portfolio and the countries and the industries which they have exposures in; • Performing an overall assessment of the expected credit loss provision levels, by stage, to determine if they were reasonable considering the Group's portfolio, risk profile, credit risk management practices, and the macroeconomic environment. This included benchmarking to peers; • Performing credit file reviews of a sample of financing arrangements allocated as stages 1 and 2 to determine the reasonableness of the staging allocation and to seek to identify any significant increase in credit risk or indicators of impairment not identified by the Group. We increased our standard sample	We reviewed the ECL calculation processes and the key assumptions supporting the calculation and based on the result of the procedures performed by our risk modelling and economic advisory specialists, management adjusted weightings in the ECL model to reflect the current market conditions. We are satisfied that management's judgements are reasonable, and that the allowance for expected credit losses are adequate and appropriate.

off-balance sheet exposures as these are the areas containing greater subjectivity and risk. Given the subjective nature of the calculation of ECL there is heightened risk that the timing and extent of these allowances could be subject to error or to management override. The risk level remains unchanged from 2018. Note: Last year on implementation of IFRS9 we included in the key audit matter the application of the new requirements for classification and measurement and also the disclosures in the financial statements. Whilst we still test the processes for classification and measurement and also the disclosures, we no longer regard them as key audit matters, as the recurring risk from such processes is significantly less than it is in the first year of implementation.	size to respond to the higher risk in this area; • For assets in stage 3, testing the individual impairment and the evidence supporting the assumptions made by the Group, by forming an independent view, using our valuation specialists, of collateral or exit values, cash flow assumptions, and exit strategies. To respond to the higher risk in this area we lowered our testing threshold; and • Reviewing the credit files, arrears report, exposures on the watch list, and, where appropriate, collateral arrangements and valuations, as well as publicly available information that we judge to be relevant, in order to assess the appropriateness and adequacy of the ECL, focusing on areas where significant estimation is involved. To respond to the higher risk in this area we lowered our testing threshold for items on the watchlist.	

Adequacy and appropriateness of the provision made in relation to the investment in Bank of London and the Middle East plc (Parent Company) **Investment in subsidiary £108.5 million, 2018: £101.3 million, following reversal of provision of £7.2 million.** *Refer to the Accounting policies (page 67); and Note 19 of the Consolidated Financial Statements (page 92)* The Company holds a significant investment in Bank of London and the Middle East plc. We have determined this to be a key audit matter due to the quantum of the investment as at 31 December 2019, and the involvement of judgement by management in the valuation of the investment, and consequent risk of misstatement. The risk level remains unchanged from 2018.	Our approach focused on: • Confirming our understanding of the impairment assessment process and evaluating the design effectiveness of key controls over the process. After our assessment we adopted a substantive audit approach. • Comparing management's impairment assessment and the estimation of the recoverable amount to the carrying value recorded in the Parent Company financial statements; • With the assistance of EY valuation specialists, critically assessing the data used by management to value the Bank, taking into consideration the offer made by Boubyan Bank; • Performing comparative checks such as calculating value in use, recalculating the fair value less cost of disposal and considering discount rates, long term growth rate and terminal values.	We conclude that the recoverable amount of the investment in Bank of London and the Middle East plc included in the Statement of financial position as at 31 December 2019 is fairly stated.

An overview of the scope of our audit

Tailoring the scope

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

Our application of materiality

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

Materiality

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

We determined materiality for the Group to be £2.3m (£2018: £2.3m), which is 1% of net assets (2018: 1% of net assets). We determined our materiality based on equity rather than on profits or revenues, because the Group's profitability is low relative to the balance sheet size, and also our expectation is that the main users of the financial statements, including the members of the Company, view capital restoration as a key consideration as the Group has only become profitable since 2017.

We determined materiality for the Parent Company to be £1.1m (2018: £1.0m) which is 1% of net assets (2018:1% of net assets). We determined our materiality based on equity rather than on profits or revenues, because the Parent Company is not profitable and also our expectation is that the main users of the financial statements, including the members, view capital restoration as a key consideration.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that an appropriate performance materiality was 50% (2018: 75%) of our planning materiality, amounting to £1.2million (2017: £1.8m). This year we have re-assessed the appropriate performance materiality threshold given the number of uncorrected audit differences identified in prior year. We concluded that using a lower testing threshold this year is appropriate.

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1million ((2018: £0.1m), which is set at 5% (2018: 5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 30, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Group and management.

Our approach in respect of irregularities, including fraud, was as follows

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

- ➢ Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures included inquiries of management, internal audit, and those responsible for legal and compliance matters; as well as focused testing as referred to in the Key Audit Matters section above. In addition we performed procedures to identify any significant items inappropriately held in suspense and also any significant inappropriate adjustments made to the accounting records.
- ➢ As the audit of banks requires specialised audit skills, the senior statutory auditor considered the experience and expertise of the audit team to ensure that the team had the appropriate competence and capabilities, and included the use of specialists where appropriate.

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

Other matters we are required to address

- We were appointed by the Parent Company on 19 May 2017 to audit the financial statements for the year ending 31 December 2017 and subsequent financial periods. The period of total uninterrupted engagement is three years, covering the years ending 31 December 2017 to 31 December 2019.

- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.

- The audit opinion is consistent with the additional report to the audit committee.

Use of our report

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

Kenneth Eglinton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
20 March 2020

Notes:

1. The maintenance and integrity of the Group's web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

CONSOLIDATED INCOME STATEMENT

For the year 1 January 2019 to 31 December 2019

	Note	2019 £000	2018 £000
Income			
Income from financing and investing activities	5a	57,588	51,266
Returns to financial institutions and customers	6	(25,782)	(17,551)
Net margin		**31,806**	**33,715**
Fee and commission income	5b	2,705	2,444
Fee and commission expense		(314)	(417)
Net fee and commission income		**2,391**	**2,027**
Net investment gains / (losses)	7	112	(256)
Credit impairment losses	14	(1,814)	(2,287)
Operating lease income		9,095	8,477
Other operating income	8	1,839	831
Share of profit of equity-accounted investees, net of tax	30	9	-
Net operating income		**43,438**	**42,507**
Expenses			
Personnel expenses	10	(15,386)	(16,233)
Operating lease depreciation	23	(7,331)	(6,443)
Other depreciation and amortisation	22, 24	(1,597)	(1,070)
Other operating expenses	12	(7,383)	(10,336)
Total operating expenses		**(31,697)**	**(34,082)**
Profit before tax excluding exceptional costs		**11,741**	**8,425**
Exceptional costs-Offer	10, 12	**(2,851)**	**-**
Profit before tax		**8,890**	**8,425**
Tax (expense) / credit	15	(1,388)	2,817
Profit for the year		**7,502**	**11,242**
Attributable to:			
Owners of the parent		6,721	10,793
Non controlling interest		781	449
		7,502	**11,242**
Earnings per share		**Pence**	**Pence**
Basic earnings per share	16	3.67	5.59
Diluted earnings per share	16	3.33	5.09

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

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year 1 January 2019 to 31 December 2019

	Note	2019 £000	2018 £000
Income			
Profit for the year		7,502	11,242
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		56	73
Net gains / (losses) in fair value of FVOCI debt instruments		1,176	(70)
Income tax (expense) / credit on other comprehensive income	*15*	(230)	135
		1,002	**138**
Items that will not be reclassified subsequently to profit or loss:			
Net gains in fair value of FVOCI equity instruments		10	426
Other comprehensive income for the year net of income tax		**10**	**426**
Total comprehensive income for the year attributable to equity holders of the Parent company		**8,514**	**11,806**
Attributable to:			
Owners of the parent		7,733	11,357
Non Controlling Interest		781	449
		8,514	**11,806**

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 £000	2018 £000
Assets			
Cash and balances with banks		71,891	104,339
Due from financial institutions	*18*	7,619	8,045
Due from customers	*18*	14,081	14,612
Investment securities	*19*	83,620	103,872
Financing arrangements	*20*	883,738	737,522
Finance lease receivables	*21*	432,639	256,198
Operating lease assets	*23*	39,489	43,378
Profit rate swaps	*9*	-	73
Property and equipment	*22*	4,031	488
Intangible assets	*24*	367	266
Other assets	*25*	17,166	6,641
Deferred tax asset	*15*	4,497	3,514
Investment in joint ventures	*30*	1,216	-
Assets held for sale	*31*	2,575	-
Total assets		**1,562,929**	**1,278,948**
Liabilities			
Due to financial institutions	*26*	375,565	672,240
Due to customers	*27*	917,120	357,353
Profit rate swaps	*9*	1,196	469
Other liabilities	*28*	20,176	12,710
Current tax liability		1,334	482
Total liabilities		**1,315,391**	**1,043,254**
Equity			
Share capital	*33*	48,933	48,933
Other reserve		15,226	15,226
Capital redemption reserve		50	50
Fair value reserve		230	(715)
Non Controlling Interest		8,228	5,221
Share-based payment reserve		3,527	2,207
Foreign currency translation reserve		-	43
Retained earnings		171,344	164,729
Total equity attributable to equity holders of the Parent company		**247,538**	**235,694**
Total liabilities and equity		**1,562,929**	**1,278,948**

These financial statements were approved by the Board of Directors on 18 March 2020 and were signed on its behalf by:

Giles Cunningham
Chief Executive Officer

Chris Power
Chief Financial Officer and Chief Operations Officer

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2019

	Note	2019 £000	2018 £000
Assets			
Cash and balances with banks		373	73
Investment in subsidiary	*19*	113,593	101,310
Total assets		**113,966**	**101,383**
Liabilities			
Other liabilities		1	1
Total liabilities		**1**	**1**
Equity			
Share capital	*33*	48,933	48,933
Share-based payment reserve		3,526	2,206
Retained earnings		61,506	50,243
Total equity attributable to equity holders of the Parent Company		**113,965**	**101,382**
Total liabilities and equity		**113,966**	**101,383**

The company profit for the year ended 31 December 2019 was £11.26 million (2018: £6.55 million loss). The current year profit includes a dividend of £5.40m paid by the Bank and an impairment loss reversal on the investment in the Bank of £5.86m. As permitted by section 408 of the Companies Act 2006, a separate profit and loss account of the parent has not been presented.

These financial statements were approved by the Board of Directors on 18 March 2020 and were signed on its behalf by:

Giles Cunningham
Chief Executive Officer

Chris Power
Chief Financial Officer and Chief Operations Officer

Company Registration Number: 08503102

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 1 January 2019 to 31 December 2019

	2019	2018
Cash flows from operating activities	**£000**	**£000**
Profit before tax	8,890	8,425
Adjusted for:		
Exchange differences	(394)	(189)
Fair value (gain)/loss on investment securities	(318)	252
Share of profit of equity-accounted investees, net of tax	(9)	-
Provision for impairment	1,859	2,287
Depreciation and amortisation	8,085	7,513
Share-based payment awards	392	293
Movements relating to profit rate swaps*	326	363
IFRS 16 - depreciation and finance charges	1,009	-
Amortisation of held-to-maturity investment securities	26	-
	19,866	**18,944**
Net increase in operating assets:		
Due from financial institutions	448	21,288
Due from customers	551	(5,585)
Financing arrangements	(149,036)	(171,285)
Finance lease receivables	(175,527)	(86,255)
Operating lease assets	(3,508)	(14,899)
Other assets	(11,995)	(3,481)
	(339,067)	**(260,217)**
Net increase in operating liabilities:		
Due to financial institutions	(285,387)	152,564
Due to customers	561,116	80,095
Other liabilities	(3,534)	1,776
	272,195	**234,435**
Corporation tax paid	(748)	(457)
Net cash outflow from operating activities	**(47,754)**	**(7,295)**
Cashflow from investing activities		
Purchase of property and equipment	(6)	-
Purchase of intangible assets	(311)	-
Purchase of investment securities	(63,316)	(8,881)
Sale of investment securities	81,031	24,771
Purchase of interest in assets held for sale	(11,116)	-
Sale of interest in assets held for sale	8,500	-
Purchase of Interest in joint venture	(1,235)	-
Dividend received from joint venture	28	-
Net cash inflow from investing activities	**13,575**	**15,890**
Cash flows from financing activities		
Payment of principal portion of lease liabilites	(1,168)	-
Dividend paid by a subsidiary to a Non-controlling interest	(773)	(508)
Sale of investments in Non-controlling interest	3,000	5,000
Purchase of treasury shares	-	(3,677)
Net cash inflow from financing activities	**1,059**	**815**
Net change in cash and cash equivalents	**(33,120)**	**9,410**
Cash and cash equivalents at the beginning of the period	104,339	96,780
Exchange differences in respect of cash and cash equivalents	672	(1,851)
Cash and cash equivalents at the end of the period	**71,891**	**104,339**

*includes adjustments to profit or loss relating to PRS that qualify for hedge accounting and the unhedged PRS

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year 1 January 2019 to 31 December 2019

	2019	2018
	£000	**£000**
Cash flows from operating activities		
Profit / (Loss) for the year before tax	11,263	(6,553)
Adjusted for:		
Impairment (reversal) / loss on subsidiary	(5,863)	10,303
Net cash inflow from operating activities	5,400	3,750
Cash flows from financing activities		
Purchase of treasury shares	-	(3,677)
Net cash outflow from financing activities	-	(3,677)
Cash flows from investing activities		
Purchase of investment securities	(5,100)	-
Net cash outflow from financing activities	(5,100)	-
Net change in cash and cash equivalents	**300**	**73**
Cash and cash equivalents at the beginning of the period	73	-
Cash and cash equivalents at the end of the period	**373**	**73**

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital	Other reserve	Capital redemption reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Foreign currency translation reserve	Total	Non-Controlling Interest	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2018	48,933	15,226	50	(715)	2,207	164,729	43	230,473	5,221	235,694
Changes on initial application of IFRS 16	-	-	-	-	-	(238)	-	(238)	(1)	(239)
Restated balance at 1 January 2019	**48,933**	**15,226**	**50**	**(715)**	**2,207**	**164,491**	**43**	**230,235**	**5,220**	**235,455**
Profit for the year	**-**	**-**	**-**	**-**	**-**	6,721	**-**	**6,721**	781	**7,502**
Other comprehensive income / (expense)										
Foreign currency translation	-	-	-	-	-	-	56	56	-	56
Net change in fair value of equity/debt instrument at FVOCI	-	-	-	1,186	-	-	-	1,186	-	1,186
Tax on items transferred directly to equity	-	-	-	(230)	-	-	-	(230)	-	(230)
Total other comprehensive income / (expense)	**-**	**-**	**-**	**956**	**-**	**-**	**56**	**1,012**	**-**	**1,012**
Total comprehensive income for the year	**-**	**-**	**-**	**956**	**-**	**6,721**	**56**	**7,733**	**781**	**8,514**
Contributions by and distributions to owners										
Dividend paid by subsidiaries to a Non-controlling interest	-	-	-	-	-	-	-	-	(773)	(773)
Funding from non-controlling interest	-	-	-	-	-	-	-	-	3,000	3,000
Sale of equity instrument at FVOCI	-	-	-	(11)	-	11	-	-	-	-
Equity-settled Share-based payment awards	-	-	-	-	392	-	-	392	-	392
Transfer to Retained Earnings					(22)	121	(99)	-	-	-
Tax on items transferred directly to equity	-	-	-	-	950	-	-	950	-	950
Total transactions with owners	**-**	**-**	**-**	**(11)**	**1,320**	**132**	**(99)**	**1,342**	**2,227**	**3,569**
Balance at 31 December 2019	**48,933**	**15,226**	**50**	**230**	**3,527**	**171,344**	**-**	**239,310**	**8,228**	**247,538**

FVOCI – Fair value through other comprehensive income

Fair value reserve includes the cumulative net change in fair value of FVOCI instruments until the investment is either derecognised or becomes impaired.

Share-based payment reserve represents the amortised portion of the fair value of equity instruments issued under the BLME and the Company's share incentive schemes and accounted for as equity-settled share-based payments. The transfer to retained earnings of £22k represents the recycling of credits previously recognised within the Share Based Payment Reserve in relation to DABS options which have lapsed and/or forfeited.

Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. During the year, £99k was transferred to retained earnings as the Group's foreign operations were discontinued.

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

Non-Controlling Interest relates to the minority shareholders in MKL Construction Equipment Finance Limited, AQ1 Limited and Aspenway Limited.

Treasury shares – the balance as described in the 2018 comparative is included within Retained Earnings.

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018	Share capital	Other reserve	Capital redemption reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Foreign currency translation reserve	Total	Non-Controlling Interest	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2017	48,933	15,226	50	(382)	1,911	156,894	(30)	222,602	280	222,882
Changes on initial application of IFRS 9	-	-	-	-	-	25	-	25	-	25
Restated balance at 1 January 2018	**48,933**	**15,226**	**50**	**(382)**	**1,911**	**156,919**	**(30)**	**222,627**	**280**	**222,907**
Profit for the year	**-**	**-**	**-**	**-**	**-**	10,793	**-**	**10,793**	449	**11,242**
Other comprehensive income										
Foreign currency translation	-	-	-	-	-	-	73	73	-	73
Net change in fair value of equity/debt instrument at FVOCI	-	-	-	356	-	-	-	356	-	356
Tax on items transferred directly to equity	-	-	-	135	-	-	-	135	-	135
Total other comprehensive income	**-**	**-**	**-**	**491**	**-**	**-**	**73**	**564**	**-**	**564**
Total comprehensive income for the year	**-**	**-**	**-**	**491**	**-**	**10,793**	**73**	**11,357**	**449**	**11,806**
Contributions by and distributions to owners										
Dividend paid by a subsidiary to a Non-controlling interest	-	-	-	-	-	-	-	-	(508)	(508)
Funding from non-controlling interest	-	-	-	-	-	-	-	-	5,000	5,000
Net increase in treasury shares	-	-	-	-	-	(3,677)	-	(3,677)	-	(3,677)
Sale of equity instrument at FVOCI	-	-	-	(824)	-	824		-	-	-
Equity-settled Share-based payment awards	-	-	-	-	266	27	-	293	-	293
Tax on items transferred directly to equity	-	-	-	-	30	(157)	-	(127)	-	(127)
Total transactions with owners	**-**	**-**	**- -**	**824**	**296**	**(2,983)**	**-**	**(3,511)**	**4,492**	**981**
Balance at 31 December 2018	**48,933**	**15,226**	**50**	**(715)**	**2,207**	**164,729**	**43**	**230,473**	**5,221**	**235,694**

FVOCI – Fair value through other comprehensive income

Treasury shares - £3,569,622 was paid to repurchase 10,357,374 ordinary shares. Transaction costs capitalised include £89,169 for brokerage commission and £17,850 paid to HMRC for stamp duty.

Fair value reserve includes the cumulative net change in fair value of FVOCI instruments until the investment is either derecognised or becomes impaired.

Share-based payment reserve represents the amortised portion of the fair value of equity instruments issued under the BLME and the Company's share incentive schemes and accounted for as equity-settled share-based payments.

The transfer to retained earnings of £27k represents the recycling of credits previously recognised within the Share Based Payment Reserve in relation to DABS options which have lapsed and/or forfeited.

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

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

Non-Controlling Interest relates to the minority shareholders in MKL Construction Equipment Finance Limited, Aspenway Limited and AQ1 Limited.

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital	Share-based payment reserve	Retained earnings	Total
	£000	**£000**	**£000**	**£000**
Balance at 31 December 2018	**48,933**	**2,206**	**50,243**	**101,382**
Profit for the year	-	-	11,263	11,263
Other comprehensive income / (expense)	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**11,263**	**11,263**
Contributions by and distributions to owners				
Equity-settled share-based payment awards	-	392	-	392
Settlement of share-based payment awards by BLME	-	(22)	- -	22
Tax on items transferred directly to equity	-	950	-	950
Total transactions with owners	**-**	**1,320**	**-**	**1,320**
Balance at 31 December 2019	**48,933**	**3,526**	**61,506**	**113,965**

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 financial statements of the Bank.

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Share capital	Share-based payment reserve	Retained earnings	Total
	£000	**£000**	**£000**	**£000**
Balance at 31 December 2017	**48,933**	**1,911**	**60,473**	**111,317**
Loss for the year	-	-	(6,553)	(6,553)
Other comprehensive income / (expense)	-	-	-	-
Total comprehensive expense for the period	**-**	**-**	**(6,553)**	**(6,553)**
Contributions by and distributions to owners				
Net increase in treasury shares	-	-	(3,677)	(3,677)
Equity-settled share-based payment awards	-	293	-	293
Total transactions with owners	**-**	**293**	**(3,677)**	**(3,384)**
Balance at 31 December 2018	**48,933**	**2,204**	**50,243**	**101,380**

The notes on pages 50 to 132 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

BLME Holdings plc ("the Company") is a Company domiciled in the United Kingdom. The address of the Company's registered office is Cannon Place, 78 Cannon Street, London, England, EC4N 6HL. The Company's principal activity is to act as a holding Company for Bank of London and The Middle East plc ("the Bank" or "BLME") and its subsidiaries and Walbrook Asset Finance Limited ("Walbrook"). BLME is an independent wholesale bank involved in investment, commercial finance, private client banking and wealth management. The consolidated financial statements of the Group are presented as at and for the year ended 31 December 2019 and 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. The transaction was outside the scope of IFRS 3 and therefore no business combination occurred.

The Company is a limited company incorporated and domiciled in England and whose shares are publicly traded.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Presentation of financial statements

The Group and Company have prepared its financial statements in accordance with IFRS as adopted by the EU and effective for the Group's reporting for the year ended 31 December 2019.

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

b. Use of estimates and judgements

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

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment cover impairment losses on financial assets, fair value measurement, effective profit rate adjustments, deferred taxes, consolidation assessments, impairment of subsidiary and determining the lease term of contracts with renewal and termination options. Refer to Note 3 from page 68 for further detail. The adoption of IFRS 16 requires consideration of a number of key assumptions. Refer to section d – changes in accounting policies and disclosures for further information.

c. Going concern

Accounting standards require the Directors to assess the Group's ability to continue to adopt the going concern basis of accounting. In performing this assessment, the Directors consider all available information about the future, the possible outcomes of events and changes in conditions and the realistically possible responses to such events and conditions that would be available to them. The Directors have reviewed the business activities, financial position and future forecast of the Group and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future.

In light of the above, the Directors continue to adopt the going concern basis in preparing these financial statements.

d. Changes in accounting policies and disclosures

New and amended standards and interpretations

The Group applied IFRS 16 with effect from 1 January 2019. The nature and impact of the changes as a result of adoption of this new accounting standard are described below.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the consolidated financial statements of the Group. The Group has not early adopted any standards, interpretations or amendments that have been issued, but are not yet effective.

IFRS 16 *Leases*

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g. personal computers) and short-term leases (i.e. leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e. the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e. the right-of-use asset). Lessees will be required to separately recognise the finance charge on the lease liability and the depreciation expense on the right-of-use asset. Depreciation expense is calculated on a straight-line basis over the minimum lease term.

Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g. a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from accounting under IAS 17. Lessors continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases.

IFRS 16 requires lessees and lessors to make more extensive disclosures than under IAS 17.

Set out below are the new accounting policies of the Group upon adoption of IFRS 16:

Right-of-use assets

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

- Buildings 1 to 10 years
- Motor vehicles 1 to 3 years

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

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

Lease liabilities

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

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

The Group's lease liabilities are included in Other Liabilities (see Note 28).

Short-term leases and leases of low-value assets

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

Set out below, are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the period:

Statement of financial position

	Right-of-use assets £000	**Lease liabilities £000**
As at 31 December 2018	-	-
Balance arising on transition to IFRS 16	4,862	6,143
Additions	-	-
Depreciation expense	(843)	-
Finance charges	-	168
Payments	-	(1,168)
Foreign currency translation adjustments	(11)	(13)
At 31 December 2019	**4,008**	**5,130**

IFRS 16 *Leases* transition disclosures

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. The Group elected to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 as at 1 January 2019. The Group therefore did not apply the standard to contracts that were not previously identified as containing a lease applying IAS 17 and IFRIC 4.

The Group elected to use the exemptions proposed by the standard on lease contracts for which the lease terms ends within 12 months as of the date of initial application, and lease contracts for which the underlying asset is of low value. The Group has leases of certain office equipment (i.e. personal computers, printing and photocopying machines) that are considered of low value.

The cumulative effect of initially applying IFRS 16 is recognised at the date of initial application as an adjustment to the opening balance of retained earnings. Therefore, the comparative information has not been restated and is reported under IAS 17 and IFRIC 4.

The effect of adopting IFRS 16 as at 1 January 2019 was, as follows:

Impact on the statement of financial position (increase/(decrease)) as at 1 January 2019:

	£000
Assets	
Property and equipment (right-of-use assets)	4,863
Prepaid rent	(305)
	4,558
Assets	
Lease liabilities	6,143
Other liabilities	(1,347)
	4,796

Right-of-use assets and lease liabilities are included in Notes 22 and 28 respectively.

Impact on opening retained earnings as at 1 January 2019:

	£000
Retained earnings	
Closing balance under IAS 17 (31 December 2018)	164,729
Impact of adopting IFRS 16	(238)
Opening balance under IFRS 16 (1 January 2019)	**164,491**

Per IFRS.16.C12, an entity applying the modified retrospective approach is required to disclose an explanation of the difference between

- operating lease commitments disclosed when applying IAS 17 at the end of the annual reporting period immediately preceding the date of initial application, discounted using the incremental financing rate at the date of initial application; and
- lease liabilities recognised in the statement of financial position at the date of initial application.

	1 January 2019
	£000
Operating lease obligations at 31 December 2018 per Note 29*	6,889
Operating lease obligations at 31 December 2018 not disclosed due to low value	32
Gross lease liabilities at 1 January 2019	**6,921**
Weighted average incremental financing rate	2.91%
Impact of discounting	(778)
Additional lease liabilities as a result of the initial application of IFRS 16 as at 1 January 2019	**6,143**

*Per the 2018 audited financial statements

e. New standards and interpretations not yet adopted

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

i. Other new and amended standards and interpretations

- Amendments to IFRS 3, *Business combinations*, definition of a business
- Amendments to IAS 1 *Presentation of financial statements*, and IAS 8 *Accounting policies, changes in accounting estimates and errors* definition of material
- Amendments to the *Conceptual framework*
- IFRS 17 *Insurance contracts*

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

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

iv. Loss of control

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

g. 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.

h. Basis of measurement

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

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

i. Functional and presentation currency

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

j. Foreign currency

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

Non-monetary assets and liabilities, which are measured at historical cost, are translated into the functional currency at the effective historical rate used on the date of initial recognition. Foreign exchange for non-monetary items measured at fair value is determined at the spot rate at the time the fair value is determined. The associated foreign exchange differences for non-monetary assets and liabilities go to other comprehensive income or the income statement, depending where the underlying fair value movement of asset or liability was recognised initially.

k. Revenue recognition

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

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

ii. Fees and commission

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

iii. Financial assets

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

iv. Due from financial institutions and customers and financing arrangements

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

l. Financial Instruments

i) Categories of financial assets

- **Financial Instruments measured at amortised cost (‘AC’)**

The financial assets held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and yield are measured at amortised cost. These include ‘Financing Arrangements’ , ‘Due from financial institutions’, ‘Due from customers’ and ‘Investment securities’ and are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost less impairment losses.

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

- **Financial Assets measured at fair value through other comprehensive income (‘FVOCI’)**

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

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

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

- **Derivatives measured at Fair value through profit and loss (‘FVPL’)**

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

ii) Business model assessment

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

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

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

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

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

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

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

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

iv) Impairment of financial assets

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

- **Overview of the ECL principles**

The Group records the allowance for expected credit losses for all financing and other debt financial assets not held at FVPL, together with financing arrangements, due from financial institutions and customers, finance lease receivable contracts and cash and balances with banks (collectively 'financial instruments'). The simplified approach for finance lease receivables has not been adopted. An ECL allowance is also recorded for off-balance sheet credit exposures such as undrawn finance commitments, letters of credit and guarantees where current circumstances indicate that losses may be incurred.

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in page 60.

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

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

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

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

• Stage 3: Financing considered credit-impaired, the Group records a specific provision calculated using a discounted cash flow approach to determine the overall exposure and/or using net exposure after taking into account any collateral. The process to determine whether a customer is in default is explained on page 110 in Note 38 Financial Risk Management.

- **The calculation of ECLs**

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

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

• EAD The Exposure at Default is the principal exposure at the point which a default event is triggered, this is the monetary figure that the Group may lose prior to adjustment for collateral. This takes into account the committed facility amount. The same approach has been taken for off-balance sheet credit exposures such as letters of credit and financial guarantees where current circumstances indicate that losses may be incurred.

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

The other macro-economic inputs in the ECL model are listed in section vi – multiple economic scenarios on page 60.

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

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

The mechanics of the ECL method are summarised below:

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

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

• Stage 3: For financing considered credit-impaired, the Group recognises the lifetime expected credit losses for these financings. The method is similar to that for Stage 2 assets, with the PD set at 100%.
The Group calculates ECLs on an individual basis for all Stage 3 assets, regardless of the class of financial assets. Stage 1 and Stage 2 ECLs are calculated on a collective basis by grouping financial assets based on type of customer which includes banking, property and treasury.

- **Significant increase in credit risk**

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

The Group measures the increase in credit risk by monitoring the changes in credit scores of its counterparties since origination. The notch downgrade is based on the credit score, where a "BBB+" or higher rated counterparty has a 3 notch movement required to show deterioration, whilst a lower quality counterparty ("BBB-" to "BB-") needing a 2 notch movement, and the worst quality ("B+" and below) a 1 notch. This follows the broad principals of credit deterioration being seen when a default rate doubles. In addition, the Group also considers whether the counterparty payment performance is deteriorating (i.e. payments are 30-day past due and the counterparty is added to the Watchlist as described on page 108 in Note 38).

- **Default**

Refer to page 110 in Note 38 for the definition of default.

v) Forward looking information

A range of macroeconomic factors are considered when assigning the variables that are more closely related to the segments of the Group portfolio. The selection process is threefold:

1. Reviewing previous research on the most significant factors that contribute to the default rates observed in the Real Estate and in the Commercial Finance segments.
2. Extraction and validation of the top factors.
3. Comparison and further analysis of the top two factors in both markets.

The selected macroeconomic factors are updated quarterly in line with the Bank of England's projected levels. The macroeconomic projections are then used for deriving the forecast PDs which are subsequently incorporated in the impairment model.

vi) Multiple economic scenarios

The Group carries out three 12 month forward looking stress scenarios per material portfolio. Each stress event is based on the macroeconomic conditions most impactful to each of the Group's material portfolios.

Baseline: The core stress test is based on the Group's consensus view on the key macroeconomic conditions over the next 12 months – taken from the Bank of England's quarterly Monetary Policy Report.

Best-case: The stress test is based on the Group's consensus view on the key macroeconomic conditions over the next 12 months in a positive macro environment. This is deemed to be appropriately simulated via a 2 STD shift in the macro factor driving the PDs.

Worst-case: The stress test is based on the Group's consensus view on the key macroeconomic conditions over the next 12 months in a negative macro environment. This is deemed to be appropriately simulated via a 1 STD shift in the macro factor driving the PDs.
The three scenarios are run, and then each scenario is probability adjusted to produce a weighted likelihood of future default rates.

vii) Write-offs

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

viii) Offsetting financial assets and financial liabilities

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

ix) Derecognition of financial assets

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

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

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

x) Forbearance

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

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

Further disclosures on forbearance can be found on pages 118 to 120 in Note 38.

xi) Financial liabilities

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

xii) Determining fair value

If an asset or a liability measured at fair value has a bid price and an ask price, then the Group measures assets and long positions at a bid price and liabilities at an ask price. Where no active market exists for the particular asset or liability, the Group uses another valuation technique to arrive at the fair value, including the use of prices obtained in recent arms-length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants (see Note 3(b) on page 68).

xiii) Derivatives and hedge accounting

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

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

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

- **Hedge accounting**

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

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

- **Fair value hedge**

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

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

- **Hedge effectiveness testing**

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

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

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

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

m. Collateral and netting

See page 122 in Note 38 for details of financial assets and liabilities that have been presented on a net basis in the current year.

n. Property and equipment

i. Recognition and measurement

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

ii. Depreciation

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

Useful Lives:

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

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

o. 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.

p. Impairment of property and equipment including right-of-use assets, intangible assets and assets leased out under operating leases

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

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

q. Operating leases

iii. 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. The depreciable amount is the cost of the asset less the estimated residual value. Lease income is recognised on a straight line basis over the period of the lease unless another systematic basis is more appropriate.

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

iv. Lessee (this policy is only applicable to comparative financial information which is in accordance with IAS 17 *Leases*)

Operating lease rentals payable by the Company 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. The onerous lease provision is recognised in the income statement in the year it arises.

r. Finance leases

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

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

s. 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.

t. Share-based payments

Equity-settled

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.

Cash-settled

Cash-settled share based payment transactions are initially measured at the fair value of the liability and are recognised as an expense. Where vesting conditions apply, the amounts are recognised over the vesting period. At each reporting date until settlement date, the recognised liability is remeasured at fair value with changes recognised in profit or loss. Remeasurements during the vesting period are only recognised to the extent that services have been received. If the payment is not subject to a vesting condition, then it is recognised immediately. Remeasurements after the vesting period are recognised immediately in profit or loss.

u. Own shares

Own shares comprise:

- Own shares held by the EBT that have not vested unconditionally to employees of the Group; and
- Treasury shares held by the Company purchased from equity.

Consideration received when treasury shares held are re-issued is recognised directly as a change in equity and no gain or loss is recognised.

Own shares are recorded at cost and are deducted from Group retained earnings.

v. Provisions

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

w. Taxation

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

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

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

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

x. Cash and cash equivalents

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

y. Other receivables

Trade and other receivables are stated at their nominal amount less expected credit losses. Refer to Note 2(j)(iv) from page 58 for more detail on the forward-looking expected credit loss (ECL) approach.

z. Segmental information

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

aa. 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 after excluding shares held by the Employee Benefit Trust (EBT) at the balance sheet date. 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.

bb. 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 Group 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 Company only income statement. Where the recoverable amount is an excess of the carrying amount, the reversal of previous impairment is recognised in the Company only income statement. The reversal is limited to the previous impairment recognised.

cc. Investment in joint ventures

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

The considerations made in determining joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its joint venture are accounted for using the equity method.
Under the equity method, the investment in a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the joint venture since the acquisition date.

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

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

dd. Assets held for sale

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

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

ee.Business combinations

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

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

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

Estimates

a. Impairment losses on financial assets

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

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

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

b. Determining fair values

The Group's accounting policy on fair value measurement is in accordance with IFRS 13 Fair Value Measurement and is discussed on page 122 in Note 38.

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

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

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

Level 3: Valuation techniques using significant unobservable inputs; this category comprises unlisted equity investments valued by reference to third party valuations.
For financial instruments that trade infrequently and have little price transparency, fair value is less objective and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumptions and other risks affecting the specific instrument.

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

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

c. Impairment of subsidiaries

Under IAS 36, an investment is impaired if the cost of investment is greater than the recoverable amount. A formal estimate of recoverable amount is performed for the Company's investment in the Bank and Walbrook if there are indications that an impairment loss may have occurred. In the current year, there were no such indications and therefore, a formal estimate of recoverable amount was not performed for the investment in the Bank and Walbrook. Notwithstanding, we used the Boubyan Bank offer price to estimate the recoverable amount of the Bank for the purpose of reversing the 2018 impairment loss. In 2018, an impairment assessment was performed whereby the recoverable amount was calculated based on the Bank's value in use, determined by discounting future cash flows based on five-year budgets, adjusted for non-cash items such as share-based payments and depreciation. A discount rate of 14.2% and a terminal growth rate of 1.5% from 2023 were used in the calculation for the Bank. The 2018 discount rate in the value in use calculation for the Bank was calculated by adjusting only the risk free rate for the UK government yield curve to achieve the discount rate that gets to the same value in use. The terminal growth rates are based on a weighted average of a strong, moderate and weak growth rate environment. For sensitivity analysis in 2018, refer to Note 19.

Judgements

a. Effective profit rate adjustments

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

b. Deferred taxes

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

c. Consolidation assessments

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

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

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

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

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

4. SEGMENTAL INFORMATION

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

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

The following summary describes the operations of each of the Group's reportable segments during the year:

For the year ended 31 December 2019

	Commercial Finance £000	Wealth Management £000	Treasury Division £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	13,805	15,825	2,176	-	31,806
Operating lease income	8,029	-	1,066	-	9,095
Net fee income	1,703	681	7	-	2,391
Net impairment credit/(charge)	(2,040)	288	(62)	-	(1,814)
Net fair value gains	-	-	112	-	112
Share of profit of equity-accounted investees, net of Tax	-	9	-	-	9
Other operating income	1,191	254	394	-	1,839
Net operating income	**22,688**	**17,057**	**3,693**	**-**	**43,438**
Directly attributable segment expenses	(4,391)	(3,348)	(2,333)	-	(10,072)
Operating lease depreciation	(7,331)	-	-	-	(7,331)
Net segment contribution	**10,966**	**13,709**	**1,360**	**-**	**26,035**
Common costs not directly attributable to segments					(17,145)
Net operating profit before tax					**8,890**
Reportable segment assets	**753,958**	**611,919**	**181,265**	**15,787**	**1,562,929**

£10.6m of the total operating income was derived through the effective profit rate (EPR) model (2018: £8.1m).

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 2018

	Commercial Finance £000	Wealth Management £000	Treasury Division £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	17,097	13,966	2,652	-	33,715
Operating lease income	7,398	-	1,079	-	8,477
Net fee income	1,316	687	24	-	2,027
Net impairment charge	(2,022)	(241)	(24)	-	(2,287)
Net fair value (losses)/gains	-	22	(278)	-	(256)
Other operating income	560	98	173	-	831
Net operating income	**24,349**	**14,532**	**3,626**	**-**	**42,507**
Directly attributable segment expenses	(4,733)	(2,313)	(1,298)	-	(8,344)
Operating lease depreciation	(6,443)	-	-	-	(6,443)
Net segment contribution	**13,173**	**12,219**	**2,328**	**-**	**27,720**
Common costs not directly attributable to segments					(19,295)
Net operating profit before tax					**8,425**
Reportable segment assets	**655,346**	**375,136**	**240,638**	**7,828**	**1,278,948**

Entity wide disclosures

Geographical analysis of non-current assets

	31 December 2019 £000	31 December 2018 £000
United Kingdom	66,289	54,276
United Arab Emirates	288	48
USA	189	37
Total	**66,766**	**54,361**

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

5. INCOME

5 (a) Income from financing and investing activties:	2019 £000	2018 £000
Due from financial institutions:		
Murabaha income	183	469
Wakala income	677	681
Finance lease receivables:		
Finance lease income	6,370	6,171
Hire Purchase income	7,081	4,794
Istisna and Ijara income	275	247
Financing arrangements:		
Murabaha income	40,312	36,018
Wakala income	542	405
Investment securities:		
Sukuk income	2,148	2,481
	57,588	**51,266**

5 (b) Fee and commission income	2019 £000	2018 £000
Fees - letters of credit and uncommitted facilities	1,242	1,048
Management fees	578	498
Acquisition and structuring transaction fees	291	460
Other	594	438
	2,705	**2,444**

6. RETURNS TO FINANCIAL INSTITUTIONS AND CUSTOMERS

	2019 £000	2018 £000
Customer deposits	11,348	6,307
Murabaha	6,887	9,152
Cost of funding*	4,333	-
Wakala	3,214	2,092
	25,782	**17,551**

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

7. NET FAIR VALUE LOSSES ON INVESTMENTS

	2019 £000	2018 £000
Net realised losses on investments	(189)	(47)
Net unrealised gains/(losses) on investments	301	(209)
	112	**(256)**

8. OTHER OPERATING INCOME

	2019	2018
	£000	£000
Gain on foreign exchange transactions	394	188
Gain on leased asset sales	865	560
Other*	580	83
	1,839	**831**

*£254k relates to a dividend received from Waterfront Holdings Limited and £326k relates to a gain on loss of control of a structure entity (see Note 34 for further details) (2018: £57k related to gains on fixed asset sales).

9. PROFIT RATE SWAPS

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. PRS may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. If they do not qualify as hedges, they are classified as FVTPL and the Mark to Market movement is recognised in the income statement. The Group has seven PRS as at 31 December 2019 (2018: two), which do not qualify for hedge accounting and are therefore recognised at fair valued through profit and loss.

All PRS are over-the-counter derivatives, none of which are settled through a central counterparty.

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

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

31 December 2019			**Carrying amount**	**Notional amount**
Derivative liabilities	**Hedging instrument**	**Risk**	**£000**	**$000**
Profit rate swaps - USD	Profit rate swap	Profit	292	30,725

31 December 2018			Carrying amount	Notional amount
Derivative liabilities	**Hedging instrument**	**Risk**	**£000**	**£000**
Profit rate swaps - GBP	Profit rate swap	Profit	429	20,000
Derivative assets	**Hedging instrument**	**Risk**	**£000**	**$000**
Profit rate swaps - USD	Profit rate swap	Profit	73	50,000

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

31 December 2019			Carrying amount	Notional amount
Derivative liabilities	**Hedging instrument**	**Risk**	**£000**	**£000**
Profit rate swaps - GBP	Profit rate swap	Profit	904	75,000

31 December 2018			Carrying amount	Notional amount
Derivative liabilities	**Hedging instrument**	**Risk**	**£000**	**£000**
Profit rate swaps - GBP	Profit rate swap	Profit	40	15,000

The total impact on the income statement of the PRS that do not qualify for hedges in 2019 was £1.1m (2018: £0.04m).

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

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

	2019		2018	
	Carrying amount	Fair value hedge adjustments	Carrying amount	Fair value hedge adjustments
Investment securities	**£000**	**£000**	**£000**	**£000**
Sukuk	23,969	-	59,307	-

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

	2019	2018
	£000	£000
Gains / (losses) on hedging instruments	(176)	261
Gains / (losses) on hedged items attributable to the hedged risk	720	(204)
Hedge ineffectiveness recognised in the income statement	**544**	**57**

10. PERSONNEL EXPENSES

	2019	2018
	£000	£000
Wages and salaries*	12,251	12,755
Social security costs*	1,284	1,481
Defined contribution pension scheme costs	1,029	1,051
Recruitment costs	154	127
Other staff costs	668	819
	15,386	**16,233**

*Wages and salaries and Social security costs exclude £1.3m of share based payments charges and related social security costs which have been classified as exceptional costs as they relate to the Offer.

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

	2019	2018
	Number	Number
Period end	123	121
Average for the period - management	12	11
Average for the period - non-management	109	109

11. DIRECTORS' EMOLUMENTS

	2019	2018
	£000	£000
Directors' emoluments	2,129	2,103
Pension contributions	12	32
	2,141	**2,135**

The aggregate emoluments of the highest paid Director was £1.1 million (2018: £1.0 million), and pension contributions of £0.002 million (2018: £0.02 million) were made on his behalf. During the year, no Director exercised share options (2018: none).

12. OTHER OPERATING EXPENSES

	2019 £000	2018 £000
Advertising and market development	156	133
Board and SSB related expenses	618	610
Communications and IT costs	1,894	1,656
Consultancy	704	907
Legal and professional fees*	1,328	2,715
Other operating charges	1,769	2,943
Rent and other occupancy costs	914	1,372
	7,383	**10,336**

*Legal and professional fees exclude £1.5m in legal and professional fees classified as exceptional costs as they relate to the Offer.

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

	2019 £000	2018 £000
Auditor's remuneration		
Audit of financial statements pursuant to the legislation		
- Ernst & Young LLP	549	473
Tax Advisory and Compliance Services		
- Ernst & Young LLP	25	11
Other advisory and assurance services		
- Ernst & Young LLP	18	5
	592	**489**

13.SHARE-BASED PAYMENTS

During the year £0.9 million (2018: £0.6 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:

	2019	2018
Equity settled schemes	**£000**	**£000**
Approved Share Option Plan ("ASOP")	32	24
Unapproved Share Option Plan ("USOP")	360	267
Executive Share Option Scheme ("ESOP")	-	-
Deferred Incentive Plan Scheme ("DIPS")	-	2
	392	**293**
Cash settled schemes		
Deferred Annual Bonus Scheme ("DABS")	509	330
	901	**623**

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, whereby BLME Holding plc became the new holding company of the Group.

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 were 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 was 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.

As a consequence of the acquisition of the Company by Boubyan, during February 2020 17.2 million share options were equity settled by Boubyan and all of the DABS options were cash settled by the Company.

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 following tables list the weighted average inputs to the model at the measurement dates for the options granted during 2019 and 2018.

No options were issued in 2019.

Options issued in 2018	**ASOP**	**USOP**
	2018	**2018**
Fair value (cents) *	5.42	5.42
Share price (cents) *	40.00	40.00
Exercise price (cents) *	50.00	50.00
Expected volatility (% p.a.)	18.01	18.01
Expected option life (years)	6.88	6.88
Expected dividends (% p.a.)	Nil	Nil
Risk free interest rate (%)	1.27	1.27

* 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. The Black-Scholes fair value of the options has been translated into sterling using the exchange rate ruling at the date of grant, for the purpose of amortising the share-based payment expense.

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

Equity-settled schemes

Approved share options ("ASOPs")

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

ASOPs	Number of options 2019	Weighted average excercise price (pence) 2019	Number of options 2018	Weighted average excercise price (pence) 2018
Outstanding at 1 January	2,582,551	48.6	2,863,344	49.5
Granted in the year	-	N/A	335,246	37.4
Forfeited in the year	(335,403)	58.0	(616,039)	46.7
Outstanding at 31 December	**2,247,148**	**47.2**	**2,582,551**	**48.6**
Exercisable at 31 December	**708,410**		**331,513**	

The weighted average remaining contractual life of the above ASOPs outstanding at the balance sheet date was 6.9 years (2018: 7.8 years). The weighted average exercise price is 48.6 pence (2018: 48.6 pence).

All of the ASOPs granted in 2018 were issued with a vesting profile of 50% vesting after 3 years, 25% vesting after 4 years and 25% vesting after 5 years. No ASOPs were granted in 2019.

During 2010 options were issued in parallel to the then existing approved options that 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 equivalent to 125 pence per 25p ordinary share as against an exercise price of 162.5 pence per share for their original approved options. The old and new options 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 had two approved options, they will only be able to exercise one of them.

Parallel ASOPs	Number of options 2019	Number of options 2018
Outstanding at 1 January	39,992	39,992
Granted in the year	-	-
Forfeited in the year	-	-
Outstanding at 31 December	**39,992**	**39,992**
Exercisable at 31 December	**39,992**	**39,992**

The weighted average remaining contractual life of the above parallel options outstanding at the balance sheet date was 0.2 years (2018: 1.2 years). The weighted average exercise price is 125 pence (2018: 125 pence). All of these options were exercisable at the balance sheet date (2018: 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 ("USOPs")

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

USOPs	**Number of options 2019**	**Weighted average excercise price (pence) 2019**	**Number of options 2018**	**Weighted average excercise price (pence) 2018**
Outstanding at 1 January	16,333,663	41.7	17,319,151	42.7
Granted in the year	-	N/A	782,254	37.4
Forfeited in the year	(973,332)	47.7	(1,767,742)	49.3
Exercised in the year	-	N/A	-	Nil
Outstanding at 31 December	**15,360,331**	**41.4**	**16,333,663**	**41.7**
Exercisable at 31 December	**5,476,566**		**1,102,203**	

The weighted average remaining contractual life of the above USOPs outstanding at the balance sheet date was 8.0 years (2018: 8.0 years). The weighted average exercise price is 41.4 pence (2018: 41.7 pence).

All of the USOPs granted in 2018 were issued with a vesting profile of 50% vesting after 3 years, 25% vesting after 4 years and 25% vesting after 5 years. No USOPs were granted in 2019.

Executive share option scheme ("ESOPs")

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 2019**	**Number of options 2018**
Outstanding at 1 January	361,708	755,191
Granted in the year	0	-
Forfeited in the year	(226,901)	(393,483)
Outstanding at 31 December	**134,807**	**361,708**
Exercisable at 31 December	**134,807**	**361,708**

The weighted average remaining contractual life of the executive share options outstanding at the balance sheet date was 2.2 years (2018: 1.4 years). The weighted average exercise price is 162.5 pence (2018: 162.5 pence).

Deferred Incentive Plan Scheme ("DIPs")

The DIPs is a five-year plan introduced by the Group in March 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 were granted under the BLME Holding plc's existing ASOP and USOP schemes.

DIPs	Number of options 2019	Number of options 2018
Outstanding at 1 January	246,485	329,747
Granted in the year	-	-
Forfeited in the year	-	(83,262)
Outstanding at 31 December	**246,485**	**246,485**
Exercisable at 31 December	**197,188**	**147,891**

The weighted average remaining contractual life of the above DIPS options outstanding at the balance sheet date was 5.2 years (2018: 6.2 years). The weighted average exercise price was 45.0 pence (2018: 45.0 pence).

Cash-settled schemes

Deferred annual bonus scheme ("DABs")

DABs were granted under the "BLME Deferred Annual Bonus Scheme" which was introduced to ensure that the long term interests of certain employees were aligned with the interests of Shareholders. DABs awards entitled the employee to receive a matching award at no cost providing certain conditions, including a performance condition, were met. Performance conditions are set and monitored by the Remuneration Committee. DABS take the form of nil cost options but can be settled in cash at the discretion of the Company.

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

DABs	Number of nil cost options 2019	Number of nil cost options 2018
Outstanding at 1 January	1,613,765	1,515,521
Awarded and deferred	-	-
Awarded under matched award	-	282,107
Forfeited in the year	(38,764)	-
Exercised in the year	-	(115,614)
Settled in the year	-	(68,249)
Outstanding at 31 December	**1,575,001**	**1,613,765**
Exercisable at 31 December	**1,575,001**	**203,232**

The weighted average remaining contractual life of the above nil cost options outstanding at the balance sheet date was 6.1 years (2018: 6.9 years). The weighted average exercise price was nil (2018: nil).

14. IMPAIRMENTS OF FINANCIAL ASSETS

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

Statement of Financial Position

As at 31 December 2019	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Financing arrangements	730	337	5,917	6,984
Finance lease receivables	1,295	1,236	98	2,629
Operating lease assets	54	112	-	166
Due from financial institutions	110	-	-	110
Investment securities	4	-	-	4
Other assets	-	-	537	537
Total Impairment	**2,193**	**1,685**	**6,552**	**10,430**

Statement of Financial Position

As at 31 December 2018	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Financing arrangements	710	1,697	7,927	10,334
Finance lease receivables	595	2,728	1,349	4,672
Total Impairment	**1,305**	**4,425**	**9,276**	**15,006**

Within Stage 1 and Stage 2 for financing arrangements there is an ECL balance of £10k relating to off balance sheet letters of credit and guarantees (2018: £69k) and an ECL balance of £55k relating to undrawn commitments (2018: £164k).

Forborne exposures that have not been specifically provided for equates to £28m (2018: £33m). The Stage 1 and Stage 2 ECLs relating to these forborne exposures is £31k (2018: £1,228k). Refer to pages 118 to 120 for further details on how the Group monitors its forborne exposure.

Income Statement

	2019 £000	2018 £000
New and increased provisions (net of releases)	158	2,287
Inventory write-off	1,337	-
Write off of provision	319	-
Total Impairment Loss	**1,814**	**2,287**

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

ECL by Stage

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2019	1,305	4,425	9,276	15,006
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	665	(665)	-	-
Transferred to Stage 2	(83)	83	-	-
Transferred to Stage 3	-	-	-	-
New and increased provisions (net of	306	(2,158)	2,011	159
Write-offs from specific provisions	-	-	(4,454)	(4,454)
Foreign currency translation adjustments	-	-	(281)	(281)
As at 31 December 2019	**2,193**	**1,685**	**6,552**	**10,430**

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2018	2,395	746	12,821	15,962
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	151	(151)	-	-
Transferred to Stage 2	(322)	322	-	-
Transferred to Stage 3	(19)	-	19	-
New and increased provisions (net of releases)	(900)	3,508	(321)	2,287
Write-offs from specific provisions	-	-	(3,593)	(3,593)
Foreign currency translation adjustments	-	-	350	350
As at 31 December 2018	**1,305**	**4,425**	**9,276**	**15,006**

Exposure by Stage

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2019	1,215,991	196,034	21,472	1,433,497
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	57,529	(57,529)	-	-
Transferred to Stage 2	(58,226)	58,226	-	-
Transferred to Stage 3	(6,300)	-	6,300	-
New and increased provisions (net of releases)	282,742	(53,649)	(3,674)	225,419
Write-offs from specific provisions	-	-	(4,347)	(4,347)
Foreign currency translation adjustments	-	-	(382)	(382)
As at 31 December 2019	**1,491,736**	**143,082**	**19,369**	**1,654,187**
Carrying amount as at 1 January 2018	954,908	107,768	45,795	1,108,471
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	13,336	(13,336)	-	-
Transferred to Stage 2	(124,129)	124,129	-	-
Transferred to Stage 3	(8,115)	-	8,115	-
New and increased provisions (net of releases)	379,991	(22,527)	(28,756)	328,708
Write-offs from specific provisions	-	-	(4,494)	(4,494)
Foreign currency translation adjustments	-	-	812	812
As at 31 December 2018	**1,215,991**	**196,034**	**21,472**	**1,433,497**

Contractual amounts outstanding on financial assets of £4.5m that were written off during the reporting period are still subject to enforcement activity (2018: £nil).

Exposure by credit rating

	Due from financial institutions	Finance lease receivables			Financing arrangements			Investment securities	Operating lease assets		Other assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	Stage 1	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 2	Stage 3	
AAA	-	-	-	-	-	-	-	67,923	-	-	-	**67,923**
aa+	-	41	-	-	-	-	-	-	-	-	-	**41**
aa	718	2,751	-	-	-	-	-	-	-	-	-	**3,469**
aa-	-	-	-	-	7,371	-	-	-	-	-	-	**7,371**
A+	68,430	5,883	-	-	-	-	-	15,367	-	-	-	**89,680**
a	-	22,046	-	-	88,759	-	-	-	-	-	-	**110,805**
a-	7,735	8,343	55	-	10,984	-	-	-	2,968	-	-	**30,085**
bbb+	-	15,628	1,029	-	45,719	-	-	-	10,089	-	-	**72,465**
bbb	-	61,281	1,911	-	192,123	-	-	-	-	-	-	**255,315**
bbb-	-	92,528	4,693	-	298,388	473	-	31,770	13,191	7,669	-	**448,712**
bb+	-	85,366	6,609	-	101,436	20,509	-	-	5,213	481	-	**219,614**
bb	-	86,381	21,511	-	94,690	21,572	-	-	-	-	-	**224,154**
bb-	-	21,148	1,836	-	-	8,872	-	-	-	3,169	-	**35,025**
b+	15,891	6,154	2,204	-	-	25,429	-	-	-	-	-	**49,678**
b	-	2,498	9	-	1,750	-	-	-	-	-	-	**4,257**
b-	-	1,122	13,945	-	-	-	-	-	-	-	-	**15,067**
ccc+	-	51	-	-	-	-	-	-	-	-	-	**51**
ccc	-	-	1,106	-	-	-	-	-	-	-	-	**1,106**
d	-	-	-	397	-	-	17,718	-	-	-	1,254	**19,369**
At 31 December 2019	**92,774**	**411,221**	**54,908**	**397**	**841,220**	**76,855**	**17,718**	**115,060**	**31,461**	**11,319**	**1,254**	**1,654,187**

	Finance lease receivables			Financing arrangements			Total
	£000	£000	£000	£000	£000	£000	£000
	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	
AAA	-	-	-	55,777	-	-	**55,777**
aa+	670	-	-	-	-	-	**670**
aa	3,123	-	-	20,283	-	-	**23,406**
aa-	94	-	-	634	-	-	**728**
A+	3,912	-	-	160,206	-	-	**164,118**
a	23,493	-	-	-	-	-	**23,493**
a-	6,337	-	-	49,990	-	-	**56,327**
bbb+	7,804	38	-	43,998	-	-	**51,840**
bbb	34,474	1,134	-	122,342	-	-	**157,950**
bbb-	63,933	3,112	-	326,170	17,261	-	**410,476**
bb+	65,055	23,391	-	36,218	20,433	-	**145,097**
bb	39,311	14,774	-	95,772	-	-	**149,857**
bb-	9,349	12,587	-	36,009	53,103	-	**111,048**
b+	3,785	416	-	-	26,213	-	**30,414**
b	6,599	671	-	9	2,518	-	**9,797**
b-	597	7,645	-	-	3,350	-	**11,592**
ccc+	22	9,388	-	-	-	-	**9,410**
ccc-	25	-	-	-	-	-	**25**
d	-	-	6,297	-	-	15,175	**21,472**
At 31 December 2018	**268,583**	**73,156**	**6,297**	**947,408**	**122,878**	**15,175**	**1,433,497**

15. TAXATION

Group	**2019**	**2018**
	£000	**£000**
UK Corporation Tax		
- current tax for the year	1,644	407
- adjustments in respect of prior years	-	114
	1,644	521
Deferred tax for the year	(552)	(3,338)
Prior year adjustment to deferred tax	296	-
Tax expense / (credit) in income statement	**1,388**	**(2,817)**

The tax charge for the year is higher (2018: lower) than the standard rate of corporation tax which is explained as follows:

Group	**2019**	**2018**
	£000	**£000**
Reconciliation of effective tax rate		
Profit for the year before tax	8,890	8,425
Profit for the year multiplied by standard rate of corporation tax in the UK of 19% (2018: 19%)	1,689	1,601
Recognition of deferred tax asset	(2,718)	(3,338)
Movement in unrecognised deferred tax	1,736	(1,262)
Tax exempt income	-	(240)
Expenses not deductible for tax purposes	203	39
Tax on controlled foreign companies	393	200
Prior year adjustment	296	114
Impact of share based payments	(94)	-
Effect of change in tax rates	(117)	69
Tax expense / (credit) in income statement	**1,388**	**(2,817)**

The main rate of corporate tax for the year ended 31 December 2019 is 19% (2018: 19%).

Legislation will be introduced in Finance Bill 2020 to amend the main rate of Corporation Tax to 19% for financial year 2020. The Corporation Tax main rate will also be set at 19% for financial year 2021. This reverses previous legislation reducing the Corporation Tax main rate to 17% from the year starting 1 April 2020. The effect on the year-end deferred tax balance of this increase in rate would have been an increase of £416k if the 19% had been enacted at the balance sheet date.

Tax recognised in other comprehensive income

Group	**2019**	**2018**
	£000	**£000**
Fair value reserve:		
-current tax	7	-
-deferred tax	223	(135)
	230	**(135)**

Tax recognised directly in equity

Group	**2019**	**2018**
	£000	**£000**
Share based-payment reserve	(950)	(30)
Retained earnings	-	157
	(950)	**127**

Deferred tax

A deferred tax asset (DTA) is recognised on deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which these can be utilised. The Group has been profitable for three consecutive years and has forecast taxable profits in future years. Based on the evidence, Management has recognised a DTA as at 31 December 2019 on accelerated depreciation of £1.2m (net) (2018: £nil), trading losses carried forward of £1.8m (net) (2018: £2.2m) and other temporary differences of £1.4m (net) (2018: £1.3m).

Movements in deferred tax balances (net)

Group - 2019	Balance at 1 January	Recognised in profit or loss	Recognised in OCI/Equity	Balance at 31 December
	£000	£000	£000	£000
Accelerated depreciation	-	1,249		1,249
Tax losses carried forward	2,217	(405)	-	1,812
Other temporary differences	1,297	(588)	727	1,436
Deferred tax assets	**3,514**	**256**	**727**	**4,497**

Group - 2018	Balance at 1 January	Recognised in profit or loss	Recognised in OCI	Balance at 31 December
	£000	£000	£000	£000
Tax losses carried forward	-	2,217	-	2,217
Other temporary differences	-	1,121	176	1,297
Deferred tax assets	**-**	**3,338**	**176**	**3,514**

Unrecognised deferred tax assets (gross)

Group	2019	2018
	£000	£000
Accelerated depreciation	5,714	13,106
Tax losses carried forward	142	6,701
Other temporary differences	-	25
Deferred tax assets	**5,856**	**19,832**

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.

	2019	2018	
Earnings per share	**pence**	**pence**	
Basic	3.67	5.59	
Diluted	3.33	5.09	
	2019	**2018**	
Profit attributable to ordinary shareholders	**£000**	**£000**	
Profit attributable to shareholders (basic)	6,721	10,793	
Profit attributable to shareholders (diluted)	6,721	10,793	
	2019	**2018**	
Weighted average number of ordinary shares	**Number**	**Number**	
Number of ordinary shares of 25p in issue	195,733,691	195,733,691	
Share held by the BLME Holdings EBT	(2,192,029)	(2,192,029)	
Treasury shares repurchased in December 2018	(10,357,374)	(10,357,374)	
Weighted average number of shares (basic) at 31 December	183,184,288	193,106,893	*
Effect of dilutive share options in issue	18,755,985	19,096,265	
Weighted average number of shares (diluted) at 31 December	201,940,273	212,203,158	

*In 2018, the weighted average number of shares (193m shares) is comparatively high compared to the actual number of shares on issue (183m shares) due to the Share Repurchase Programme occurring on 19 December 2018 therefore impacting 13 days. The actual number of shares equals the weighted number of shares in 2019 as there were no share repurchases during the year.

17.CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

Group	1 January 2019	Cashflows	FX Movement	Changes in Fair Value	Other	31 December 2019
	£000	£000	£000	£000	£000	£000
Lease liabilities	6,143	(1,168)	(13)	-	168	5,130

There were no liabilities from financing activities in 2018.

18.DUE FROM FINANCIAL INSTITUTIONS AND CUSTOMERS

Due from financial institutions

	0 - 3 months	4 - 12 months	1 - 5 years	2019
	£000	£000	£000	£000
Wakala	-	7,726	3	7,729
	-	**7,726**	**3**	**7,729**
Provision for impairment				(110)
				7,619
IFRS 9 Stage 1 and 2 ECL				(110)
				(110)

Due from financial institutions

	0 - 3 months	4 - 12 months	1 - 5 years	2018
	£000	£000	£000	£000
Wakala	-	8,045	-	8,045
	-	**8,045**	**-**	**8,045**
Provision for impairment				-
				8,045

Due from Customers

	0 - 3 months	4 - 12 months	1 - 5 years	2019
	£000	£000	£000	£000
Wakala	-	14,081	-	14,081
	-	**14,081**	**-**	**14,081**
Provision for impairment				-
				14,081

Due from Customers

	0 - 3 months	4 - 12 months	1 - 5 years	2018
	£000	**£000**	**£000**	**£000**
Wakala	7,424	-	7,188	14,612
	7,424	**-**	**7,188**	**14,612**
Provision for impairment				-
				14,612

19. INVESTMENT SECURITIES

			2019
Group	**Listed**	**Unlisted**	**Total**
	£000	**£000**	**£000**
Fair value through other comprehensive income			
Equity	-	328	328
Sukuk	59,038	-	59,038
Amortised cost			
Sukuk	24,258	-	24,258
	83,296	**328**	**83,624**
Provision for impairment			(4)
			83,620
IFRS 9 Stage 1 and 2 ECL			(4)
			(4)

See pages 122 to 124 in Note 38 for further detail on fair value measurements of investment securities.

			2018
Group	**Listed**	**Unlisted**	**Total**
	£000	**£000**	**£000**
Fair value through other comprehensive income			
Equity	-	341	341
Sukuk	93,894	-	93,894
Amortised cost			
Sukuk	9,637	-	9,637
	103,531	**341**	**103,872**

In 2018, there was an ECL balance of £45k relating to investment securities within Stage 1 and Stage 2 for financing arrangements.

Company	Listed	Unlisted	2019 Total
	£000	£000	£000
Investment in subsidiaries			
Bank of London and The Middle East plc	-	108,493	108,493
Walbrook Asset Finance Limited	-	5,100	5,100
	-	113,593	113,593

Company	Listed	Unlisted	2018 Total
	£000	£000	£000
Investment in subsidiary			
Bank of London and The Middle East plc	-	101,310	101,310

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	2019	2018
	£000	£000
Investment in subsidiary		
Opening balance	101,310	111,318
Acquisitions	5,100	-
Equity-settled share-based payment awards	1,320	295
Impairment (loss) / reversal	5,863	(10,303)
Closing balance at 31 December	**113,593**	**101,310**

There were no indications that an impairment loss may have occurred in 2019. Rather, Boubyan's offer price of USD$1.05 per share compared to the previous trading price of USD$0.60 represents an indication that an impairment loss may have decreased. The estimate of the Bank's fair value less costs to sell using the Boubyan offer price is £108.5m. As such, the provision for impairment charge of £5.9 million recognised in 2018 was reversed in the current year's income statement of the Parent Company.

Acquisitions represent the cost of all of the issued capital of Walbrook Asset Finance Limited which was incorporated during the year.

A recoverable amount of £101.3 million was calculated in 2018 based on the Bank's fair value less costs to sell. The fair value less costs to sell exceeded the value in use which was calculated by discounting future cash flows based on five-year budgets, adjusted for non-cash items such as share-based payments and depreciation. Management performed a sensitivity analysis which showed that a 1% increase/decrease in the discount rate resulted in a £5m decrease/£6m increase in the valuation. A 1% increase in the growth percentage rate decreased the valuation by £12m while a 1% decrease in the same rate increased the valuation by £10m.

20. FINANCING ARRANGEMENTS

Group	Less than 1 year	1 - 5 years	Over 5 years	2019 Total
	£000	£000	£000	£000
Murabaha	795,291	95,431	-	890,722
	795,291	**95,431**	**-**	**890,722**
Provision for impairment				(6,984)
				883,738
IFRS 9 Stage 1 and 2 ECL				(1,067)
IFRS 9 Stage 3 ECL				(5,917)
				(6,984)

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

Group	Less than 1 year	1 - 5 years	Over 5 years	2018 Total
	£000	£000	£000	£000
Murabaha	692,456	50,686	-	743,142
Mudaraba	3,642	-	-	3,642
Participation agreement	141	-	-	141
Sukuk	931	-	-	931
	697,170	**50,686**	**-**	**747,856**
Provision for impairment				(10,334)
				737,522
IFRS 9 Stage 1 and 2 ECL				(2,407)
IFRS 9 Stage 3 ECL				(7,927)
				(10,334)

21. FINANCE LEASE RECEIVABLES

Group	2019	2018
	£000	£000
Gross investment in finance lease receivables		
Within one year	76,434	50,616
One to five years	119,016	83,324
Over five years	7,983	4,913
	203,433	138,853
Hire purchase		
Within one year	97,285	61,472
One to five years	162,516	79,597
Over five years	2,412	192
	262,213	141,261
Unearned future income on finance leases	(13,551)	(10,974)
Unearned future income on hire purchase	(16,827)	(8,270)
IFRS 9 Stage 1 & 2 ECL	(2,531)	(3,323)
IFRS 9 Stage 3 ECL	(98)	(1,349)
Net investment in finance leases and hire purchase	**432,639**	**256,198**
The net investment in finance leases comprises:		
Within one year	68,735	41,840
One to five years	111,929	77,652
Over five years	7,669	4,596
	188,333	**124,088**
The net investment in hire purchase comprises:		
Within one year	88,118	56,140
One to five years	153,852	75,783
Over five years	2,336	187
	244,306	**132,110**
	432,639	**256,198**

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

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

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

22. PROPERTY AND EQUIPMENT

	Computer Equipment £000	Office Equipment £000	Fixtures & Fittings £000	Buildings £000	Motor vehicles £000	Total £000
Cost						
At 1 January 2019	541	69	2,185	-	-	2,795
Additions	-	9	6	4,842	20	4,877
Disposals	-	-	-	-	-	-
FX difference	-	-	-	(11)	-	(11)
At 31 December 2019	541	78	2,191	4,831	20	**7,661**
At 1 January 2018	541	69	2,185	-	-	2,795
Additions	-	-	-	-	-	-
Disposals	-	-	-	-	-	-
At 31 December 2018	**541**	**69**	**2,185**	**-**	**-**	**2,795**
Depreciation						
At 1 January 2019	534	67	1,706	-	-	2,307
Charge for the year	3	2	475	837	6	1,323
Disposals	-	-	-	-	-	-
At 31 December 2019	537	69	2,181	837	6	**3,630**
At 1 January 2018	515	61	1,232	-	-	1,808
Charge for the year	19	6	474	-	-	499
Disposals	-	-	-	-	-	-
At 31 December 2018	**534**	**67**	**1,706**	**-**	**-**	**2,307**
Net Book Value						
At 1 January 2019	7	2	479	-	-	488
At 31 December 2019	4	9	10	3,994	14	**4,031**
At 31 December 2018	**7**	**2**	**479**	**-**	**-**	**488**

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

23. OPERATING LEASE ASSETS

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

Group	At 31 December 2018 £000	Additions 2019 £000	Disposals 2019 £000	Depreciation 2019 £000	FX 2019 £000	At 31 December 2019 £000
Gross carrying amount	56,663	5,344 *	(12,445)	-	(81)	49,481
Less depreciation	(13,285)	-	10,709	(7,331)	81	(9,826)
	43,378	**5,344**	**(1,736)**	**(7,331)**	**-**	**39,655**
Provision for impairment						(166)
						39,489
IFRS 9 Stage 1 and 2 ECL						(166)
						(166)

Group	At 31 December 2017 £000	Additions 2018 £000	Disposals 2018 £000	Depreciation 2018 £000	FX 2018 £000	At 31 December 2018 £000
Gross carrying amount	47,798	27,846	(19,327)	-	346	56,663
Less depreciation	(12,876)	-	6,339	(6,443)	(305)	(13,285)
	34,922	**27,846**	**(12,988)**	**(6,443)**	**41**	**43,378**

*Includes £1.4m of advance rentals reclassified from Other Liabilities to current year additions

Rental receipts under operating leases*	**2019**	**2018**
Future rentals are as follows:	**£000**	**£000**
Less than one year	6,017	8,291
Between one and five years	17,352	19,076
More than five years	1,281	2,671
	24,650	**30,038**

*These rental receipts represent undiscounted cash flows.

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

24. INTANGIBLE ASSETS

Group	**2019**	**2018**
Cost	**£000**	**£000**
Opening balance	5,645	5,645
Additions	375	-
Disposals	-	-
Closing balance	**6,020**	**5,645**
Amortisation and impairment losses		
Opening balance	5,379	4,808
Charge for the year	274	571
Disposals	-	-
Closing balance	**5,653**	**5,379**
Net Book Value	**367**	**266**

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

25. OTHER ASSETS

Group	2019	2018
	£000	£000
VAT recoverable	1,970	2,625
Contract assets*	17	65
Collateral deposits**	2,805	404
Prepayments	830	1,105
Collateral assets***	1,975	-
Other receivables and assets****	9,569	2,442
	17,166	**6,641**

* Per IFRS 15 *Revenue from Contracts with Customers*, a contract asset (accrued income) or a contract liability (deferred income, see Note 28) is recognised for difference between the cumulative revenue recognised and the cumulative amounts billed for a contract.
** The Group has pledged cash collateral deposits of £0.04 million (2018: £0.05 million) as security against rental payments on its premises. The balance of £2.8 million relates to cash held as deposits with financial institutions (2018: £0.4 million).
***Collateral assets relate to seized assets from customers in default.
****Other receivables and assets line above include foreign exchange forward deal balance of £4.9 million with a notional contract amount of £274 million (2018: £1.2 million and £129m). Further disclosure on the Group's foreign exchange forward deals is covered in Note 38.

26. DUE TO FINANCIAL INSTITUTIONS

Group	2019	2018
	£000	£000
Reverse Murabaha	196,381	544,843
Exchange of deposits*	34,957	-
Wakala	144,227	127,397
	375,565	**672,240**

*Exchange of deposits are derivative financial instruments measured at fair value through profit and loss (level 2). See Note 38 for further details.

27. DUE TO CUSTOMERS

Group	2019	2018
	£000	£000
Customer deposits	906,064	353,569
Security deposits	11,056	3,784
	917,120	**357,353**

28. OTHER LIABILITIES

Group	2019	2018
	£000	£000
Trade payables	86	18
Contract liability	17	5
Collateral advance	928	-
Social security and income tax	420	334
Accruals	10,157	10,814
Lease liability*	5,130	-
Other creditors**	3,438	1,539
	20,176	**12,710**

*Refer to Note 29 for further detail on lease liabilities recognised in line with IFRS 16.
**Other creditors line above include foreign exchange forward deal balance of £0.6 million with a notional contract amount of £64 million (2018: £0.2 million and £12 million). Further disclosure on the Group's foreign exchange forward deals is covered in Note 38. In addition, other creditors also includes £1.4m of advance rentals reclassified to current year additions in operating lease assets.

29. LEASES

The Group has lease contracts for office premises in London, Manchester and Dubai (head office, commercial finance regional office and DIFC branch) and also a small number of motor vehicles. Leases of offices have lease terms between 1 and 10 years, while motor vehicles generally have shorter lease terms. The Group's obligations under its leases are stipulated in the respective lease agreements. Generally, the Group is restricted from assigning and subleasing its leased assets with the exception of the head office premises in London which does permit subletting by way of an unsecured underletting. Some of the lease contracts include extension and termination options.

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

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

	Buildings	Motor vehicles	Total
	£000	£000	£000
At 1 January 2019	-	-	-
Additions	4,842	20	4,862
Depreciation expense	(837)	(6)	(843)
Foreign currency translation adjustments	(11)	-	(11)
At 31 December 2019	**3,994**	**14**	**4,008**

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

	2019
	£000
At 1 January 2019	-
Additions	6,143
Accretion of finance charges	168
Payments	(1,168)
Foreign currency translation adjustments	(13)
At 31 December 2019	**5,130**

The maturity analysis of lease liabilities is as follows:

	Less than 1 month	1-3 months	3 - 12 months	1-5 years	5+ years	Total
	£000	£000	£000	£000	£000	£000
Future lease payments (undiscounted)	6	251	875	3,942	483	5,557
Total future finance charges						(427)
Lease liability						**5,130**

Further detail on how the Group manages its liquidity risk inherent in its financial liabilities is disclosed in section (b) of Note 38.

The following are the amounts recognised in profit or loss:

	2019
	£000
Depreciation expense of right-of-use assets	843
Finance charge on lease liabilities	168
Total amount recognised in profit or loss	**1,011**

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

The Bank had total cash outflows for leases of £1.2m in 2019 (2018: £nil). The Bank also had non-cash additions to right-of-use assets and lease liabilities of £4.9m and £6.1m respectively in 2019 (2018: £nil).

Note: There is no comparative financial information included in the above tables since the Bank adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of 1 January 2019. See Note 2(d) on page 51.

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see page 70 in Note 3).

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

	Within five years	More than five years	Total
	£000	£000	£000
Extension options expected not to be exercised	4,832	-	4,832
At 31 December 2019	**4,832**	**-**	**4,832**

30.INVESTMENT IN JOINT VENTURES

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

The Group holds a 31.18% equity interest in Waterfront however plans to sell all but 10% of its investment. Accordingly, only 10% is accounted for using the equity method with the balance of 21.18% accounted for as an asset classified as held for sale per IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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

The following table illustrates the summarised financial information of the Group's investment in Waterfront Holdings Limited:

Statement of Financial Position	**2019**
	£000
Cash and cash equivalents	1,221
Other assets	171
Investment properties	27,228
Total assets	**28,620**
Other liabilities	523
Due to financial institutions	15,938
Total liabilities	**16,461**
Net Assets	12,159
Group's share in the Net Assets - 10% (2018: nil)	**1,216**

Income Statement	**2019**
	£000
Revenue	1,282
Management and advisory fees	(688)
Murabaha profit expense	(166)
Other expenses	(339)
Profit before tax	**89**
Income tax expense	-
Profit for the year	**89**

The joint venture had no contingent liabilities or capital commitments as at 31 December 2019.

Movements in Waterfront Holdings Limited carrying amounts	**2019**
	£000
Opening balance	-
Acquisition of interest in joint venture	1,235
Share of profit of equity-accounted investees, net of tax	9
Dividends received	(28)
Closing net book amount	**1,216**

31.ASSETS HELD FOR SALE

As described in Note 30, the Group has committed to a plan to sell all but 10% of its interest in Waterfront Holdings Limited. This is in line with the investment memorandum provided to all eligible prospective investors. Accordingly, 21.18% of the Group's investment is presented as an asset held for sale. During the year, the Group sold 68.82% of its interest in Waterfront Holdings Limited. The Group expects to reach its target sell down of 90% by August 2020 which would be within a year of the classification as an asset held for sale.

Impairment losses of £41k for write-downs of the investment to the lower of its carrying amount and its fair value less costs to sell have been included in 'other operating expenses'. The impairment losses have been applied to reduce the investment to its carrying amount as at 31 December 2019.

	2019
	£000
Investment in joint ventures	2,575
Assets held for sale	**2,575**

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

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

32.CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2019 to be disclosed.

33. SHARE CAPITAL

Group	**Number of shares**	**Share capital £000**
Allotted, called up and fully paid 25p per Ordinary share		
At 31 December 2018	195,733,691	48,933
Less: Shares repurchased (treasury shares)*	(10,357,374)	-
At 31 December 2019	**185,376,317**	**48,933**

The above is consistent with the share capital of the Company.

*The Company conducted a share repurchase programme on the Nasdaq Dubai Stock exchange over eight trading days commencing on Monday 10 December 2018. Boubyan Bank K.S.C.P. and the directors of the Company did not participate in the programme. The total number of shares purchased was 10,357,374 for a total consideration of $4.510m (£3.57m) at an average price paid per share of $0.4354 (£0.3446).

34. SUBSIDIARIES AND OTHER ENTITIES

Principal Subsidiaries	Country of incorporation and principal operations	BLME interest in equity capital	Issued equity capital	Profit / (Loss) for the year £000	Principal business activity	Ultimate parent undertaking	Immediate parent undertaking
Directly held:							
Bank of London and The Middle East plc	United Kingdom	100%	£48,933,422	7,168	Regulated Bank	BLME Holdings plc	BLME Holdings plc
Walbrook Asset Finance Limited	United Kingdom	100%	£5,100,000	(142)	Leasing	BLME Holdings plc	BLME Holdings plc
Indirectly held:							
BLME Asset Management Limited	United Kingdom	100%	£2	-	Dormant	BLME Holdings plc	BLME plc
BLME Holdco Limited	United Kingdom	100%	£102	-	Dormant	BLME Holdings plc	BLME plc
BLME Holdings EBT	Jersey	N/A	N/A	-	Employee benefit trust	BLME Holdings plc	BLME plc
BLME Limited	United Kingdom	100%	£2	-	Dormant	BLME Holdings plc	BLME plc
Global Liquidity Solutions Limited	United Kingdom	100%	£1	-	Dormant	BLME Holdings plc	BLME plc
MKL Construction Equipment Finance Limited	United Kingdom	60%	£1,000	516	Leasing	BLME Holdings plc	BLME plc
Renaissance Property Finance Limited	United Kingdom	100%	£2	-	Dormant	BLME Holdings plc	BLME plc
Renaissance Trade Finance Limited	United Kingdom	100%	£2	-	Dormant	BLME Holdings plc	BLME plc
AQ1 Limited	Jersey	88%	£24,870,000	1,641	Investment Holding Company	BLME Holdings plc	BLME plc
Aspenway Limited	Jersey	56%	£11,300,000	903	Investment Holding Company	BLME Holdings plc	BLME plc

The registered office address for all subsidiaries incorporated in the United Kingdom is:
Cannon Place, 78 Cannon Street, London, EC4N 6HL
AQ1 Limited: Fifth Floor, 37 Esplanade, St Helier, Jersey JE1 2TR, Jersey
Aspenway Limited and Waterfront Holdings Ltd: 26 New Street, St Helier, Jersey JE2 3RA, Jersey
BLME Holdings EBT does not have a registered address as it is not a company.

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

In 2018, there was one active structured entity (“SE”) that did not qualify as a subsidiary under UK law but which was consolidated under IFRS 10 as the substance of the relationship was that the entity was deemed to be controlled by the Group. This entity was deemed to be controlled by the Group because the relationship between the Group and the SE was governed by a participation agreement which allowed the Group to exercise power over the SE in addition to being exposed to, and having rights over, the variable returns from its involvement with the SE. Furthermore, the Group had the ability to use its power to affect its returns from its involvement in the SE. Lease assets owned by the SE were reported as Group operating lease assets amounting to £0.1 million.

The one structured entity was as follows:

- DMJ 2 LLC (USA) – Operating leases

The leased assets were sold in September 2019 which in turn effected the termination of the participation agreement. As such, the Group no longer controlled the above SE from this date.

The BLME Holdings Employee Benefit Trust (‘EBT’) holds a stock of own shares acquired at a cumulative cost of £3.5 million (2018: £3.5 million) which has been deducted from retained earnings in the Condensed Consolidated Statement of Changes in Equity. The EBT did not purchase any Company shares during the year ended 31 December 2019 (2018: Nil). No stamp duty costs were incurred by the Group on behalf of the EBT (2018: 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 £1,547 million and £1,314 million respectively (2018: £1,273 million and £1,045 million respectively).

- **Interests in unconsolidated structured entities**

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

- **Contractual arrangements and financial support**

The Group does not have any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated or unconsolidated structured entity (2018: none).

Except for a letter of support provided to MKL Construction Equipment Finance Limited, the Group did not provide financial support to any of its consolidated or unconsolidated structured entities during 2019 (2018: nil) and does not have any current intentions to provide such support (2018: none).

35. NON-CONTROLLING INTEREST

The group holds a 60%, 56% and 88% shareholding in MKL Construction Equipment Finance Limited, Aspenway Limited and AQ1 Limited respectively, and consolidates them as subsidiaries under IFRS 10. The non-controlling interests represent the minority shareholders of 40% in MKL Construction Equipment Finance Limited (hold 40% of the voting rights), 44% in Aspenway Limited (hold nil voting rights) and 12% in AQ1 Limited (hold nil voting rights).

36. RELATED PARTIES

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

	Relationship	2019	2018
		£000	£000
Boubyan Bank K.S.C.P	Shareholder		
Wakala placement		132,039	817,238
Wakala deposit taking		493,412	269,051
Participation deposit		61,501	48,173
The Public Institution for Social Security	Shareholder		
Reverse Murabaha		244,307	519,202

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

Included within:	2019	2018
	£000	£000
Cash and balances with banks		
Nostros	536	1,372
Due to financial institutions		
Wakala deposit taking	32,506	31,128
Financing arrangements		
Participation deposit*	14,956	15,597

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

As at 31 December 2019, Boubyan Bank K.S.C.P held an economic interest of 27.91% of the Parent Company's voting shares (2018: 27.91%).

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

Included within:	2019	2018
Due to financial institutions	£000	£000
Reverse Murabaha	162,666	525,193

As at 31 December 2019, The Public Institution for Social Security held 8.10% (2018: 8.10%) of the Parent Company's voting shares and its Chief Investment Officer is a member of the Company's board.

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

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

	2019	2018
	£000	£000
Key management emoluments *	1,917	1,766
Bank contributions to pension plans	12	32
	1,929	**1,798**

* Key management emoluments includes share-based payments of £0.22 million (2018: £0.18 million).

During the year, the Company did not receive any notification by the Directors' for the purchase of Company shares.

37.SUBSEQUENT EVENTS

On 8 January 2020, the Boubyan Bank K.S.C.P. ("Boubyan") received approval from the UK Prudential Regulation Authority to the change in control of the Group that would result from implementation of the Acquisition effected by the all cash offer by Boubyan for the entire issued and to be issued ordinary share capital of the Company (other than the Company shares already held by Boubyan (or its associates) and treasury shares). The terms of the offer were agreed by Boubyan Board and the Company Independent Directors on 5 December 2019. Boubyan published its offer document on 20 December 2019 and the offer subsequently became unconditional in all respects on 27 January 2020. As at 18 March 2020, the signing date of this annual report and financial statements, the Group's ultimate parent company is Boubyan.

Apart from the matter described above, the Directors are not aware of any matters or circumstances that have occurred since the end of the financial year that have significantly affected or may significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

38. 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 (including cyber and conduct risk)
- capital risk

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

Following a review of the Group's business strategy in late 2016, the following objectives were identified:

- Continue to reduce exposure to capital intensive and less profitable business lines;
- Expansion of its presence in the Gulf Cooperation Council (GCC) states and the Middle East;
- Reduce wholesale funding concentration. This has been achieved by attracting more deposits through the Bank's Premier Deposit Account (PDA) and will continue into 2020.

Risk management framework

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

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

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

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

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

- Risk identification – the process of determining risks that could potentially prevent the Group from achieving its goals and objectives;
- Risk assessment – a careful examination and quantification of the impact and likelihood of potential events;
- Risk mitigation – a strategy to prepare for and reduce the adverse effects and exposure to risks and their likelihood of occurrence. Risk mitigation is achieved through establishing key control processes and practices,

including limit structures, impairment allowance criteria and reporting requirements. Ensure all frameworks and policies are regularly reviewed and kept relevant and up to date;
- Execution and monitoring – separate control functions independent of business lines are responsible for monitoring the operation of the controls and adherence to risk direction and limits;
- Assurance – assurance and advice are provided by the Group's Third Line of Defence where the Internal Audit function provides the Board with independent, objective assurance or advice whether the risk management, control and governance processes are adequate and operating in line with expectations. Additional assurance is provided by external audit; and
- Monitoring and reporting – the Second Line of Defence is responsible for monitoring the operation of the controls and adherence to risk direction and limits.

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

The constituting elements of the RMF are:

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

Board Risk Appetite

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

The Group Risk Appetite Statement is set by the Company's Board and reviewed at least semi-annually.

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

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

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

Impairment of Financial assets

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

The Group operates a 3-step customer classification system:

- Normal
- Watchlist
- Asset Recovery Unit

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

Normal

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

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

Watchlist

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

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

- Weak or weakening financial performance (including existence of a Red (14-17) rating or deterioration to an Orange (11-13) rating)
- Unpaid VAT, PAYE, NI or Tax
- Loss or death of key manager
- Non-payment of scheduled profit or capital
- Covenant or other such documented condition breach
- Obligors sources of recurring income are no longer available to meet Group finance payments
- Concerns about the obligors future ability to generate stable and sufficient cashflows
- Negative shareholder's funds
- Legal action by other creditors (incl. CCJs)
- Other banks requesting collateral Auditor's qualification
- Non-respect of important commitments
- Regular payment problems
- Improper use of credit lines
- Request for consolidation or renegotiation of credits
- Known or suspected reputational or regulatory damage

- Fraud
- Delayed project progress

Notwithstanding the above, the Credit department would reserve the right to recommend that any name is elevated to Watchlist status.

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

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

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

Removal criteria from Watchlist would either be:

- On a downgrade to ARU classification
- All obligations to the Group being extinguished
- On an upgrade to Normal classification – where no currently granted forbearance and no Judgemental Triggers are evident over a suitable recovery period. The recovery period requires to be a minimum of 3 months and would usually see evidence of <u>at least all of</u>:
    - 2 satisfactory covenant tests
    - 3 monthly payments/2 quarterly payments being made
    - 3 months of satisfactory financial information.

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

<u>Asset Recovery Unit (ARU)</u>

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

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

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

- **Definition of Default**

  The presence of three Judgemental Trigger Events is considered sufficient to prompt a Basel II default classification however as an element of judgement is required, materiality requires to be taken into consideration when assessing and therefore by definition a default rating does not necessarily require to be assigned. The Group defines default in line with EBA guidance for Non Performing Exposures in that a counterparty is considered to be in default if any of the following Mandatory Default Trigger Events occur:

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

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

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

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

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

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

It is the responsibility of the 1LOD to propose counterparty Credit ratings/changes to Credit Ratings with 2LOD responsibility to analyse, challenge, recommend and/or approve (as appropriate). Formal approval of an individual credit rating is the responsibility of the relevant delegated authority holder, in all cases being the most senior signatory to such a proposal. Customers with a Group Internal Credit Rating greater than 17 are considered to be in default.

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

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

- **Group Provisioning Guidelines**

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

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

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

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

An instrument is also assigned to Stage 2 if it is 30 days past due.

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

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

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

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

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

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

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

The final calculated Stage 3 provision amount cannot be less than the Stage 2 calculation (on the basis that the connection was Credit Graded as 17 on the Group internal rating scale). If the Stage 3 provision amount is lower than the Stage 2 Provision amount then the Stage 2 Provision amount will be used as a Stage 3 Provision figure.

- **Transfers between stage categorisation**

Once an asset has been moved from Stage 1 to Stage 2 there is no minimum 'cure' period before the asset can be moved back to Stage 1. However, assets that have been downgraded from Stage 3 to Stage 2 require a minimum recovery period of three months before it can be upgraded to Stage 1.

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

a. Credit risk

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

i. Management of credit risk

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

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

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

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

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

ii. Exposure by Statement of Financial Position line

The tables below present the Group's exposure to credit risk on balance sheet financial instruments as at 31 December 2019, before taking account of any collateral held or other credit enhancements. The amounts at the current reporting date are indicative of the amounts at risk throughout the year.

Group	**2019**	**2018**
	£000	**£000**
Cash and balances with banks	71,891	104,339
Due from financial institutions		
Wakala	7,619	8,045
Due from customers	14,081	14,612
Investment securities	83,620	103,872
Financing arrangements	883,738	737,522
Finance lease receivables	432,639	256,198
Other assets (Foreign exchange forward deals)	4,933	1,154
Profit rate swaps	-	73
Total credit exposure	**1,498,521**	**1,225,815**

The Group had 13 letters of credit (£8.45m) and 3 guarantees (£1.29m) (2018: 11 letters of credit (£14.23m) and 3 guarantees (£2.16m) with a total exposure of £10 million (2018: £16 million). These letters of credit and guarantees mainly relate to short dated Trade Finance and Corporate and Asset Finance facilities with a maturity of less than twelve months. The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. The Group expects most guarantees it provides to expire unused. In addition, the Group has a credit exposure to £94m in undrawn commitments (2018: £121m).

iii. Exposure by country of the financed counterparty

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

Group	2019	2018
	£000	£000
GCC countries		
Bahrain	-	5,669
Kuwait	90,554	94,292
Qatar	14,655	41,890
Saudi Arabia	87,909	77,829
United Arab Emirates	16,415	15,473
EEA countries		
Belgium	-	633
Netherlands	-	2,398
Ireland	1,363	-
United Kingdom	1,227,483	864,490
Other countries		
Cayman Islands	-	3,060
Canada	-	230
Switzerland	6,476	16,716
Jersey	36,859	36,691
Malaysia	-	-
New Zealand	1,434	2,103
USA	16,373	64,341
Total credit exposure	**1,499,521**	**1,225,815**

iv. Exposure by economic sector

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

Group	2019	2018
	£000	£000
Financial services		
GCC financial institutions	124,696	162,854
UK financial institutions	177,421	130,696
Other financial institutions	15,097	49,647
Mining and quarrying	4,374	4,806
Manufacturing	37,065	50,508
Real estate	470,088	309,876
Transportation and storage	64,895	41,059
Government	45,795	62,710
Wholesale / Retail	129,295	127,555
Commodities	51,055	86,047
Energy	12,789	13,247
Construction	218,607	117,149
Education	19,634	10,980
Others	127,710	58,681
Total credit exposure	**1,498,521**	**1,225,815**

v. Credit risk quality

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

The table below shows the breakdown of credit quality as at 31 December 2019. Of the total portfolio 14% (31 December 2018: 19%) was directly rated by at least one of the ECAI, with 86% (31 December 2018: 81%) using internal ratings.

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

Group

At 31 December 2019	Neither Past Due Nor Impaired							
	ECAI Rating		BLME Internal Rating					
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade	Ungraded	Past due but not impaired	Individually Impaired	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cash and balances with banks	71,891	-	-	-	-	-	-	71,891
Due from financial institutions	-	-	7,619	-	-	-	-	7,619
Due from customers	-	-	14,081	-	-	-	-	14,081
Investment securities								
FVOCI								
Government debt securities	11,571	-	-	-	-	-	-	11,571
Other Investment securities	47,459	-	-	328	-	-	-	47,787
AC								
Government debt securities	3,793	-	-	-	-	-	-	3,793
Other Investment securities	20,469	-	-	-	-	-	-	20,469
Financing arrangements	47,835	-	461,602	271,465	71,194	16,478	15,164	883,738
Finance lease receivables	-	-	191,134	193,102	47,173	833	397	432,639
Other assets (Foreign exchange forward deals)	4,804	-	129	-	-	-	-	4,933
Profit rate swaps	-	-	-	-	-	-	-	-
Total credit exposure	**207,822**	**-**	**674,565**	**464,895**	**118,367**	**17,311**	**15,561**	**1,498,521**

Group

At 31 December 2018	Neither Past Due Nor Impaired							
	ECAI Rating		BLME Internal Rating					
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade	Ungraded	Past due but not impaired	Individually Impaired	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Cash and balances with banks	104,339	-	-	-	-	-	-	104,339
Due from financial institutions	-	-	8,045	-	-	-	-	8,045
Due from customers	-	-	14,612	-	-	-	-	14,612
Investment securities								
FVOCI								
Government debt securities	31,839	-	-	-	-	-	-	31,839
Other Investment securities	62,055	-	-	341	-	-	-	62,396
AC								
Government debt securities	3,953	5,684	-	-	-	-	-	9,637
Other Investment securities	-	-	-	-	-	-	-	-
Financing arrangements	21,538	-	384,676	251,615	50,660	22,510	6,523	737,522
Finance lease receivables	-	-	103,662	139,418	5,327	552	7,239	256,198
Other assets (Foreign exchange forward deals)	-	-	1,149	5	-	-	-	1,154
Profit rate swaps	73	-	-	-	-	-	-	73
Total credit exposure	**223,797**	**5,684**	**512,144**	**391,379**	**55,987**	**23,062**	**13,762**	**1,225,815**

The Group's cash balances, amounts due from financial institutions and customers, investment securities and derivative financial instruments were neither past due nor impaired as at 31 December 2019 and 31 December 2018.

Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	2019	2018	2019	2018
	£000	£000	£000	£000
Neither past due nor impaired	851,713	706,723	431,507	249,756
Past due but not impaired	16,478	22,510	833	552
Gross exposure associated with impairment provision	21,464	16,216	397	7,239
Less: allowance for impairments	(5,917)	(7,927)	(98)	(1,349)
Total	**883,738**	**737,522**	**432,639**	**256,198**

Past due but not impaired	**£000**	**£000**	**£000**	**£000**
Past due up to 30 days	7,219	7,565	743	535
Past due 30 to 60 days	-	8,430	90	17
Past due 60 to 90 days	-	6,515	-	-
Past due over 90 days	9,259	-	-	-
Total	**16,478**	**22,510**	**833**	**552**

The past due but not impaired balances as at 31 December 2019 include £9.3 million (2018: £22.5 million) relating to two real estate transactions (2018: three) 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. In early 2020, a balance of £2.925m relating to one of real estate transactions was repaid in full.

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

Forbearance

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

<u>Forbearance classification</u>

Forbearance:

- is a concession granted to a counterparty for reasons of financial difficulty that would not be otherwise considered by the Group. A concession is provided on a transaction basis.
- can be provided to any current classification of customer (Normal, Watchlist, ARU).
- is considered to be granted when, the Group, for reasons pertaining to the actual, imminent or perceived financial stress of a customer, allows, grants or restructures facilities on terms that are outside of its current financing appetite when considered against the credit risk of the customer.
- For clarity, positive identification of a customer being in financial difficulty is a prerequisite to Forbearance being granted. This does not necessarily mean that any granting of facilities that fall outside of the Group acceptable financing parameters constitutes Forbearance. Agreement to Forbearance does not necessarily convey a necessity for impairment.

- Forbearance would typically be evident where the concession(s) agreed positively impact the ability of the customer to service finance obligations or avoid recognising a default and risk mitigation/structural enhancement(s) are of benefit to the Group in return for that concession.

A concession refers to either of the following actions:

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

Examples of a concession includes:

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

Modification of a contract that:

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

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

Examples of Forbearance include but are not limited to:

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

Monitoring

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

Forbearance Exit

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

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

Forbearance Register

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

Based on the credit exposures existing as at 31 December 2019 there had been nil instances (2018: nine):

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

The carrying value as at 31 December 2019 of exposures relating to forborne counterparties with no specific impairment charge was £28.3 million, which represents 2% of the Group's total assets (2018: £32.7 million and 3%). The Stage 1 and 2 ECLs relating to these forborne exposures is £31k (2018: £1,228k).

- **Allowance for impairment**

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

vi. Collateral

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

There were no financial assets or non-financial assets obtained by the Group by taking possession of collateral held as security against financing arrangements and finance leases and held at the year-end (2018: none).

Group	2019 On balance sheet exposure £000	2019 Collateral £000	2018 On balance sheet exposure £000	2018 Collateral £000
Cash and balances with banks	71,891	-	104,339	-
Due from financial institutions	7,619	-	8,045	-
Due from customers	14,081	14,081	14,612	7,188
Investment securities	83,620	-	103,872	-
Financing arrangements	883,738	763,685	737,522	578,599
Finance lease receivables	432,639	432,809	256,198	236,350
Other assets (Foreign exchange forward deals)	4,933	-	1,154	-
Profit rate swaps	-	-	73	-
Total credit exposure	**1,498,521**	**1,210,575**	**1,225,815**	**822,137**

As at 31 December 2019, collateral represented 81% (2018: 67%) of the Group's total credit exposure.

Group analysis of collateral	2019 £000	2018 £000
Plant and equipment	478,656	261,516
Property	591,792	359,920
Raw materials/ finished stock	140,127	200,701
Total credit exposure	**1,210,575**	**822,137**

In addition, the Group holds financial guarantees of £47.9 million (2018: £82.7 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 2019, 90% (2018: 80%) of the Group's property financing exposure had an average financing-to-value ratio equal to or less than 70%.

vii. Offsetting financial assets and liabilities

The offsetting right is a legal right to settle, or otherwise eliminate, all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus, reducing credit exposure. The tables on the following pages summarise the financial assets and liabilities subject to offsetting.

Financial assets subject to offsetting:

2019	Offsetting recognised on the Statement of Financial Position		
	Gross assets before offsetting	Offsetting with gross liabilities	Net assets recognised on the statement of financial position
	£'000	£'000	£'000
Due from financial institutions	55,958	(32,450)	23,508

Financial liabilities subject to offsetting:

2019	Offsetting recognised on the Statement of Financial Position		
	Gross liabilities before offsetting	Offsetting with gross assets	Net liabilities recognised on the statement of financial position
	£'000	£'000	£'000
Due to financial institutions	408,015	(32,450)	375,565

There were no financial asset and liabilities subject to offsetting, netting arrangements in 2018.

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			2019	2019	2018	2018
		Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
	Note		£000	£000	£000	£000
Cash and balances with banks		1	71,891	*	104,339	*
Due from financial institutions	i	2	7,619	7,688	8,045	7,854
Due from customers	i	2	14,081	14,081	14,612	14,600
Investment securities	ii, iii	See next table**	83,620	83,620	103,872	103,872
Financing arrangements	iii	3	883,738	883,092	737,522	728,785
Finance lease receivables	iii	3	432,639	432,375	256,198	254,419
Profit rate swaps asset	ii	2	-	-	73	73
Other assets (Foreign exchange forward deals)	iv	2	4,933	4,933	1,154	1,154
Due to financial institutions	iii	3	375,565	375,489	672,240	653,319
Due to customers	iii	3	917,120	921,747	357,353	352,616
Profit rate swaps liability	ii	2	1,196	1,196	469	469
Other liabilities (Foreign exchange forward deals)	iv	2	583	583	237	237

*the carrying amount of these financial assets and financial liabilities are representative of their fair values.
** Investment securities not included in the table below are accounted for as financial assets at amortised cost.

Notes

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

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

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

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

Valuation of Financial Instruments

The Group's fair value measurement techniques can be found in Note on page 68.

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

Group	**2019 Level 1 £000**	**2019 Level 2 £000**	**2019 Level 3 £000**	**2019 Total £000**
Investment securities	59,031	-	328	59,359
Exchang of deposits (liability)	-	34,957	-	34,957
Profit rate swaps (liability)	-	1,196	-	1,196
Foreign exchange forward deals (assets)	-	4,933	-	4,933
Foreign exchange forward deals (liabilities)	-	583	-	583

Group	**2018 Level 1 £000**	**2018 Level 2 £000**	**2018 Level 3 £000**	**2018 Total £000**
Investment securities	93,894	-	341	94,235
Profit rate swaps (asset)	-	73	-	73
Foreign exchange forward deals (assets)	-	1,154	-	1,154
Profit rate swaps (liability)	-	469	-	469
Foreign exchange forward deals (liabilities)	-	237	-	237

During the year, there were no transfers between Level 1 and Level 2 fair value measurements (2018: none), and no transfers into or out of Level 3 fair value measurements (2018: none). Transfers between levels occur at the date of the event or change in circumstances that caused the transfer.

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

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

Group	2019	2018
Investment securities	**£000**	**£000**
Balance at 1 January	341	973
Total gains / (losses) recognised in:		
- profit or loss*	(13)	20
- other comprehensive income**	-	(195)
Purchases	-	-
Sales	-	(457)
Balance at 31 December	**328**	**341**

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

The reconciliation for investment securities is included in Note 19 on page 91.

ix. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2019.

Group	**2019 Fair value through profit and loss**	**2019 Fair value through other comprehensive income**	**2019 Financial assets at amortised cost**	**2019 Total**
Assets	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	-	-	71,891	71,891
Due from financial institutions	-	-	7,619	7,619
Due from customers	-	-	14,081	14,081
Investment securities:				
Sukuk	-	59,071	24,221	83,292
Equity	-	328	-	328
Financing arrangements	-	-	883,738	883,738
Finance lease receivables	-	-	432,639	432,639
Other assets (foreign exchange forward deals)	4,933	-	-	4,933
Total financial assets	**4,933**	**59,399**	**1,434,189**	**1,498,521**

Group	2019 Fair value through profit and loss	2019 Fair value through other comprehensive income	2019 Financial liabilities at amortised cost	2019 Total
Liabilities	**£000**	**£000**	**£000**	**£000**
Due to financial institutions	34,957	-	340,608	375,565
Due to customers	-	-	917,120	917,120
Profit rate swaps	1,196	-	-	1,196
Other liabilities (Foreign exchange forward deals)	583	-	-	583
Total financial liabilities	**36,736**	**-**	**1,257,728**	**1,294,464**

Group	2018 Fair value through profit and loss	2018 Fair value through other comprehensive income	2018 Financial assets at amortised cost	2018 Total
Assets	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	-	-	104,339	104,339
Due from financial institutions	-	-	8,045	8,045
Due from customers	-	-	14,612	14,612
Investment securities:				
Sukuk	-	93,894	9,637	103,531
Equity	-	341	-	341
Financing arrangements	-	-	737,522	737,522
Finance lease receivables	-	-	256,198	256,198
Other assets (foreign exchange forward deals)	1,154	-	-	1,154
Profit rate swaps	73	-	-	73
Total financial assets	**1,227**	**94,235**	**1,130,353**	**1,225,815**

Group	2018 Fair value through profit and loss	2018 Fair value through other comprehensive income	2018 Financial liabilities at amortised cost	2018 Total
Liabilities	**£000**	**£000**	**£000**	**£000**
Due to financial institutions	-	-	672,240	672,240
Due to customers	-	-	357,353	357,353
Profit rate swaps	469	-	-	469
Other liabilities (Foreign exchange forward deals)	237	-	-	237
Total financial liabilities	**706**	**-**	**1,029,593**	**1,030,299**

b. Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due, arising from the differing maturity profile of its assets and liabilities. This risk is managed by ensuring that the Group has sufficient liquidity to meet its liabilities as and when they fall due. Liquidity risk also includes the funding concentration risk which is the risk associated to the dependence on a single or limited number of counterparties to provide funding for the Group's activities.

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

Over and above regulatory liquidity, ALCO establishes its own liquidity performance measures and PRA guidelines. These include a series of early warning triggers and management data on liability stability (i.e. the likelihood of deposits being withdrawn), liability diversification, reserve liquidity and projections of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). As at 31 December 2019, the Group held £1,235 million (2018: £672 million) of term deposits and held £nil (2018: £nil) of secondary market assets.

The Group monitors wholesale funding as part of its Executive Risk Appetite Statement to ensure that:

- The proportion of wholesale liabilities with remaining maturity of less than 3 month is less than 50% of total funding; and
- No single wholesale counterparty is greater than 13% of the aggregated wholesale depositors.

The Group's 5-year plan intends to reduce the proportion of wholesale funding as a percentage of total funding by targeting retail depositors (Premier Deposit Accounts (PDA) and notice accounts).

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	2019 Total £000
Cash and balances with banks	71,891	-	-	-	-	71,891
Due from financial institutions	-	-	7,787	-	-	7,787
Due from customers	14,083	-	-	-	-	14,083
Investment securities	244	21,376	648	64,317	-	86,585
Financing arrangements	453,678	294,427	44,728	101,183	9,470	903,486
Finance lease receivables	13,860	28,262	128,582	280,879	19,841	471,424
Other assets (Foreign exchange forward deals)	47	4,715	171	-	-	4,933
Profit rate swaps (asset)	-	-	-	-	-	-
	553,803	**348,780**	**181,916**	**446,379**	**29,311**	**1,560,189**

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2018 Total £000
Cash and balances with banks	104,339	-	-	-	-	104,339
Due from financial institutions	-	8,218	-	-	-	8,218
Due from customers	14,627	-	-	-	-	14,627
Investment securities	456	40,133	29,370	38,789	146	108,894
Financing arrangements	408,511	239,617	67,256	34,858	-	750,242
Finance lease receivables	6,847	17,505	83,064	162,921	5,105	275,442
Other assets (Foreign exchange forward deals)	336	819	-	-	-	1,155
Profit rate swaps (asset)	64	59,777	94	15,415	-	75,350
	535,180	**366,069**	**179,784**	**251,983**	**5,251**	**1,338,267**

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

None of the Group's assets have been pledged as collateral apart from cash collateral deposits of £0.04 million (2018: £0.05m) pledged as security against rental payments on the Group's premises.

Residual contractual maturities of financial liabilities

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £	2019 Total £000
Due to financial institutions	230,031	95,107	51,015	-	-	376,153
Due to customers	53,852	-	538,457	347,173	6,388	945,870
Profit rate swaps	-	(44)	-	1,240	-	1,196
Other liabilities (Foreign exchange forward deals)	176	401	6	-	-	583
	284,059	**95,464**	**589,478**	**348,413**	**6,388**	**1,323,802**

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £	2018 Total £000
Due to financial institutions	182,138	174,608	321,080	-	-	677,826
Due to customers	41,451	137,676	105,829	85,748	697	371,401
Profit rate swaps	-	135	249	85	-	469
Other liabilities (Foreign exchange forward deals)	3	234	-	-	-	237
	223,592	**312,653**	**427,158**	**85,833**	**697**	**1,049,933**

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

Whilst the Group has sufficient assets in the short dated time buckets to cover its short dated liabilities as they become due, it also holds significant High Quality Liquid Assets ("HQLA") – in line with the Prudential Regulation Authority

BIPRU rules – of £83.3 million as at 31 December 2019 (2018: £76.1 million). These HQLA holdings have been greater than the regulatory liquidity requirement throughout the year (unaudited).

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

Group	2019	2018
	£000	£000
Cash and cash equivalents	71,891	104,339
Highly liquid securities (including HQLA)	83,292	93,893
Total	**155,183**	**198,232**

As at 31 December 2019, there are no limitations on the use of the liquidity reserve held by the Group (2018: none).

c. Market risk

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

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

Disclosures on the impact of replacing IBORs with alternative reference rates has not been included as they are not material since the Group only has two PRS that are designated as fair value hedges and does not undertake any cash flow hedging.

i. Profit rate risk

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

As at 31 December 2019, 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 £5,178 (2018: £21,511). 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 2019		At 31 December 2018	
	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000
Increase in profit & loss	-	3,254	-	5,884
Decrease in profit & loss	3,062	-	6,182	-
Increase in off-balance sheet	2,683	-	-	5,522
Decrease in off-balance sheet	-	2,787	5,946	-

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

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

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

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

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

The above methodology is the approach specified in the FSA017 by the PRA and therefore the assumptions are incorporated in this.

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

ii. Foreign exchange risk

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

	At 31 December 2019 £000	At 31 December 2018 £000
Resultant foreign exchange revaluation (loss) / gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	15	(85)

	Year to 31 December 2019 £000	Year to 31 December 2018 £000
Net foreign exchange gain for the year	394	173

iii. Equity price risk

Equity prices are monitored by the Group's Assets & Liabilities Committee ("ALCO") but due to the limited exposure to equity price risk, the sensitivity risk is not currently significant in relation to the overall results and financial position of the Group.

d. Operational risk

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

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

Senior Management ensures the identification and assessment of operational risk through a Risk and Control Self-Assessment ("RCSA") process. Technology risk (including Cyber Security 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 £5.7 million using the Basic Indicator Approach (2018: £6.2 million) (unaudited).

e. Capital adequacy

The Company is not subject to regulatory capital requirements therefore the Group's regulatory position has been set out below. At 31 December 2019 and throughout the year the Group complied with the capital requirements that were in force as set out by the Prudential Regulation Authority ("the PRA") (unaudited). The PRA adopted the Basel III requirements with effect from 1 January 2014.

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

	2019	2018
Audited	**£000**	**£000**
Tier 1 Capital - CET1		
Ordinary share capital	48,933	48,933
Share premium	140,623	140,623
Retained earnings / (losses)	42,400	38,571
Total Tier 1 capital	**231,956**	**228,127**
Unaudited		
Deductions from Tier 1 capital		
Intangible assets	(56)	(266)
Others	(1,604)	(3,514)
Total Tier 1 capital after deductions	**230,296**	**224,347**
Tier 2 capital	-	-
Total Tier 2 capital	**-**	**-**
Total Tier 1 and Tier 2 capital	**230,296**	**224,347**
Deductions from Tier 1 and Tier 2 capital:	NIL	NIL
Total regulatory capital	**230,296**	**224,347**

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

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

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

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

	2019	2018
	£000	£000
	(unaudited)	(unaudited)
Pillar 1 capital requirements		
Credit risk	111,291	93,066
Market risk - foreign currency PRR	196	319
Counterparty risk capital component	103	34
Operational risk	5,711	6,221
Total Pillar 1 capital requirement	**117,301**	**99,640**
Total regulatory capital in place	**230,296**	**224,347**

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

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

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

The Bank will continue to prudently employ capital and maintain appropriate capital adequacy, liquidity and leverage ratios. BLME reported to the PRA ratios above the minimum requirement throughout 2019. The capital planning process continues to incorporate these measures.

GLOSSARY OF ABBREVIATIONS

AED	Arab Emirate Dirham
AFS	Available-for-Sale
AGM	Annual General Meeting
ALCO	Assets & Liabilities Committee
AML	Anti-Money Laundering
ASOP	Approved Share Option Plan
Basel	Basel Accord or Basel Standards
BLME	Bank of London and The Middle East plc
BLMEH	BLME Holdings plc
BREEAM	Building Research Establishment Environmental Assessment Method
BRC	Board Risk Committee
CCR	Counterparty Credit Risk
CCRC	Counterparty Credit Risk Committee
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CGs	Commercial Guidelines
CIC	Change Implementation Committee
COO	Chief Operating Officer
CRD IV	Capital Requirements Directive IV
CRM	Customer Relationship Management
CRO	Chief Risk Officer
CTF	Commodity Trade Finance
DABS	Deferred Annual Bonus Scheme
DFSA	Dubai Financial Services Authority
DIFC	Dubai International Finance Centre
DIPs	Deferred Incentive Plan Scheme
EBT	Employee Benefit Trust
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EPS	Earnings Per Share
EU	European Union
EXCO	Executive Committee
EY	Ernst & Young LLP
FCA	Financial Conduct Authority
FRC	Financial Reporting Council
FVOCI	Fair Value Through Other Comprehensive Income
FVTPL	Fair Value Through Profit or Loss
FX	Foreign Exchange
GCC	Gulf Cooperation Council
GDPR	General Data Protection Regulation
HTM	Held to Maturity
IAS	International Accounting Standards
IASB	International Accounting Standards Board

ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance
IFRIC	International Financial Reporting Interpretations Committee of the IASB
IFRS	International Financial Reporting Standard
ILAAP	Individual Liquidity Adequacy Assessment Process
INED	Independent Non-executive Director
ISA	International Standards on Auditing
KYC	Know Your Customer
LAB	Liquid Asset Buffer
LGD	Loss Given Default
LLP	Limited Liability Partnership
LOD	Lines of Defence
MBA	Master of Business Administration
MCOBs	Mortgage and Home Finance Conduct of Business rules
MENA	Middle East and North Africa
MIFID	Markets in Financial Instruments Directive
MLRO	Money Laundering Reporting Officer
NCI	Non-Controlling Interest
NEDs	Non-executive Directors
OCI	Other Comprehensive Income
ORC	Operational Risk Committee
PC	Product Committee
PDA	Premier Deposit Account
PIFSS	Public Institution for Social Security
PRA	Prudential Regulation Authority
PROUD	*Passionate* - Our people are passionate about their job and the company and are driven to achieve our aspirations and those of our clients. *Resilient* - We are resilient and agile. Challenges and set-backs create opportunities to develop solutions together. *Open* - We build open and straightforward relationships. Our products and services are transparent and fair. *United* - We believe success is achieved through our diversity, collaboration and honest communication. *Doing the right thing* - We do the right thing by our clients, people, shareholders and the wider community.
PRR	Position Risk Requirement
PRS	Profit Rate Swap
PVO1	Present Value of 1 basis point
RMF	Risk Management Framework
RRP	Recovery Resolution Plans
RSCA	Risk Control Self-Assessment
SCV	Single Customer View
SE	Structured Entities
SIC	Standard Interpretations Committee of the IASB
SICAV	Société d'Investissement À Capital Variable
SID	Senior Independent Director
SIF	Special Investment Fund
SM&CR	Senior Managers and Certification Regime
SSB	Sharia'a Supervisory Board

UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
USOP	Unapproved Share Option Plan
WMIC	Wealth Management Investment Committee

GLOSSARY OF ISLAMIC FINANCE TERMINOLOGY

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

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