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Bank of London & The Middle East

BLME Holdings plc
Interim Report
For the six months ended 30 June 2020

Registered number 08503102

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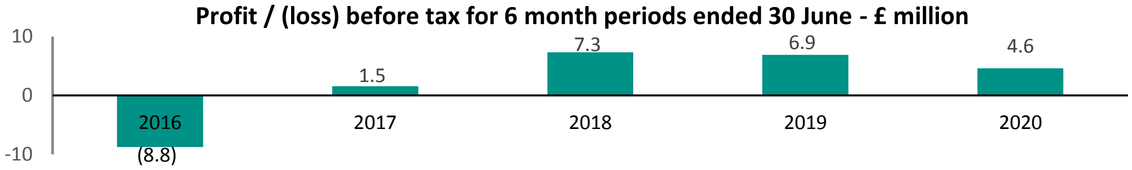
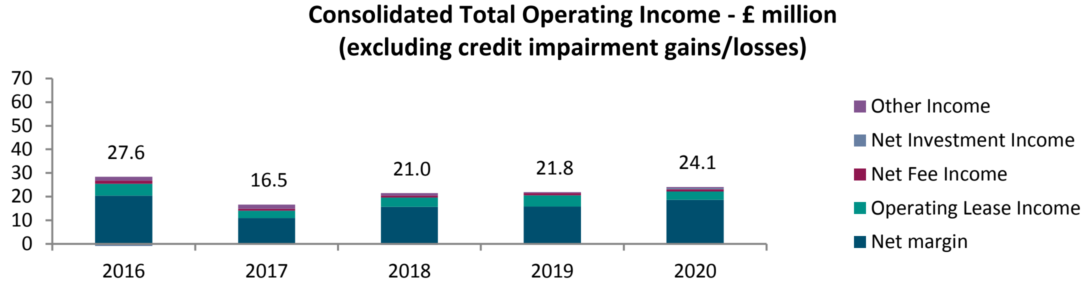
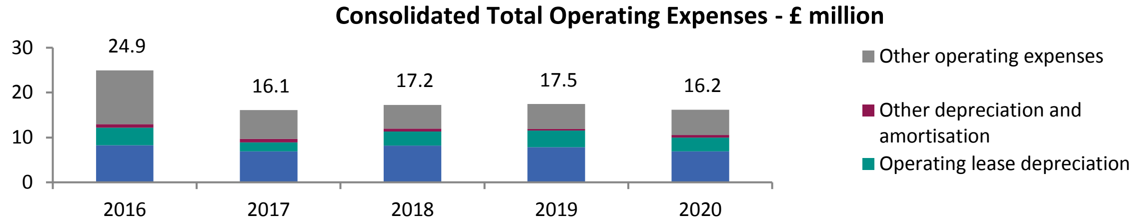
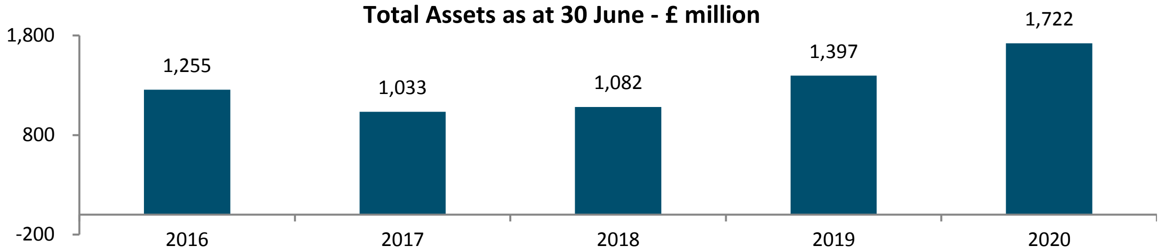
GROUP HIGHLIGHTS FOR BLME HOLDINGS PLC FOR THE SIX MONTHS TO 30 JUNE 2020 (unaudited)

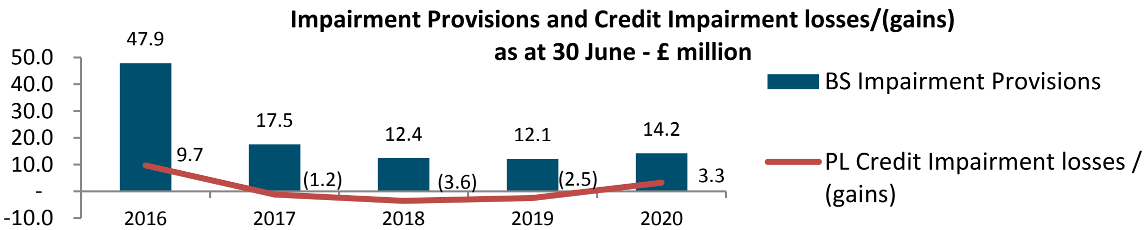
The Group’s profit before tax for the six months ended 30 June 2020 was £4.6 million (six months to 30 June 2019: £6.9 million).

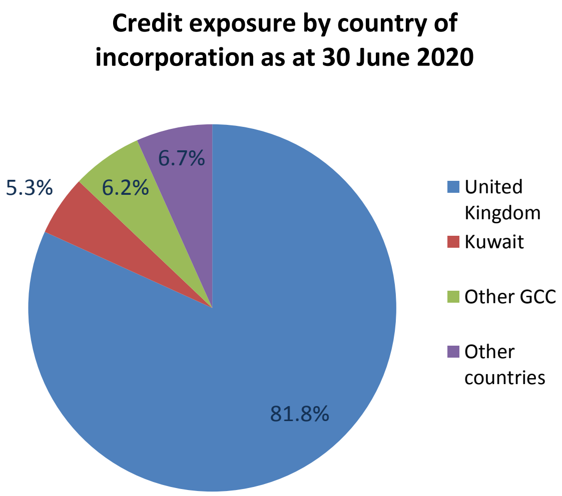


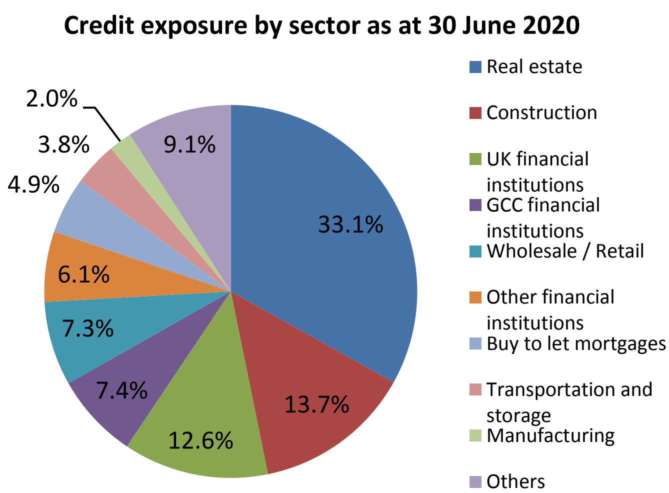












CHIEF EXECUTIVE OFFICER'S STATEMENT

Financial performance

The BLME Group reports a half year profit after tax of £3.9m, compared with the £7.2m profit for the same period in 2019. Credit impairment losses for the 6 months to 30 June 2020 were £3.3m compared with £2.5m of credit impairment gains in the 6 months to 30 June 2019.

The reduction in profitability is a result of the increase in credit impairment losses which mainly reflects an increase in IFRS 9 stage 1 and stage 2 expected credit loss provisions as well as one stage 3 provision. The increase in stage 1 and stage 2 provisions is directly related to updating the economic assumptions used in the IFRS 9 model to reflect the COVID-19 crisis.

The profit before tax prior to credit impairment losses / gains increased to £7.9m compared to £4.4m in the 6 months to 30 June 2019. Total assets grew by 10% to £1.7 billion with increased financing activities supported by diversified, consumer deposit-led funding. Our cost: income ratio has fallen for a fourth consecutive year from 76% to 62% (calculated excluding the effect of operating lease depreciation and credit impairment losses / gains).

The underlying operational results remain resilient and demonstrate our commitment to growing a sustainable, profitable Group.

COVID-19, our Employees and our Customer led approach

Since the UK's lockdown in March 2020, the Group's teams have been working remotely as part of our overall business continuity plan and will continue to do this in line with UK government guidance and in consultation with our employees. This approach safeguards our employees and their families, as well as making the Group's day to day operation more resilient. The Group has not participated in any of the government subsidy or loan schemes, has not "furloughed" any staff and has not made any staff redundant as a consequence of the pandemic.

I am pleased to say that morale at the BLME Group has remained strong throughout the COVID-19 crisis and I am very proud of our employees' ability to adapt, as well as their resilience during what has been a testing time for everyone. Our employee wellbeing has been a key focus and we have engaged with our people on a regular basis. We have recognised our social responsibilities during this time and to that end we have extended our charitable giving to a number of community services significantly impacted by the pandemic.

Despite the challenges of the crisis, we remain firmly focused on serving our customers. Our clients are our priority and we maintain a focus on providing excellent customer service. Our Savings team continues to work full time, remotely, to support customers, and our Relationship Management teams remain in regular contact with our clients across our various lines of business. We are proud to have received the 'Best Fixed Term Account Provider' award from Money Facts for the third year running. Our commitment to customer service is reflected by the 40% increase in customer deposits during the first half of 2020 (first half of 2019: 35% increase) which has reduced considerably the wholesale funding concentration risk.

COVID-19, governance and preservation of liquidity and capital

The Board and its Committees, especially the Board Risk Committee, have convened regularly since March 2020 in order to oversee the Group's response to the COVID-19 pandemic. Treating customers fairly, preservation of liquidity and capital buffers and avoidance of reputational damage have been major priorities and considerations. In line with FCA guidance, the Group has reacted in a consistent and fair manner in consideration of customer payment deferral requests. We have limited direct exposure to the aviation, hospitality and retail sectors, which the Board is actively monitoring through its Risk Committee. Despite the pandemic, the Group has remained open to new business opportunities on a selective basis, in order to carefully manage credit risk, with a focus on strategic relationships. The Group has maintained healthy liquidity and capital ratios well in excess of regulatory requirements throughout the reporting period.

Boubyan Acquisition

In February 2020, Boubyan Bank successfully increased their stake in BLME to 71.08%. We are now working closely with Boubyan on an updated strategic plan to exploit the synergies this change in ownership brings. We will seek to benefit from Boubyan's expertise in technology and systems, as well as enhanced client collaboration to bring our products and services to a wider audience.

Walbrook Asset Finance

In 2019 we launched Walbrook Asset Finance into which the BLME leasing business would be moved. We have started the process of migrating the leasing assets into Walbrook, and should complete this by the end of 2020. It is our intention that, in the future, Walbrook will operate as a separate Group subsidiary and will be able to raise its own funding, without reliance on BLME.

Closure of Commodity Trade Finance

Unassociated with COVID-19, we made the difficult strategic decision to implement an orderly withdrawal from the Commodity Trade Finance market during 2020. Since its launch in 2014 it has proved to be a successful and profitable business, however it is no longer core to the Group's future strategic direction as BLME become a more focused and simplified bank.

The future

The current economic climate together with the impending Brexit and the on-going impact of COVID-19, will continue to bring challenges. However, I am confident that we have built a Group that can respond with agility to the challenges and opportunities during these unprecedented times. As we enter the second half of the year we will continue to support our customers and employees, maintain our focus on operational resilience, protect liquidity and preserve capital in order to ensure that the business remains well placed to deliver sustainable results in the future.

I am privileged to work with a team that is committed to growing a successful bank and group that serves the needs of our customers and shareholders. I would like to thank our customers and employees as well as the Board, the Sharia'a Supervisory Board and our Shareholders for their continued support.

Giles Cunningham

Chief Executive Officer

18 August 2020

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

On behalf of the Board:

Christopher Power
Chief Financial Officer and Chief Operations Officer
18 August 2020

INDEPENDENT REVIEW REPORT TO BLME HOLDINGS PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 which comprises condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity and the related explanatory notes 1 to 20. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

For and on behalf of Ernst & Young LLP
London
18 August 2020

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2020 (unaudited)

	Note	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
Income			
Income from financing and investing activities		32,621	27,753
Returns to financial institutions and customers	*5*	(14,026)	(11,906)
Net margin		**18,595**	**15,847**
Fee and commission income		1,212	1,136
Fee and commission expense		(278)	(159)
Net fee and commission income		**934**	**977**
Net investment gains / (losses)		385	(94)
Credit impairment (losses) / gains	*7*	(3,253)	2,504
Operating lease income		3,637	4,656
Other operating income		476	458
Share of profit of equity-accounted investees, net of tax		51	-
Net operating income		**20,825**	**24,348**
Expenses			
Personnel expenses	*6*	(6,916)	(7,807)
Operating lease depreciation	*13*	(3,064)	(3,724)
Other depreciation and amortisation		(537)	(360)
Other operating expenses		(5,674)	(5,560)
Total operating expenses		**(16,191)**	**(17,451)**
Profit before tax		**4,634**	**6,897**
Tax (expense) / credit	*8*	(774)	256
Profit for the period		**3,860**	**7,153**
Attributable to:			
Owners of the parent		3,547	6,756
Non Controlling Interest		313	397
		3,860	**7,153**
Earnings per share		**Pence**	**Pence**
Basic earnings per share	*9*	1.96	3.69
Diluted earnings per share	*9*	1.96	3.36

The notes on pages 14 to 54 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2020 (unaudited)

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
Profit for the period	**3,860**	**7,153**
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	-	2
Net (losses) / gains in fair value of FVOCI debt instruments	(98)	890
Income tax credit on other comprehensive income	18	1
Other comprehensive income / (expense) for the period net of income tax	**(80)**	**893**
Items that will not be reclassified subsequently to profit or loss:		
Net gains in fair value of FVOCI equity instruments	6	
Other comprehensive income for the year net of income tax	**6**	**-**
Total comprehensive income for the year attributable to equity holders of the Parent company	**3,786**	**8,046**
Attributable to:		
Owners of the parent	3,473	7,649
Non Controlling Interest	313	397
Total comprehensive income for the period	**3,786**	**8,046**

The notes on pages 14 to 54 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2020 (unaudited)

	Note	30 June 2020 £000	31 December 2019 £000
Assets			
Cash and balances with banks		152,770	71,891
Due from financial institutions		6,998	7,619
Due from customers		23,144	14,081
Investment securities	*10*	69,046	83,620
Financing arrangements	*11*	938,323	883,738
Finance lease receivables	*12*	441,098	432,639
Operating lease assets	*13*	46,354	39,489
Property and equipment		3,642	4,031
Intangible assets		337	367
Other assets	*14*	32,603	17,166
Current tax assets		250	-
Deferred tax asset		4,766	4,497
Investment in joint ventures		1,218	1,216
Assets held for sale		1,414	2,575
Total assets		**1,721,963**	**1,562,929**
Liabilities			
Due to financial institutions		157,227	375,565
Due to customers		1,287,686	917,120
Profit rate swaps		1,021	1,196
Other liabilities	*15*	18,198	20,176
Current tax liability		-	1,334
Total liabilities		**1,464,132**	**1,315,391**
Equity			
Share capital		50,091	48,933
Share premium		657	-
Other reserve		15,226	15,226
Capital redemption reserve		50	50
Fair value reserve		156	230
Non Controlling Interest		8,344	8,228
Share-based payment reserve		3,520	3,527
Retained earnings		179,787	171,344
Total equity attributable to equity holders of the Parent company		**257,831**	**247,538**
Total liabilities and equity		**1,721,963**	**1,562,929**

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

Giles Cunningham
Chief Executive Officer

Christopher Power
Chief Financial Officer and Chief Operations Officer

The notes on pages 14 to 54 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2020 (unaudited)

	6 months to 30 June 2020	6 months to 30 June 2019
Cash flows from operating activities	**£000**	**£000**
Profit before tax	4,634	6,897
Adjusted for:		
Exchange differences	308	158
Fair value gain on investment securities	(65)	(97)
Share of profit of equity-accounted investees, net of tax	(51)	-
Provision for impairment	3,238	(2,504)
Depreciation and amortisation	3,190	4,084
Share-based payment awards	-	125
Movements relating to profit rate swaps	(777)	868
IFRS 16 - depreciation and finance charges	487	500
Amortisation of investment securities	(96)	20
	10,868	**10,051**
Net increase in operating assets:		
Due from financial institutions	235	(27,396)
Due from customers	(9,334)	3,716
Financing arrangements	(58,459)	(12,122)
Finance lease receivables	(8,297)	(99,123)
Operating lease assets	(9,930)	(3,586)
Other assets	(16,235)	(4,509)
	(102,020)	**(143,020)**
Net increase in operating liabilities:		
Due to financial institutions	(210,651)	(28,176)
Due to customers	360,032	125,434
Other liabilities	(3,463)	4,377
	145,918	**101,635**
Corporation tax paid	(2,617)	(417)
Net cash outflow from operating activities	**52,149**	**(31,751)**
Cashflow from investing activities		
Purchase of property and equipment	(91)	-
Purchase of intangible assets	(8)	(179)
Purchase of investment securities	(37,036)	-
Sale of investment securities	57,695	52,229
Sale / (purchase) of interest in assets held for sale	1,100	(42,584)
Dividends received from joint venture	49	-
Net cash inflow from investing activities	**21,709**	**9,466**
Cash flows from financing activities		
Proceeds from issue of ordinary shares*	6,711	-
Payment of principal portion of lease liabilities	(332)	-
Dividend paid by a subsidiary to a Non Controlling Interest	(197)	(188)
Sale of investments in Non Controlling Interest	-	1,000
Net cash inflow from financing activities	**6,182**	**812**
Net change in cash and cash equivalents	**80,040**	**(21,473)**
Cash and cash equivalents at the beginning of the period	71,891	104,339
Exchange differences in respect of cash and cash equivalents	839	1,503
Cash and cash equivalents at the end of the period	**152,770**	**84,369**

* Please refer to the Condensed Consolidated Statement of Changes in Equity for further details

The notes on pages 14 to 54 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2020 (unaudited)

	Share capital	Share premium account	Other reserve	Capital redemption reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Foreign currency translation reserve	Total	Non-Controlling Interests	Total Equity
	£000	**£**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2019	**48,933**	**-**	**15,226**	**50**	**230**	**3,527**	**171,344**	**-**	**239,310**	**8,228**	**247,538**
Profit for the period	-	-	-	-	-	-	3,547	-	3,547	313	3,860
Other comprehensive income / (expense)											
Net change in fair value of equity/debt instrument at FVOCI	-	-	-	-	(92)	-	-	-	(92)	-	(92)
Tax on items transferred directly to equity	-	-	-	-	18	-	-	-	18	-	18
Total other comprehensive income / (expense)	**-**	**-**	**-**	**-**	**(74)**	**-**	**-**	**-**	**(74)**	**-**	**(74)**
Total comprehensive income / (expense) for the period	**-**	**-**	**-**	**-**	**(74)**	**-**	**3,547**	**-**	**3,473**	**313**	**3,786**
Contributions by and distributions to owners											
Issue of new ordinary shares	1,158	657	-	-	-	-	-	-	1,815	-	1,815
Issue of ordinary shares out of treasury	-	-	-	-	-	-	4,052	-	4,052	-	4,052
Issue of ordinary shares out of own shares held by EBT	-	-	-	-	-	-	844	-	844	-	844
Dividend paid by a subsidiary to a Non Controlling Interest	-	-	-	-	-	-	-	-	-	(197)	(197)
Funding from Non Controlling Interest	-	-	-	-	-	-	-	-	-	-	-
Sale of equity instruments at FVOCI	-	-	-	-	-	-	-	-	-	-	-
Equity-settled Share-based payment awards	-	-	-	-	-	-	-	-	-	-	-
Tax on items transferred directly to equity	-	-	-	-	-	(7)	-	-	(7)	-	(7)
Total transactions with owners	**1,158**	**657**	**-**	**-**	**-**	**(7)**	**4,896**	**-**	**6,704**	**(197)**	**6,507**
Balance at 30 June 2020	**50,091**	**657**	**15,226**	**50**	**156**	**3,520**	**179,787**	**-**	**249,487**	**8,344**	**257,831**

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.
Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.
The **Capital redemption reserve** arose on 26 June 2014 following the redemption of 50,000 preference shares of £1 each and the repurchase of one A ordinary share of £1.
The **Other reserve** arose when the BLME Scheme of Arrangement took effect on 2 October 2013.
Non Controlling Interest relates to the minority shareholders in MKL Construction Equipment Finance Limited, AQ1 Limited and Aspenway Limited.

The notes on pages 14 to 54 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 (unaudited)	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 period	-	-	-	-	-	6,756	-	**6,756**	397	**7,153**
Other comprehensive income										
Foreign currency translation	-	-	-	-	-	-	2	2	-	2
Net change in fair value of equity/debt instrument at FVOCI	-	-	-	890	-	-	-	890	-	890
Tax on items transferred directly to equity	-	-	-	1	-	-	-	1	-	1
Total other comprehensive income	**-**	**-**	**-**	**891**	**-**	**-**	**2**	**893**	**-**	**893**
Total comprehensive income for the year	**-**	**-**	**-**	**891**	**-**	**6,756**	**2**	**7,649**	**397**	**8,046**
Contributions by and distributions to owners										
Dividend paid by subsidiaries to a Non-controlling interest	-	-	-	-	-	-	-	-	(188)	(188)
Funding from non-controlling interest	-	-	-	-	-	-	-	-	1,000	1,000
Sale of equity instruments at FVOCI	-	-	-	-	-	13	-	13	-	13
Equity-settled Share-based payment awards	-	-	-	-	125	-	-	125	-	125
Tax on items transferred directly to equity	-	-	-	-	8	(3)	-	5	-	5
Total transactions with owners	**-**	**-**	**-**	**-**	**133**	**10**	**-**	**143**	**812**	**955**
Balance at 30 June 2019	**48,933**	**15,226**	**50**	**176**	**2,340**	**171,257**	**45**	**238,027**	**6,429**	**244,456**

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.
Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.
The **Capital redemption reserve** arose on 26 June 2014 following the redemption of 50,000 preference shares of £1 each and the repurchase of one A ordinary share of £1.
The **Other reserve** arose when the BLME Scheme of Arrangement took effect on 2 October 2013.
Non Controlling Interest relates to the minority shareholders in MKL Construction Equipment Finance Limited, AQ1 Limited and Aspenway Limited.

The notes on pages 14 to 54 are an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. REPORTING ENTITY

BLME Holdings plc ("the Company") is a Company domiciled in the United Kingdom. The address of the Company's registered office is Cannon Place, 78 Cannon Street, London, EC4N 6HL. The Company's principal activity is to act as a holding Company for Bank of London and The Middle East plc ("the Bank" or "BLME"). The condensed consolidated financial statements of the Group for the six months ended 30 June 2020 comprise BLME Holdings plc and its subsidiaries (together referenced as "the Group").

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' as adopted by the EU. These interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2019. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The Group is adopting the same accounting policies as applied in the preparation of the Group's published financial statements for the year ended 31 December 2019 except for those explained in section 2.b below for the updated and new IFRSs that are applicable in the current reporting period. All amounts have been rounded to the nearest thousand except when otherwise indicated.

a. Going concern and COVID-19

These interim financial statements have been prepared on a going concern basis, following an assessment of the impact of COVID-19 pandemic on the Group's financial, liquidity and capital positions.

The Board is required to assess going concern at each reporting period. These assessments are significantly more difficult currently given the uncertainties about the impact of COVID-19, the extent and duration of social distancing measures and the impact on the customers to whom the Group provides financing. The level of judgement to be applied has therefore increased considerably. The Directors have considered three main factors in reaching their conclusions on going concern – liquidity management, preserving capital buffers and reverse stress test assessments as set out below.

Liquidity management

During the six month period since 31 December 2019, the Group has raised in excess of a net £370m of retail customer deposits (a growth of 40%). In addition a cautious approach was adopted to managing the existing pipeline of new business and being very selective in assessing new business opportunities. As a consequence balance sheet liquidity is strong with over £150m of cash sitting on Nostro bank accounts and a Liquidity Coverage Ratio ("LCR") as at 30 June 2020 of 264% compared to the minimum regulatory requirement of 100%. The fact that during the six month period ended 30 June 2020 the Group became a subsidiary of Boubyan Bank K.S.C.P., an A rated Kuwaiti bank, provides additional comfort.

Preserving capital buffers

As at 30 June 2020 the Group had £45m of excess regulatory capital over and above the PRA minimum requirements. In addition to a historically cautious approach / risk appetite to the maintenance of internal capital buffers over and above the regulatory banking rules, this significant surplus also reflects an additional £6.7m capital injection from Boubyan Bank K.S.C.P. in February 2020.

Reverse stress test assessments

In March 2020, the Group performed an updated reverse stress test assessment in advance of signing the 2019 year-end accounts in order to demonstrate that the reverse stress testing scenario articulated in the most recent Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) for capital and liquidity, respectively, remained appropriate.

In August 2020, the Group performed an updated reverse stress test assessment in order to demonstrate that the reverse stress testing scenario articulated in the most recent Individual Capital Adequacy Assessment Process (ICAAP) continued to provide comfort that the Group is adequately capitalised to withstand any adverse impact in the medium term of around three years.

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

b. Adoption of new and amended accounting standards

The following new standards, amendments or interpretations are required to be applied for an annual period beginning on 1 January 2020 however none are deemed material to the Group:

- Definition of Material: Amendments to IAS 1, ‘Presentation of Financial Statements’ and IAS 8, ‘Accounting Policies, Changes in Accounting Estimates and Errors’
- Definition of a Business: Amendments to IFRS 3, ‘Business Combinations’
- Interest Rate Benchmark Reform: Amendments to IFRS 9, ‘Financial Instruments’, IAS 39, ‘Financial Instruments: Recognition and Measurement’ and IFRS 7, ‘Financial Instruments: Disclosures’
- Amendments to References to the Conceptual Framework in IFRS Standards

c. Future accounting developments

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020 and have not been applied in preparing these interim financial statements:

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture: Amendments to IFRS 10, ‘Consolidated Financial Statements’ and IAS 28, ‘Investments in Associates and Joint Ventures’. The effective date of the amendments has yet to be set by the IASB; however, earlier application of the amendments is permitted.
- IFRS 17, ‘Insurance Contracts’, effective 1 January 2022
- Classification of Liabilities as Current or Non-Current: Amendments to IAS 1, ‘Presentation of Financial Statements’, effective 1 January 2022

d. Presentation of comparative figures

The comparative financial information for the year ended 31 December 2019 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor’s report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions which affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best assessment of the outcome, actual results may ultimately differ from those estimates. Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly.

Other than the changes made during 2020 to the IFRS 9 impairment model in light of the COVID-19 pandemic, there have been no significant changes in the basis upon which critical estimates and judgements have been determined, compared to those applied at 31 December 2019. Information regarding the key changes made during 2020 to the IFRS 9 impairment model in light of the COVID-19 pandemic has been included in Note 7 'Impairment of Financial Assets'. Information regarding the payment deferral requests granted to customers during 2020 has been included in the management of credit risk section of Note 19 'Financial Risk Management'.

In addition to the Group's existing suite of credit risk stress tests, a bespoke COVID-19 credit stress test was developed to assess the potential stress impacts of a further deterioration on the portfolio. The portfolio has been reviewed on a client by client basis to assess the potential medium term impacts under the COVID-19 scenario, exposures deemed low, medium and high risk were subject to a 1, 2 and 3 notch downgrade, respectively. Whilst this assessment does not represent our expected outcome, the results showed that under this more severe scenario the overall expected credit loss would remain within the Board's Risk Appetite.

4. SEGMENTAL INFORMATION

The Group has three operating segments as described below. 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.

Wealth Management

Wealth Management includes the Group's Private Banking, Real Estate Investments and Real Estate Finance business units.

Private Banking offers residential and investment property finance targeted towards GCC and Middle-East and North Africa (MENA) based High Net Worth Individuals. Private Banking also provides real estate investment opportunities, deposit products and banking services alongside specialist aviation and yacht finance.

Real Estate Investments offers targeted Sharia 'a compliant investments through in-house capabilities or third parties.

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

Leasing and Commercial Finance

Leasing and Commercial Finance specialises in providing competitive financing solutions to a wide range of businesses in the UK and GCC regions. The clients range from multinational corporations to family businesses generally earning a minimum operating profit of £500k across a variety of business sectors. The facilities offered typically range in size from £250k - £20 million and the credit approval process is centralised in the London office.

The business is relationship focussed so the same team remain with the transaction from origination to repayment. Commercial Finance division is organised in three departments:

- Leasing solutions for the UK corporates ranging from SME to multinationals.
- Corporate and Asset Finance for the GCC region including vendor programmes to mid corporates.
- Trade Finance offering receivables finance, structured commodity trade transactions and letters of credit.

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. BLME has seen the benefits of continued efficiency and improved customer experience in digitalising its growing savings products.

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

For the six months ended 30 June 2020

	Wealth Management	Leasing & Commercial Finance	Treasury Division	Total
	£000	£000	£000	£000
Net margin from financing and investing activities	10,820	6,590	1,185	18,595
Operating lease income	-	3,161	476	3,637
Net fee income	161	770	3	934
Credit impairment (losses) / gains	(596)	(2,752)	95	(3,253)
Net investment gains / (losses)	(7)	-	392	385
Share of profit of equity-accounted investees, net of Tax	51	-	-	51
Other operating income	79	397	-	476
Net operating income	**10,508**	**8,166**	**2,151**	**20,825**
Directly attributable segment expenses	(1,792)	(2,694)	(1,568)	(6,054)
Operating lease depreciation		(3,064)		(3,064)
Net segment contribution	**8,716**	**2,408**	**583**	**11,707**
Common costs not directly attributable to segments				(7,073)
Profit before tax				**4,634**
Segment assets	740,477	662,155	297,894	1,700,526
Unallocated assets				21,437
Total reportable segments assets				**1,721,963**

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.

Entity wide disclosures

Geographical analysis of non-current assets	As at 30 June 2020	As at 30 June 2019
	£000	£000
Channel Islands	1,218	-
France	1,691	-
United Kingdom	85,797	62,047
United Arab Emirates	213	36
USA	-	140
Total	**88,919**	**62,223**

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.

For the six months ended 30 June 2019

	Wealth Management	Leasing & Commercial Finance	Treasury Division	Total
	£000	£000	£000	£000
Net margin from financing and investing activities	7,342	6,981	1,524	15,847
Operating lease income	-	4,110	546	4,656
Net fee income	103	874	-	977
Net investment loss	-	-	(94)	(94)
Other operating income	-	300	158	458
Credit impairment gains	893	1,579	32	2,504
Net operating income	**8,338**	**13,844**	**2,166**	**24,348**
Directly attributable segment expenses	(1,605)	(1,978)	(1,513)	(5,096)
Operating lease depreciation	-	(3,724)	-	(3,724)
Net segment contribution	**6,733**	**8,142**	**653**	**15,528**
Common costs not directly attributable to segments				(8,631)
Profit before tax				**6,897**
Segment assets	446,547	724,253	248,778	1,419,578
Unallocated assets				10,814
Total reportable segments assets				**1,430,392**

5. RETURNS TO FINANCIAL INSTITUTIONS AND CUSTOMERS

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
Customer deposits	10,564	4,070
Murabaha	1,235	4,299
Wakala	1,261	1,546
Cost of funding*	966	1,991
	14,026	**11,906**

*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.

6. PERSONNEL EXPENSES

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £0
Wages and salaries	5,501	6,330
Social security costs	609	528
Defined contribution pension scheme costs	494	499
Recruitment and relocation costs	41	71
Other staff costs	271	379
	6,916	**7,807**

Personnel expenses includes an accrual for the six months to 30 June 2020 of £1.0m in relation to the annual performance bonus (6 months to 30 June 2019: £1.8million). Any amount to be paid, during the first quarter of 2021, will be subject to the annual Remuneration Committee and Board reviews at year-end once the full year performance has been evaluated.

	6 months to 30 June 2020 Number	6 months to 30 June 2019 Number
Number of employees at period end	123	110
Average for the period - management	9	12
Average for the period - non-management	111	102

7. IMPAIRMENT 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 30 June 2020	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Cash and balances with banks	15	-	-	15
Financing arrangements	1,299	865	8,034	10,198
Finance lease receivables	1,860	954	447	3,261
Operating lease assets	-	-	-	-
Due from financial institutions	2	-	-	2
Due from customers	46	-	-	46
Investment securities	2	-	-	2
Other assets	-	-	674	674
Total Impairment	**3,224**	**1,819**	**9,155**	**14,198**

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**

Within Stage 1 and Stage 2 for financing arrangements there is an ECL balance of £1k (31 December 2019: £10k) relating to off balance sheet letters of credit and guarantees, and an ECL balance of £140k (31 December 2019: £55k) relating to undrawn commitments.

As at 30 June 2020, there were no forborne exposures that had not been specifically provided for (31 December 2019: £28m with Stage 1 and Stage 2 ECLs relating to these forborne exposures of £31k).

Income Statement	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
New and increased provisions (net of releases)	3,782	(2,852)
Inventory (write-back) / write-off	(16)	348
Write back of provision	(513)	-
Total Impairment Loss / (Gain)	**3,253**	**(2,504)**

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 2020	2,193	1,685	6,552	10,430
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	9	(9)	-	-
Transferred to Stage 2	(101)	101	-	-
Transferred to Stage 3	-	-	-	-
New and increased provisions (net of releases)	1,124	41	2,251	3,416
Write-offs from specific provisions	-	-	0	0
Foreign currency translation adjustments	-	-	352	352
As at 30 June 2020	**3,225**	**1,818**	**9,155**	**14,198**
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 releases)	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**

Exposure by Stage

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2020	1,491,736	143,082	19,369	1,654,187
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	1,980	(1,980)	-	-
Transferred to Stage 2	(29,692)	29,692	-	-
Transferred to Stage 3	-	-	-	-
New and increased exposure	73,095	(37,638)	8,692	44,149
Write-offs from specific provisions	-	-	-	-
Foreign currency translation adjustments	-	-	352	352
As at 30 June 2020	**1,537,119**	**133,156**	**28,413**	**1,698,688**

	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 exposure	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**

Contractual amounts outstanding on financial assets of £4.5m which were written off during the previous reporting period are still subject to enforcement activity (31 December 2019: £4.5m).

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

Key Changes to the IFRS 9 Model in Light of COVID-19

In March 2020, at the start of the pandemic, the Group reviewed its inputs in relation to the macroeconomic outlook. Given the uncertain environment, the Group took an initial view to use the 2008/2009 Financial Crisis as a proxy to determine the base Probability of Default (PD) for the first 12 months. The adjustment used in the model for GDP was set at a 4.9% contraction for 2020 and therefore, as explained below, a variety of subsequent adjustments were made to other parameters to compensate for the ongoing macroeconomic developments. The level of UK CPI was also assumed to mirror the levels experienced during the last financial crisis.

In order to inform the years that follow 2020, GDP and CPI projections were taken from the Bank of England’s pre COVID-19 January 2020 Monetary Policy Report. However, in order to capture the COVID-19 uncertainties, the values for GDP have been halved to assume that growth is likely to be materially slower than what was initially expected. CPI remained unchanged from the Bank of England’s projections. Furthermore, a 1 year time lag is incorporated to the macroeconomic variables so that the pre COVID-19 2020 GDP and CPI figures will be realised in 2021 and the 2021 GDP and CPI is realised in 2022.

The adjustments highlighted above were performed to capture the additional risk of defaults for the next 12 months by using a previous “Black Swan” event i.e. the 2008 Financial Crisis, as a proxy whilst also considering the potential lagging effects this may have in the years that follow. In addition to this, the derivation of the downturn economic scenarios were also revised; this was incorporated as an overlay to the model, in that this scenario is now determined by the historical two standard deviation movement from the base scenario, instead of a historical one standard deviation movement. Performing this overlay ensured a more conservative estimate for the downturn economic scenario, which is observed to be the most likely scenario, and subsequently increased the Group's Stage 1-2 assessment.

The probability weightings were adjusted in March 2020 from the December 2019 weightings of 60%/10%/30% (Base/Upturn/Downturn) to weightings of 45%/5%/50% in response to changes to the economic outlook at the beginning of the COVID-19 outbreak.

An additional adjustment to this weighting was performed in June 2020 to 25%/5%/70%, as the likelihood of the UK entering into a deep recession had increased.

Separately, the Group has performed a number of sensitivities to ensure the resulting ECL is reflective of the modelling challenges posed by the exceptional nature of the COVID-19 crisis.

The table below exhibits the GDP and CPI assumptions referred to in the text above.

UK GDP	Base case	Basis of calculation	Best Case	Worst Case	Expected value
2020	-4.90%	2009 level	-3.16%	-8.40%	-7.26%
2021	0.20%	BoE Q1.20 forecast for 2020 (1 year time lag) reduced by 50%	1.94%	-3.28%	-2.15%
2022	0.70%	BoE Q1.20 forecast for 2021 (1 year time lag) reduced by 50%	2.44%	-2.78%	-1.65%
2023	0.80%	BoE Q1.20 forecast for 2022 (1 year time lag) reduced by 50%	2.54%	-2.68%	-1.55%
UK CPI	**Base case**	**Basis of calculation**	**Best Case**	**Worst Case**	**Expected value**
2020	2.20%	2009 level	1.15%	4.31%	3.62%
2021	1.80%	BoE Q1.20 forecast for 2020 (1 year time lag)	0.75%	3.91%	3.22%
2022	1.50%	BoE Q1.20 forecast for 2021 (1 year time lag)	0.45%	3.60%	2.92%
2023	2.00%	BoE Q1.20 forecast for 2022 (1 year time lag)	0.95%	4.11%	3.42%

The table below presents a comparison between the Stages 1-2 assessment as at 30th June 2020 and a series of sensitivity analyses performed on the macroeconomic scenarios showing that an additional 1 standard deviation increases the Stages 1-2 assessment by £230,000 to £5.1 million.

Scenario name	Sensitivity Analysis			Actuals
	with Dec-19 Assumptions	45% base, 5% best and 50% worst	25% base, 5% best and 70% worst	Actual assessment as at 30th June 2020
Basis of Calculation				
Standard deviation of Downturn Economic Scenario	1	1	1	2
Base	60%	45%	25%	25%
Upturn	10%	5%	5%	5%
Downturn	30%	50%	70%	70%
ECL Assessment				
Stage 1 Assessment £000s	2,872	3,017	3,129	3,307
Stage 2 Assessment £000s	1,675	1,723	1755	1,807
Total £000	4,547	4,740	4,884	5,114

Information regarding the Group's approach to customer payment deferral requests has been included in the management of credit risk section of Note 19, Financial Risk Management. For the avoidance of doubt, the Group has not participated in any Government Coronavirus Relief Schemes.

Exposure by credit rating

	Cash and bank balances	Due from financial institutions	Due from customers	Finance lease receivables			Financing arrangements			Investment securities		Other assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	Stage 1	Stage 1	Stage 1	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 3	Stage 3	
AAA	-	-	-	-	-	-	-	-	-	68,697	-	-	**68,697**
aa+	-	-	-	704	-	-	-	-	-	-	-	-	**704**
aa	-	-	-	2,065	-	-	-	-	-	-	-	-	**2,065**
AA-	-	-	-	1,299	-	-	-	-	-	-	-	-	**1,299**
a+	93,162	-	-	89,196	1,016	-	10,163	2,734	-	-	-	-	**196,271**
a	-	7,000	-	32,016	203	-	125,100	-	-	-	-	-	**164,319**
a-	309	-	-	8,048	42	-	20,999	-	-	-	-	-	**29,398**
bbb+	-	-	-	16,705	922	-	58,887	-	-	-	-	-	**76,514**
bbb	-	-	-	55,825	9,123	-	154,925	800	-	-	-	-	**220,673**
BBB-	-	-	-	6,392	148	-	-	-	-	-	-	-	**6,540**
bbb-	-	-	-	69,509	17,657	-	295,769	28,645	-	-	-	-	**411,580**
bb+	-	-	27,254	60,563	15,379	-	97,416	10,459	-	-	-	-	**211,071**
bb	-	-	-	95,065	14,181	-	62,174	31,394	-	-	-	-	**202,814**
bb-	-	-	-	19,924	1,012	-	6,244	-	-	-	-	-	**27,180**
B+	-	-	-	667	-	-	-	-	-	-	-	-	**667**
b+	-	-	-	5,955	2,232	-	5,990	-	-	-	-	-	**14,177**
b	-	-	-	2,518	1,703	-	25,380	-	-	-	-	-	**29,601**
b-	-	-	-	5,016	445	-	-	-	-	-	-	-	**5,461**
ccc+	-	-	-	196	-	-	-	-	-	-	-	-	**196**
ccc	-	-	-	1,048	-	-	-	-	-	-	-	-	**1,048**
d	-	-	-	-	-	669	-	-	20,461	-	6,300	983	**28,413**
At 30 June 2020	**93,471**	**7,000**	**27,254**	**472,711**	**64,063**	**669**	**863,047**	**74,032**	**20,461**	**68,697**	**6,300**	**983**	**1,698,688**

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**

8. TAXATION

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
UK Corporation tax		
- on current period profit	2,017	228
	2,017	228
Deferred tax credit for the period	(1,243)	(484)
Tax expense / (credit) in income statement	**774**	**(256)**

The effective tax rate for the period is 17% (six months ended 30 June 2019: -4% and year ended 31 December 2019: 16%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the operating profit before tax for the six month period. This is below the standard rate for the period of 19% and the main reason for this relates to the recognition of a deferred tax asset in respect of accelerated depreciation.

The main rate of corporate tax for the 6 months ended 30 June 2020 is 19% (2019: 19%).

Legislation was 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.

Tax recognised in other comprehensive income

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
Fair value reserve	18	1
	18	**1**

9. EARNINGS PER SHARE

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

	6 months to 30 June 2020	6 months to 30 June 2019
Earnings per share	**pence**	**pence**
Basic	1.96	3.69
Diluted	1.96	3.36
Profit attributable to ordinary shareholders	**£000**	**£000**
Profit attributable to shareholders (basic)	3,860	6,756
Profit attributable to shareholders (diluted)	3,860	6,756

Weighted average number of ordinary shares	At 30 June 2020 Number	At 30 June 2019 Number
Number of ordinary shares of 25p in issue at the period end*	200,365,281	195,733,691
Shares held by the BLME Holdings Employee Benefit Trust	-	(2,192,029)
Treasury shares	-	(10,357,374)
Weighted average number of shares during the period (basic)	196,469,389	183,184,288
Effect of dilutive share options in issue	-	18,113,729
Weighted average number of shares during the period (diluted)	196,469,389	201,298,017

* 4,631,590 ordinary shares were issued on 12 February 2020

10. INVESTMENT SECURITIES

			At 30 June 2020
Group	**Listed**	**Unlisted**	**Total**
	£000	**£000**	**£000**
Fair value through other comprehensive income			
Equity		352	352
Sukuk	41,703		41,703
Amortised cost			
Sukuk	26,993		26,993
	68,696	**352**	**69,048**
Provision for impairment			(2)
			69,046
IFRS 9 Stage 1 and 2 ECL			(2)
			(2)

			At 31 December 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)

11. FINANCING ARRANGEMENTS

	Less than 1 year	1 - 5 years	Over 5 years	At 30 June 2020 Total
	£000	**£000**	**£000**	**£000**
Murabaha	864,720	75,865	7,936	948,521
	864,720	**75,865**	**7,936**	**948,521**
Provision for impairment				(10,198)
				938,323
IFRS 9 Stage 1 and 2 ECL				(2,164)
IFRS 9 Stage 3 ECL				(8,034)
				(10,198)

	Less than 1 year	1 - 5 years	Over 5 years	At 31 December 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 7 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

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

12. FINANCE LEASE RECEIVABLES

	At 30 June 2020	At 31 December 2019
	£000	£000
Gross investment in finance lease receivables		
Within one year	78,927	76,434
One to five years	112,840	119,016
Over five years	6,648	7,983
	198,415	203,433
Hire purchase		
Within one year	104,021	97,285
One to five years	169,458	162,516
Over five years	1,858	2,412
	275,337	262,213
Unearned future income on finance leases	(11,781)	(13,551)
Unearned future income on hire purchase	(17,612)	(16,827)
IFRS 9 Stage 1 & 2 ECL	(2,814)	(2,531)
IFRS 9 Stage 3 ECL	(447)	(98)
Net investment in finance leases and hire purchase	**441,098**	**432,639**
The net investment in finance leases comprises:		
Within one year	72,183	68,735
One to five years	106,409	111,929
Over five years	6,491	7,669
	185,083	**188,333**
The net investment in hire purchase comprises:		
Within one year	93,896	88,118
One to five years	160,319	153,852
Over five years	1,800	2,336
	256,015	**244,306**
	441,098	**432,639**

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 7 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

13. OPERATING LEASE ASSETS

Group	At 31 December 2019 £000	Additions 2020 £000	Disposals 2020 £000	Depreciation 2020 £000	FX 2020 £000	At 30 June 2020 £000
Gross carrying amount	49,481	10,014	(1,010)	-	-	58,485
Less depreciation	(9,826)	-	759	(3,064)	-	(12,131)
	39,655	**10,014**	**(251)**	**(3,064)**	**-**	**46,354**
Provision for impairment						-
						46,354
IFRS 9 Stage 1 and 2 ECL						-
						-

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)**	**0**	**39,655**
Provision for impairment						(166)
						39,489
IFRS 9 Stage 1 and 2 ECL						(166)
						(166)

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

Rental receipts under operating leases*	**At 30 June 2020**	**At 31 December 2019**
Future rentals are as follows:	**£000**	**£000**
Less than one year	7,810	6,017
Between one and five years	19,632	17,352
More than five years	1,552	1,281
	28,994	**24,650**

*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.

14. OTHER ASSETS

	At 30 June 2020 £000	At 31 December 2019 £000
VAT recoverable	-	1,970
Contract assets	569	17
Collateral deposits*	20,682	2,805
Prepayments	1,097	830
Collateral assets	473	1,975
Other receivables and assets**	9,782	9,569
	32,603	**17,166**

* The collateral deposits line above includes £20.4 million related to cash held as deposits with financial institutions (31 December 2019: £2.8 million).

** The other receivables and assets line above include foreign exchange forward deal balances of £0.1m with a notional contract amount of £5.5 million (31 December 2019: £4.9 million with a notional contract amount of £274 million).

15. OTHER LIABILITIES

	At 30 June 2020 £000	At 31 December 2019 £000
Trade payables	259	86
VAT payable	1,766	-
Contract liability	11	17
Collateral advance	-	928
Social security and income tax	310	420
Accruals	4,702	10,157
Lease liability	4,887	5,130
Foreign exchange forward contracts*	4,218	583
Other creditors**	2,045	2,855
	18,198	**20,176**

* The foreign exchange forward contracts liabilities line above includes foreign exchange forward deals with a notional contract amount of £237.9 million (31 December 2019: £64 million).

** Other creditors includes £1.55m (31 December 2019: £1.4m) of advance rentals reclassified to current year additions in operating lease assets.

16. SUBSIDIARIES AND OTHER ENTITIES

Principal Subsidiaries	Country of incorporation and principal operations	BLME interest in equity capital	Issued equity capital	Profit / (Loss) for the half year (unaudited) £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	4,580	Regulated Bank	Boubyan Bank K.S.C.P.	BLME Holdings plc
Walbrook Asset Finance Limited	United Kingdom	100%	£11,811,000	(1,609)	Leasing	Boubyan Bank K.S.C.P.	BLME Holdings plc
Indirectly held:							
BLME Asset Management Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
BLME Holdco Limited	United Kingdom	100%	£102	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
BLME Holdings EBT	Jersey	N/A	N/A	-	Employee benefit trust	Boubyan Bank K.S.C.P.	BLME plc
BLME Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
Global Liquidity Solutions Limited	United Kingdom	100%	£1	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
MKL Construction Equipment Finance Limited	United Kingdom	60%	£1,000	38	Leasing	Boubyan Bank K.S.C.P.	BLME plc
Renaissance Property Finance Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
Renaissance Trade Finance Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
AQ1 Limited	Jersey	88%	£24,870,000	89	Investment Holding Company	Boubyan Bank K.S.C.P.	BLME plc
Aspenway Limited	Jersey	56%	£11,300,000	324	Investment Holding Company	Boubyan Bank K.S.C.P.	BLME plc

The registered office address for all subsidiaries incorporated in the United Kingdom is:
Cannon Place, 78 Cannon Street, London, EC4N 6HL
AQ1 Limited: Fifth Floor, 37 Esplanade, St Helier, Jersey JE1 2TR, Jersey
Aspenway Limited: 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.

The BLME Holdings Employee Benefit Trust ('EBT') no longer holds a stock of own shares (2019: stock acquired at a cumulative cost of £3.5 million which previously had been deducted from retained earnings in the Condensed Consolidated Statement of Changes in Equity). The EBT utilised its stock of 2,192,029 shares as part of the settlement of the Group's equity settled share option schemes in February 2020 as a result of the acquisition of the Group by Boubyan Bank. The EBT did not purchase any Company shares during the period ended 30 June 2020 (31 December 2019: Nil). Stamp duty costs of £4,235 were incurred by the Group on behalf of the EBT (six months to 30 June 2019: 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 £1,713 million and £1,466 million respectively (31 December 2019: £1,547 million and £1,314 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 (2019: 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 2020 (2019: nil) and does not have any current intentions to provide such support (2019: none).

17. 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 Interest 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).

18. RELATED PARTIES

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

	6 months to 30 June 2020 £000	**6 months to 30 June 2019 £000**
Boubyan Bank K.S.C.P		
Wakala placement	21,250	115,039
Wakala deposit taking	216,141	113,846
Participation deposit	31,560	30,592
The Public Institution for Social Security *		
Reverse Murabaha	-	103,231

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

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

Included within:	**At 30 June 2020 £000**	**At 31 December 2019 £000**
Due to financial institutions		
Reverse Murabaha	-	162,666

As at 30 June 2020, The Public Institution for Social Security held 7.50% (31 December 2019: 8.10%) of the Bank's shares and its Chief Investment Officer is a member of the Company's board.

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

	At 30 June 2020	At 31 December 2019
Included within:	**£000**	**£000**
Cash and balances with banks		
Nostros	107	536
Due to financial institutions		
Wakala deposit taking	32,032	32,506
Financing arrangements		
Participation deposit*	15,945	14,956

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

As at 30 June 2020, Boubyan Bank K.S.C.P held an economic interest of 71.08% of the Company's voting shares (31 December 2019: 27.91%).

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

	6 months to 30 June 2020 £000	6 months to 30 June 2019 £000
Key management emoluments *	363	419
Bank contributions to pension plans	5	7
	368	**426**

* Key management emoluments include share-based payments of £Nil (six months to 30 June 2019: £0.07 million).

19. 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 conduct and cyber 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 Bank'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;
- Reduced wholesale funding concentration. This has been achieved by attracting more deposits through the Bank's Premier Deposit Account (PDA).

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.

<u>Normal</u>

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.

<u>Watchlist</u>

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

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

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

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

It is the responsibility of the 1LOD to propose counterparty Credit ratings/changes to Credit Ratings with 2LOD responsibility to analyse, challenge, recommend and/or approve (as appropriate). Formal approval of an individual credit rating is the responsibility of the relevant delegated authority holder, in all cases being the most senior signatory to such a proposal. Customers with a 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, unless the payment deferment has been purely COVID-19 related with no wider evidence of Significant Increase in Credit Risk.

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

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

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

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

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

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

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

COVID-19: Coronavirus related payment deferral support to customers

In response to the Coronavirus pandemic, the Group developed a process to collate, review and approve payment deferral requests from customers. This process was developed having regard to regulatory guidance and in order to support our clients during what is an exceptionally challenging period.

The Group does not categorise cases as forbearance, with a resultant IFRS 9 re-categorisation to either stage 2 or 3, where a payment deferral was requested purely as a result of COVID-19 and the following criteria had been satisfied in relation to each customer:

1) There has been no history of payment arrears or any wider risk concerns; and
2) The customer's operating model is likely to see a return to reasonably normal trading once COVID-19 related restrictions applicable to the customer are lifted.

The reason for requests for support varied from customer to customer and across different business lines, albeit with the underlying theme of financial disruption caused by COVID-19. The Group has taken a consistent approach to analysing and acting on such customer requests across the different business lines. The Group has demonstrated its support for customers through these challenging times in line with its values and principles. The Group has acted in accordance with applicable legal or regulatory requirements including Treating Customers Fairly (FCA Principle 6); and specific guidance and requirements issued by regulators in response to COVID-19. As a Sharia'a compliant financial institution, BLME ensured that customers were dealt with in a manner approved by the Sharia'a Supervisory Board. Consistent with Sharia'a guidance, the Group has not charged customers profit on profit as a result of approving a deferral of payments. In addition, the Group has not increased the profit rate paid by its customers.

In dealing with a payment deferral request, the Group fully assesses the background to the customer's position and ascertains the true extent of the impact created by Covid-19 in order to gauge the seriousness of the situation, particularly if the likely impact is more material than a short-term cash flow shortfall. The Group endeavours to support its customers through what are exceptional circumstances. As part of the necessary assessment of the appropriate support that the Group can provide, information of a customer's financial position is obtained to provide clarity on the necessity for any payment deferral.

The Group considers both the client, relationship Information, historical customer data (including payment history) and the economic environment including higher risk industry sectors and concentrations. Coupled with expert risk judgment this analysis has been utilised to identify if further Significant Increase in Credit Risk ("SICR") criteria at client level and collectively exists that may necessitate a move to Stage 2 under IFRS9. A request for payment deferral alone has not been considered as an automatic repositioning of the client under IFRS 9 to be consistent with legislation. BLME has no significant exposure to higher risk sectors such as Aviation, Hospitality and Retail.

Prior to a customer request for payment deferral being approved, the credit risk management function requires the first line of defence to engage customers to see whether any due profit or amortisation payments can be met from other sources, including where cash is already held with the Group, from other cash deposits or other income streams unaffected by the current pandemic crisis.

In this context the Group have considered the following solutions:

1) Customer to cover the due payment in full from other sources;
2) Defer some or all of the next scheduled profit payment so that the missed payment is made up at the next payment date where customer cash flow allows;
3) Defer some or all of the next scheduled amortisation payment so that the missed payment is made up over the remaining term of the facility (or a period to be agreed), by slightly increasing future payments, so that the exit/refinance position remains unchanged; and
4) Defer some or all of the next scheduled profit payment so that the missed payment is deferred to the final maturity date of the facility, and is payable alongside the full principal amount.

The overriding philosophy is for the Group to provide support to its customers during these challenging circumstances, a view that has been clearly articulated within various communications from the FCA and PRA since the start of the pandemic and from a Regulatory perspective, the Group must always comply with Treating Customer Fairly principles.

As at 30 June 2020, 30 Customer exposures totalling £222.9m within Financing arrangements had seen payment deferrals request approved for a period of 3 months totalling £6.7m. In addition, 422 customer exposures totalling

£255.6m within Finance lease receivables and Operating lease assets had seen payment deferral requests approved for a period of 3 months totalling £19.9m.

As the economic environment moves into a second phase of payment deferrals, such as extension requests from customers who had been granted an initial three month payment deferral, the Group will continue to support its customers applying the same principles. Credit lending decisions have necessarily become more rigorous to ensure customer cash flows support any new facilities. The Group's Leasing business has seen an increase in economic activity since mid to late May and the outlook of customers has slowly improved in line with the easing of the lockdown. A number of customers who requested reduced payments during the early stages of lockdown have subsequently paid in full, and good progress is being made with the numbers of customers returning to full payment levels.

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 30 June 2020, 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	**At 30 June 2020 £000**	**At 31 December 2019 £000**
Cash and balances with banks	152,770	71,891
Due from financial institutions		
Wakala	6,998	7,619
Due from Customer	23,144	14,081
Investment securities	69,046	83,620
Financing arrangements	938,323	883,738
Finance lease receivables	441,098	432,639
Other assets (Foreign exchange forward deals)	97	4,933
Total credit exposure	**1,631,476**	**1,498,521**

As at 30 June 2020, the Group had 1 letter of credit (£0.1m) and 3 guarantees (£1.0m) (31 December 2019: 13 letters of credit (£8.45m) and 3 guarantees (£1.29m)) with a total exposure of £1.1 million (31 December 2019: £10 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 £91m in undrawn commitments (31 December 2019: £94m).

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	At 30 June 2020 £000	At 31 December 2019 £000
GCC countries		
Kuwait	86,106	90,554
Qatar	6,994	14,655
Saudi Arabia	74,015	87,909
United Arab Emirates	20,897	16,415
EEA countries		
Ireland	1,039	1,363
United Kingdom	1,334,290	1,227,483
Other countries		
Switzerland	6,390	6,476
Jersey	36,150	35,859
New Zealand	1,092	1,434
USA	64,503	16,373
Total credit exposure	**1,631,476**	**1,498,521**

iv. Exposure by economic sector

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

Group	At 30 June 2020 £000	At 31 December 2019 £000
Financial services		
GCC financial institutions	120,935	124,696
UK financial institutions	204,814	177,421
Other financial institutions	100,072	15,097
Mining and quarrying	5,491	4,374
Manufacturing	31,857	37,065
Real estate	540,799	470,088
Transportation and storage	62,256	64,895
Government	30,993	45,795
Wholesale / Retail	118,500	129,295
Commodities	20,039	51,055
Energy	5,137	12,789
Construction	222,678	218,607
Education	22,354	19,634
Buy to let mortgages	80,502	41,658
Others	65,049	86,052
Total credit exposure	**1,631,476**	**1,498,521**

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 30 June 2020. Of the total portfolio 14% (31 December 2019: 14%) was directly rated by at least one of the ECAI, with 86% (31 December 2019: 86%) using internal ratings.

For counterparties not rated by the major ECAI the Group determines underlying counterparty credit quality by use of rating agency systems including Moody's CreditEdge 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.

	Neither Past Due Nor Impaired							
At 30 June 2020	**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	152,770	-	-	-	-	-	-	152,770
Due from financial institutions	-	-	-	23,144	-	-	-	23,144
Due from customers	-	-	6,998	-	-	-	-	6,998
Investment securities								
FVOCI								
Government debt securities	-	-	-	-	-	-	-	-
Other Investment securities	41,706	-	-	352	-	-	-	42,058
AC								
Government debt securities	-	-	-	-	-	-	-	-
Other Investment securities	26,988	-	-	-	-	-	-	26,988
Financing arrangements	-	-	598,866	212,730	65,671	40,673	20,383	938,323
Finance lease receivables	-	-	198,767	197,260	40,879	3,456	736	441,098
Other assets (Foreign exchange forward deals)	84	-	13	-	-	-	-	97
Total credit exposure	**221,548**	**-**	**804,644**	**433,486**	**106,550**	**44,129**	**21,119**	**1,631,476**

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**

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 30 June 2020 and 31 December 2019.

vi. Analysis of past due amounts and impairments

Group	**Financing arrangements**		**Finance Leases**	
	At 30 June 2020	**At 31 December 2019**	**At 30 June 2020**	**At 31 December 2019**
	£000	**£000**	**£000**	**£000**
Neither past due nor impaired	885,301	851,713	437,327	431,507
Past due but not impaired	40,673	16,478	3,456	833
Gross exposure associated with impairment provision	20,383	21,464	736	397
Less: allowance for impairments	(8,034)	(5,917)	(421)	(98)
Total	**938,323**	**883,738**	**441,098**	**432,639**
Past due but not impaired	**£000**	**£000**	**£000**	**£000**
Past due up to 30 days	20,510	7,219	1,868	743
Past due 30 to 60 days	13,648	-	885	90
Past due 60 to 90 days	-	-	411	-
Past due over 90 days	6,515	9,259	292	-
Total	**40,673**	**16,478**	**3,456**	**833**

The past due but not impaired balances as at 30 June 2020 include £40.5 million (31 December 2019: £9.3 million) relating to five real estate transactions (31 December 2019: two) where the facility balances are lower than the collateral values. The Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

An analysis of impairments is provided in Note 7 "Impairment of financial assets".

vii. Fair value of financial assets and liabilities

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

viii. Valuation of financial instruments

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

Further detail on the Group's fair value measurement techniques can be found in Note 3b of the Group's annual financial statements for the year ended 31 December 2019.

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

At 30 June 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Investment securities	68,694	-	352	69,046
Exchange of deposits	-	-	-	-
Foreign exchange forward deals (assets)	-	97	-	97
Profit rate swaps (liability)	-	1,021	-	1,021
Foreign exchange forward deals (liabilities)	-	4,218	-	4,218

At 31 December 2019	**2019**	**2019**	**2019**	**2019**
	Level 1	**Level 2**	**Level 3**	**Total**
	£000	**£000**	**£000**	**£000**
Investment securities	59,031	-	328	59,359
Exchange 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

During the six month period ended 30 June 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements (31 December 2019: none). Transfers between levels would occur at the date of the event or change in circumstances that caused the transfer.

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

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

Investment securities	**6 months to 30 June 2020 £000**	**Year to 31 December 2019 £000**
Balance at 1 January	328	341
Total gains / (losses) recognised in:		
- profit or loss*	18	(13)
- other comprehensive income**	6	-
Sales	-	-
Balance at 30 June / 31 December	**352**	**328**

** This amount is included in "net investment gains / (losses)" in the income statement*
*** This amount is included in "net gains in fair value of FVOCI equity instruments" in the statement of comprehensive income*

ix. Financial assets and financial liabilities

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

b. Liquidity risk

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

i. Residual contractual maturities of financial assets

At 30 June 2020	**Less than 1 month £000**	**1-3 months £000**	**3 - 12 months £000**	**1-5 years £000**	**5+ years £000**	**Total £000**
Cash and balances with banks	152,770	-	-	-	-	152,770
Due from financial institutions	-	7,002	-	-	-	7,002
Due from customers	-	23,198	-	-	-	23,198
Investment securities	356	14,599	968	56,871	-	72,794
Financing arrangements	85,224	729,960	32,304	109,382	-	956,870
Finance lease receivables	13,817	31,487	134,604	282,082	8,501	470,491
Other assets (Foreign exchange forward deals)	60	37	-	-	-	97
Profit rate swaps (asset)	-	-	-	-	-	-
	252,227	**806,283**	**167,876**	**448,335**	**8,501**	**1,683,222**

At 31 December 2019	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Cash and balances with banks	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**

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 £0.05 million (31 December 2019: £0.04 million) as security against rental payments on the Group's premises and £20.4 million (31 December 2019: £2.8 million) of cash held as deposits with financial institutions related to foreign exchange forward deals and profit rate swaps.

ii. Residual contractual maturities of financial liabilities

At 30 June 2020	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Due to financial institutions	104,628	53,518	-	-	-	158,146
Due to customers	177,344	121,127	568,193	445,454	7,238	1,319,356
Profit rate swaps	-	-	-	1,021	-	1,021
Other liabilities (Foreign exchange forward deals)	4,166	52	-	-	-	4,218
	286,138	**174,697**	**568,193**	**446,475**	**7,238**	**1,482,741**

At 31 December 2019	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £	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**

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 £68.7 million as at 30 June 2020 (31 December 2019: £83.3 million). These HQLA holdings have been greater than the regulatory liquidity requirement throughout the period (unaudited).

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.

i. Profit rate risk

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

As at 30 June 2020, 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 £9,926 (31 December 2019: £5,178). The impact of an increase / decrease of 100 basis points in profit rates at the statement of financial position date, subject to a minimum rate of 0%, would be as follows:

	At 30 June 2020		At 30 June 2019		At 31 December 2019	
	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000
Increase in profit & loss	-	1,699	-	6,214	-	3,254
Decrease in profit & loss	1,431	-	6,766	-	3,062	-
Increase in off-balance sheet	472	-	6,476	-	2,683	-
Decrease in off-balance sheet	-	484	-	5,934	-	2,787

ii. Foreign exchange risk

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

	30 June 2020 £000	31 December 2019 £000
Resultant foreign exchange revaluation (loss) / gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	156	15

	30 June 2020 £000	31 December 2019 £000
Net foreign exchange (loss) / gain for the period	(308)	394

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.

The COVID-19 pandemic has impacted business practices globally with many offices and other business premises closing and thus necessitating staff to work remotely from home where feasible. This significant change in business practice inherently creates heightened levels of Operational Risk. In addition it adds to an uncertain environment that criminals may attempt to take advantage of. Most often this includes trying to persuade people to share their personal information and security details. In line with other banks and financial services providers, the Group has responded to this threat by reminding staff of the need to remain cognisant of the increased risk of cyber security breaches and fraud attempts; and customers to be extra vigilant and always double check any contact using trusted sources. All identified operational risks, issues and events are discussed at the monthly Operational Risk Committee, monitored at the monthly Executive Risk Committee meeting and reported to the Board Risk Committee. The overall operational risk profile of the Group has remained stable during the pandemic and the Group has demonstrated good operational resilience.

Basel III requires capital to be retained for operational risk, which the Group has calculated to be £5.9 million using the Basic Indicator Approach (31 December 2019: £5.7 million) (unaudited).

e. Capital risk

Capital risk is the risk that low risk adjusted returns or stress events reduce the Bank's profitability, which result in a reduction in available capital. This could potentially lead to a breach in the Bank's regulatory capital requirements. Capital adequacy and capital risk was assessed during the 2020 ICAAP process, which showed BLME's internal assessment of capital requirements was sufficient to cover the capital requirements set by the Prudential Regulation Authority ("PRA").

At 30 June 2020 and throughout the period BLME complied with the capital requirements that were in force as set out by the PRA.
In addition, the Brexit risk to the Group is regularly reviewed at the ERC and BRC meetings.

Further information regarding BLME's approach to risk management and its capital adequacy are contained in the unaudited disclosures made under the requirements of Basel III (the Pillar 3 disclosures) which can be found in the Investor Relations section of the BLME website www.blme.com.

20. INTERIM REPORT AND STATUTORY ACCOUNTS

The information in this interim report is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This interim report was approved by the Board of Directors on 18 August 2020. The statutory accounts for the year ended 31 December 2019 have been delivered to the Registrar of Companies for England and Wales in accordance with section 446 of the Companies Act 2006.

GLOSSARY OF ABBREVIATIONS

This is a complete glossary of the abbreviations used in the 31 December 2019 year-end financial statements and for the half year ended 30 June 2020 condensed financial statements.

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 (Values adopted by BLME)	*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

Naming convention and abbreviations:

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

GLOSSARY OF ISLAMIC FINANCE TERMINOLOGY

Murabaha	A Murabaha contract is a deferred sale of goods 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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