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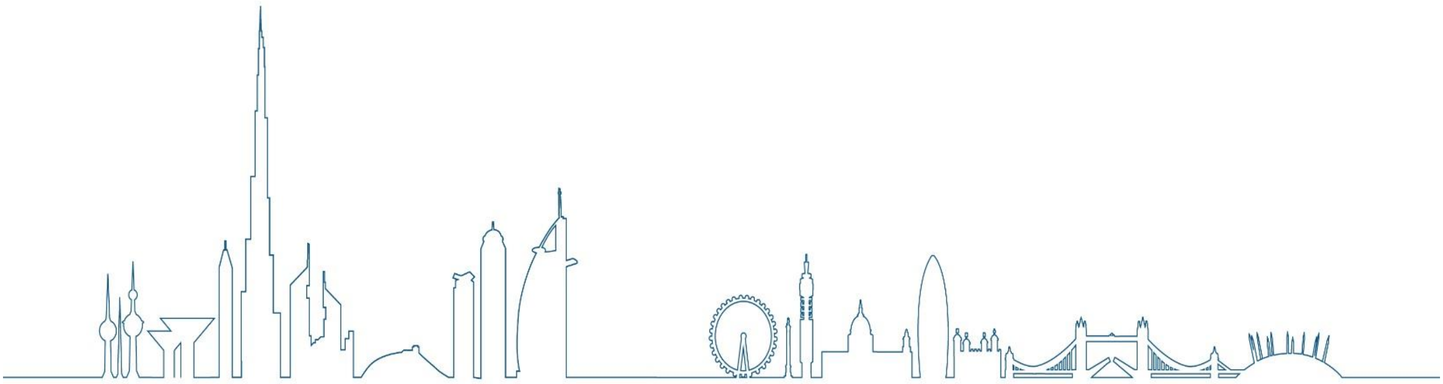
Bank of London & The Middle East

Bank of London and The Middle East plc
Annual Report and Financial Statements
For the year ended 31 December 2020

Registered number 05897786



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Naming convention and abbreviations:

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

STRATEGIC REPORT

THE BUSINESS MODEL

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

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

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

COVID-19, our Employees and our Customer-led approach

Since the UK's first lockdown in March 2020, the Bank'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 Bank has not received any direct support from the Government, 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.

Morale at the Bank has remained strong throughout the COVID-19 crisis and we are very proud of our employees' ability to adapt, as well as their resilience during what has been a testing time for everyone. Our employee well-being 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 initiatives 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 customers 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 Moneyfacts for the third year running and to also have received the 'Best Savings Provider' and the 'Best Notice Account Provider' awards in the 2021 Savings Champion Awards.

Wealth Management

Wealth Management includes the complementary businesses of Private Banking and Real Estate. It provides deposit products, banking services, mortgages, residential and investment property finance targeted towards GCC-based High Net Worth individuals. Wealth Management is the main part of the BLME business that will seek to benefit from closer collaboration with the Boubyan franchise and business model.

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

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

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

Commercial Finance

During 2020 Commercial Finance included the Bank's leasing, trade finance and specialist assets and syndications business units. This division provides competitive financing solutions to the UK mid-market and supports companies with links to the GCC region. Our clients operate across a variety of sectors and range in size from multinational corporations and family businesses generally earning a minimum operating profit of £1 million, down to UK SMEs requiring small-ticket lease finance. The facilities offered range in size from £25,000 to £20 million with our credit approval process centralised in the London office.

In 2019 the Parent Company launched Walbrook Asset Finance Limited ("WAF") into which the BLME leasing business would be moved. We are well progressed with the process of migrating the leasing assets into Walbrook, and should complete this during the first half of 2021. 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.

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

Treasury

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

As a response to the COVID-19 pandemic, the key priority for Treasury in 2020 was maintaining healthy liquidity ratios, well in excess of regulatory requirements throughout the reporting period. This was achieved by attracting substantial net inflows into our award winning Premier Deposit Account product and our 90 Day Notice Account. Furthermore, single depositor concentration risk continued to fall from 13% at the end of 2019 to 8% by 31 December 2020.

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

STRATEGY AND OBJECTIVES

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

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

FINANCIAL RESULTS

The financial statements for the year ended 31 December 2020 are shown on pages 25 to 30. The profit after tax for the year amounted to £0.9 million (2019: £8.7 million). Below are the highlights of the financial performance and the position as at 31 December 2020.

Key performance indicators - £ million	2020	2019
Profit after tax	0.9	8.7
Consolidated total operating income (excluding credit impairment losses)	36.8	44.5
Consolidated total operating expenses	28.8	34.1
Credit impairment losses	7.5	1.7
Total assets	1,743	1,549
Total regulatory capital	234	230

Other performance measures	2020	2019
Pre-tax return on equity	0.2%	4.2%
Cost income ratio	75%	69%
Non-performing Financing Assets to overall Financial Assets	3.4%	1.9%
Number of depositors	19,935	14,135

SECTION 172(1) STATEMENT

Our Stakeholders

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

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

Shareholders

The Bank's sole shareholder is BLME Holdings plc ("the Group" or "the Parent Company"). As such, please refer to the Group's 2020 Annual Report for details on how the Directors engage with the shareholders of the Parent Company.

Customers

Our customers are central to all that we do and we work hard at being a customer-centric bank with customer outcomes a priority. Despite remote working for most of 2020, customers have continued to receive excellent service with the impact of the pandemic on service provision being extremely limited. Our Savings team continue to work remotely to support customers, and our Relationship Management teams remain in regular contact with our clients across our various lines of business. We frequently communicate with our clients about the need to be vigilant and to make them aware of the increased risk of financial scams brought about by the pandemic. Treating customers fairly has remained a major priority and in line with FCA guidance the Group has reacted in a consistent and fair manner in consideration of customer payment deferral requests.

Suppliers

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

Employees

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

We strive to cultivate an inclusive and diverse workplace where staff are encouraged to act responsibly, take personal accountability, embrace change and put the client at the centre of our business.

Since the UK's first lockdown in March 2020, the Bank'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. This has safeguarded employees and their families, as well as making the Bank's day-to-day operation more resilient. Employee well-being has been a key focus and we have engaged with our people on a regular basis.

BLME promotes a positive working environment where individuals and teams can thrive, and we have adapted this approach over the past year to ensure as much continuity as possible whilst employees work remotely. Bank employees have access to a 'Well-being Hub' which provides free, confidential advice on healthy living with information and support on areas ranging from exercise and financial advice, through to Cognitive Behavioural Therapy. We also hold regular well-being initiatives such as stress-therapy massages (prior to remote working) and group exercise classes (that have continued throughout remote working) in order to promote healthy living. In addition we have provided access to staff to have a remote workstation assessment with a qualified physiotherapist.

In addition, the Bank provides annual health assessments, gym memberships and private medical insurance. During late 2019 and early 2020, the Bank offered Mental Health Awareness training to all employees to better support individuals with mental health conditions by raising awareness, reducing the stigma associated with the subject, improving productivity and doing more to lead the way amongst our peers and our industry. In 2020 we continued to foster honest conversations around mental health via our Isma'a series (Isma'a means to 'listen intently' in Arabic), inviting the author Claire Nelson to speak on mental well-being, burnout, resilience & transformation and provided employees with a copy of her book 'Things I Learned from Falling'. We also introduced our 'Walk on a Wednesday' initiative, encouraging employees to take a break from their desk and exercise to assist with their physical and mental well-being. A number of employees also volunteer as BLME Mental Health First Aiders.

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

Our monthly staff meetings (or 'Majlis' as they are referred to within the business using an Arabic expression) offer the opportunity for employees to ask questions and submit suggestions as well as recognising colleagues who have embodied our values and collaborative culture into their work. Regular kitchen catch ups, our Isma'a external guest speaker series, and virtual social events have helped us keep in touch and keep our focus on promoting good conduct and culture. Employees receive mail-outs throughout the year, including recipe kits, hampers and vitamins, helping solidify our collective experience and company culture.

We have a diverse workforce and celebrate that through marking cultural festivals and milestones. We support important initiatives such as UK Black History Month and are conscious of our responsibility as an employer to raise awareness of and promote inclusion. As an Islamic bank we encourage all staff to take the Islamic Finance Qualification with 30% of BLME employees having passed the exam and another cohort scheduled for May 2021.

In our annual employee engagement survey in 2020, the vast majority of employees said they enjoy the work they do and feel strong sense of loyalty to their teams. Over ninety percent of staff responses noted the Bank's prioritisation of employee well-being and its commitment to sound values and principles. Similarly, the Bank's average ratings by employees on review platform 'Glassdoor' improved markedly in 2020 and we will aim to continue the trend in 2021.

We recognise that if our employees thrive, the Bank succeeds, and we will continue to build on these successes to maintain a culture and environment that help make us an employer of choice.

Communities and the Environment

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

Employees at all levels of the Bank are expected to operate in an economically, socially and environmentally sustainable manner, whilst upholding the Bank's values and Sharia'a compliance. In our employee engagement survey last year ninety per cent of employee responses said they valued working for a company that takes steps to give back to the community and supports social enterprises. This is important to us and we have taken a number of steps to ensure our commitment is maintained.

We support our employees to volunteer with and raise funds for local communities and charitable causes. As a bank we partner with a number of charities every year. In 2020, following a suggestion from an employee when we asked what more we could do around social inequality, we partnered with Future Frontiers which works with young people from disadvantaged backgrounds. Our employees are now participating in the charity's mentor programme, helping young people transition into work or further education at the ages of 16 and 18.

We have continued to roll out initiatives to help minimise our impact on the environment. This includes a Cycle to Work Scheme and extensive recycling facilities such as a partnership with a company to recycle our coffee grounds. We actively encourage employees to make conscious choices wherever possible to seek out suppliers that help address social or environmental challenges. Our Head Office received a Renewable Energy Guarantee of Origin certificate (REGO) last year, certifying that its energy is sourced renewably.

In 2020, we reaffirmed our commitment to our employees that Black Lives Matter and we celebrate the diversity we are fortunate to have. We continue to make inroads with our work around diversity and cultural awareness, acknowledging there is always more we can do and remaining open to learn from those around us. In July 2020, we were joined by the exceptional author and barrister Hashi Mohamed who spoke to our staff about the realities of social mobility, class and ethnicity in modern Britain.

Throughout the COVID-19 pandemic BLME has shifted its CSR focus to the National Health Service (NHS). In 2020 we made donations to NHS hospitals in recognition of their work and based on nominations from staff. We ensured all gifts sent to our employees this year were sourced from independent UK companies whenever possible, to help boost their profile in what has been a challenging period for small businesses. Given the unprecedented economic and social ramifications of the crisis, we have also focused on supporting local Food Banks across the UK.

BLME operates in a fully Sharia'a-compliant way. As such we do not put money in interest-bearing investments or the tobacco, alcohol or gambling industries.

The Bank’s engagement with its stakeholders as described above plays an important role in guiding strategy-related and general decision-making by the Board.

OTHER NON-FINANCIAL INFORMATION

Funding

BLME focuses effort to operate within our market and liquidity risk appetite and reviewing funding sources will remain a priority for BLME. We have enhanced our website, responded flexibly to rate changes and remained focussed on the customer experience. We have also built relationships with targeted providers that offer our savings product and manage the application process meaning that we can obtain funds more efficiently.

Conduct Risk

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

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

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

Financial Crime and Anti-Corruption and Anti-Bribery

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

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

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

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

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

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

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

PRINCIPAL RISKS AND UNCERTAINTIES
The Bank's principal risks and uncertainties have been highlighted and discussed in detail in Note 38. The impact of other external factors impacting the economy have been discussed in the Directors' report.

FUTURE
In common with most businesses, 2020 was a challenging year for BLME and I am pleased with the resilient performance delivered in the face of the tough global economic conditions driven by the COVID-19 pandemic. The Bank has delivered good results and will now move forward drawing on Boubyan's expertise in technology to build capability and offer products to customers using digital channels.

The transfer of the lease finance business to Walbrook commenced during 2020 and this will allow the Bank to focus on delivery of our strategy to focus on wealth management and real estate.

We have a strong team that is fully aligned with our goals and who drive the positive culture and success of the Bank. I want to thank them for their amazing commitment and resilience in 2020. 2021 will be a period of change and also of challenge as the economic effects of the pandemic are yet to fully unfold. I would also like to thank the Chairman and the Board for their support. I also look forward to building on our success with the support of Boubyan Bank.

On behalf of the Board

Andrew Ball
Chief Executive Officer
27 April 2021

DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2020.

Principal activities

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

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

Financial results and dividends

The financial statements for the year ended 31 December 2020 are shown on pages 25 to 30. The Bank's profit after tax for the year amounted to £0.9 million (2019: £8.7 million). The Directors do not recommend the payment of a dividend for the year ended 31 December 2020. A dividend of £5.4m, representing 2.75885 pence per share, was declared and paid from BLME to BLME Holdings plc on 31 January 2019. The results for the year are discussed further in the Bank's strategic report.

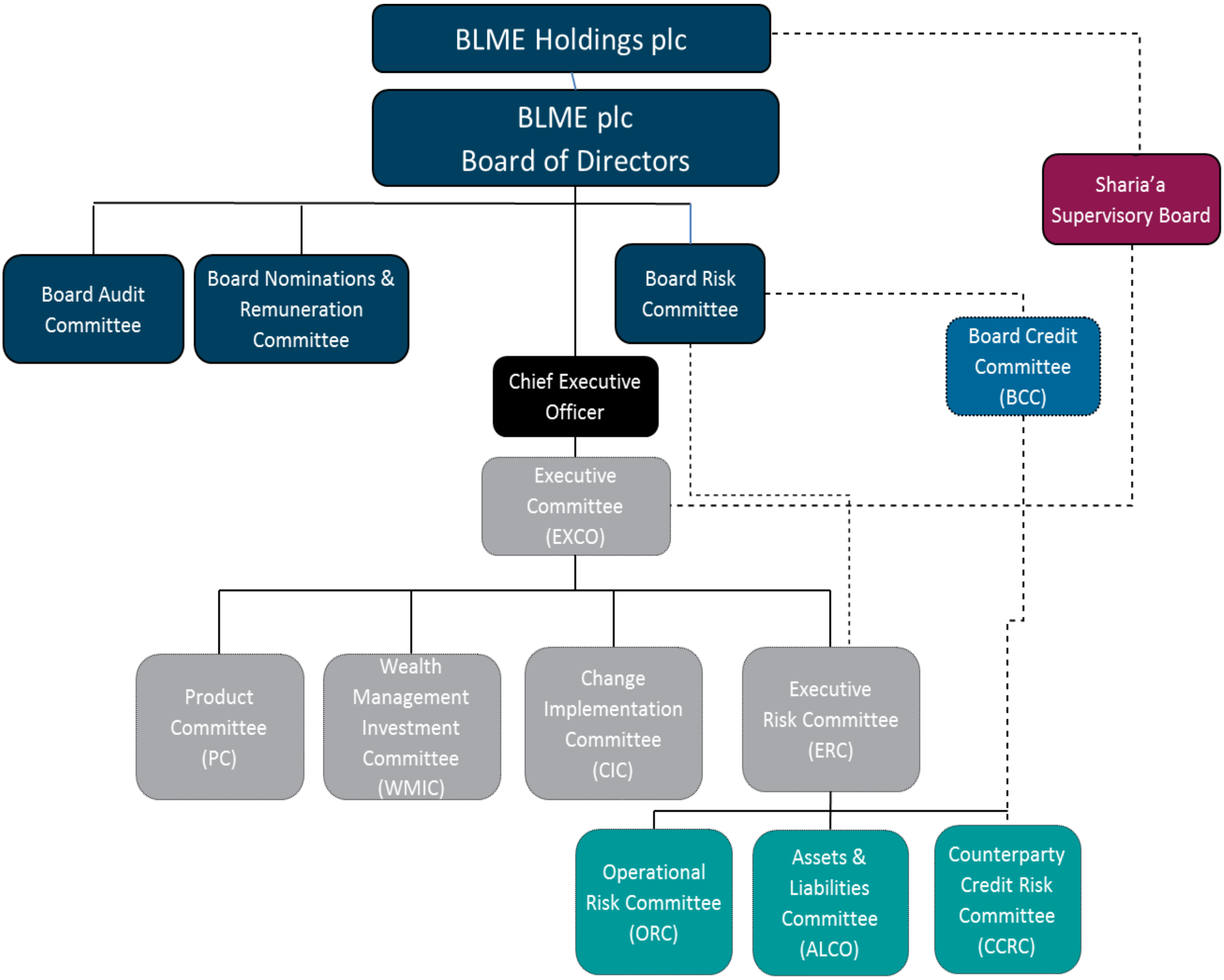
During the year, BLME acquired a number of portfolios of existing leases with receivables from third-party UK lessors that specialise in writing small ticket leases to a variety of counterparty types including: schools, SMEs, Government bodies. The underlying assets are mostly cars, commercial vehicles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

The Bank partially sold down its investment in Waterfront Holdings Limited during the year by 17% resulting in a remaining equity investment of 14% (see Notes 30 and 31), while its investments in AQ1 Limited and Aspenway Limited remain unchanged at 88% and 56% respectively (see Note 35).

Corporate governance

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

Governance structure



Note: BLME Holdings plc and Bank of London and The Middle East plc ("BLME plc") operate with mirror image main Board Committees.

For further details on the composition and operation of these Board committees please refer to the Corporate Governance report in the BLME Holdings plc 2020 Annual Report.

Maged Fanous was appointed as a Non-Executive Director in March 2020. Maged is Boubyan Bank's Group Chief Risk Officer and brings 30 years of financial services and banking experience to BLME.

In June 2020 the Nominations Committee was merged with the Remuneration Committee for efficiency purposes. Joanne Hindle, who had been the Chairman of the Remuneration Committee, became the Chairman of the merged Committee.

In June 2020 Michael Williams was appointed as Deputy Chairman of BLME and Abdul-Salam Mohammed Al-Saleh, currently Deputy Chief Executive Officer at Boubyan Bank, joined the Board as a Non-Executive Director.

In the fourth quarter of 2020, Andrew Ball succeeded Giles Cunningham as the Group's Chief Executive Officer following a period of transition. Andrew was previously the Company's Head of Business and has over 15 years of experience working with clients in the GCC.

Directors

The Directors who held office during the year, and their Committee memberships and functions as at 31 December 2020, were as follows:

Name and Board/Committee Chairmanships **(as at 31 December 2018)**	**Date of Appointment**	**Date of Resignation**	**Board Committee Memberships** **(as at 31 December 2020)**
Adel Abdul Wahab Al-Majed *Chairman of the Board*	6 December 2012		
Andrew Ball *Chief Executive Officer*	11 December 2020		Executive Credit
Giles Cunningham *Chief Executive Officer*	17 November 2016	20 October 2020	
Chris Power Chief Financial Officer and Chief Operating Officer	26 September 2016		Executive
Michael Williams (Senior Independent Director) Deputy Chairman	2 March 2012		Nominations and Remuneration Risk Credit
David Williams (Independent) *Chairman of the Board Risk Committee*	15 October 2015		Risk Nominations and Remuneration Credit
Jabra Ghandour	25 March 2016		Audit Credit
Calum Thomson (Independent) *Chairman of the Audit Committee*	1 April 2017		Audit Risk Nominations and Remuneration Credit
Joanne Hindle (Independent) *Chairman of the Nominations and Remuneration Committee*	1 July 2018		Nominations and Remuneration Audit Risk Credit
Bader Abdullah Al Kandari	20 March 2019		Audit Risk
Maged Fanous	23 March 2020		Audit Risk
Abdul-Salam Mohammed Al Saleh	26 June 2020		Nominations and Remuneration Credit

In accordance with the Articles of Association Jabra Ghandour, Joanne Hindle and Bader Abdullah Al Kandari will retire and offer themselves up for rotation at the next Annual General Meeting. They will offer themselves for re-appointment at the next Annual General Meeting in 2021.

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

Sharia'a Supervisory Board members

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

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

Financial Risk Management

The Bank has exposure to the following risk categories:

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

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

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Bank established a project to manage the transition for those contracts affected. BLME continues to have a Transition from IBOR project in place, headed by the Bank's CEO. The initial information gathering exercises to ascertain transactions referencing LIBOR as part of their Profit rate structure were successfully undertaken, with replacement documentation for new transactions, and replacement transition-aware documentation drawn up more recently. Further communications and announcements via the BLME website, as well as direct contact with affected customers, will continue as the Transition project enters its latter stages.

BLME have already incorporated new alternative rates into our systems, having successfully originated new business using these rates. We continue to look to expand the range of such alternative reference rates as they become available after market beta testing is completed.

The Bank has operated effectively throughout the COVID-19 pandemic with its staff remote working since March 2020. Key areas of continued focus include the following matters:

- Business continuity and operational resilience;
- Minimising financial losses arising due to customers' credit deterioration;
- Liquidity management through a combination of continuing to raise deposits, tightly managing the existing pipeline of new business and being selective in assessing new business opportunities;
- Preserving strong capital buffers; and
- Providing support to our Staff and their well-being so that they can continue to operate effectively and service our customer base.

Political contributions

The Bank made no political contributions during the year (2019: £nil).

Carbon reporting

Please refer to the Directors Report in the BLME Holdings plc 2020 Annual Report for details on carbon emissions reporting under the Streamlined Energy and Carbon Reporting (SECR) framework requirements that were introduced by the UK Government for accounting periods beginning on or after 1 April 2019.

Future developments

The business strategy and prospects for future financial years are included in the Strategic Report on pages 3 to 9. The material business risks are set out in Note 38 from page 83.

Going concern

The Directors have reviewed the business activities and financial position of the Bank and have a reasonable expectation that it has adequate resources to continue in operational existence until 30 April 2022. In making this assessment the Directors have considered a wide range of information about the current and future condition of the Bank including the strategic direction, activities and risks that affect the financial position. This review included an assessment of the impact of COVID-19 pandemic on the Bank's financial, liquidity and capital positions. More information regarding this aspect of the review is outlined in Note 2 c on pages 31 and 32.

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

Disclosure of information to auditor

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

Auditor

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

By order of the Board

Peter Bulkeley
Company Secretary
27 April 2021

SHARIA'A SUPERVISORY BOARD REPORT

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

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

Assalamu Alaikum wa Rahmat Allah wa Barakatuh.

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

We, the Sharia'a Supervisory Board of BLME have reviewed and monitored the operations, agreements and transactions conducted by BLME through its offices in England and in the Dubai International Financial Centre during the period 1 January 2020 to 31 December 2020 and have reviewed the BLME Annual Report and Accounts for the year ended 31 December 2020. We conducted our reviews to form an opinion as to whether BLME has complied with the principles of the Sharia'a and with specific fatwa rulings and guidelines issued by the Sharia'a Supervisory Board.

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

1. The operations, agreements and transactions entered into and conducted by BLME through its offices in England and in the Dubai International Financial Centre during the year 1 January 2020 to 31 December 2020 and which were reviewed by the Sharia'a Supervisory Board are in compliance with the principles of the Sharia'a.
2. The distribution of profits and the sharing of losses in terms of the investment accounts at BLME are in compliance with the principles of the Sharia'a.
3. All profits generated by BLME during the year 1 January 2020 to 31 December 2020 has been derived from Sharia'a-compliant sources.
4. The Sharia'a Supervisory Board has reviewed all income received from non Sharia'a-compliant sources during the year 1 January 2020 to 31 December 2020 and will oversee BLME's dealings in the disposal of this income in a Sharia'a-compliant manner.

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

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

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

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

Sheikh Dr. Abdulaziz Al-Qassar
Chairman
27 April 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

In respect of the annual report and financial statements

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

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Company's financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

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

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

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

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

INDEPENDENT AUDITOR'S REPORT
To the members of Bank of London and The Middle East plc

Opinion

We have audited the financial statements of Bank of London and the Middle East plc (the "Bank") for the year ended 31 December 2020 which comprise the Income Statement, the Statement of Comprehensive Income, the Statement of Financial Position, the Statement of Cash flows and the Statement of Changes in Equity and the related notes 1 to 38, including a summary of significant accounting policies, except for Note 38 (e) marked as unaudited. The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the Bank's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Bank's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;
- We obtained management's going concern assessment, that covered the period up to 30 April 2022, which is at least a year from the date of signing this audit opinion. Within this, the Bank has modelled a number of adverse scenarios in their cash forecasts and covenant calculations in order to incorporate unexpected changes to the forecasted liquidity and capital of the Bank.
- We have tested the factors and assumptions included in each modelled scenario for the cash forecast and we have tested the impact of Covid-19 included in each forecasted scenario. We considered the appropriateness of the methods used to calculate the cash forecasts and determined through inspection and testing of the methodology and calculations that the methods utilised were appropriately sophisticated to be able to make an assessment for the entity.
- We reviewed management's reverse stress testing in order to identify what factors would lead to the Bank utilising all liquidity or capital during the going concern period, including the plausibility of management actions available to mitigate the impact of the reverse stress test

- We considered the mitigating factors included in the cash flow forecasts that are within control of the Bank. This includes review of the Company's non-operating cash outflows and evaluating the Company's ability to control these outflows as mitigating actions if required.

- We reviewed the Bank's going concern disclosures included in the annual report in order to assess that the disclosures were appropriate, in conformity with the reporting standards, and that they were consistent with management's assessment.

The results of the above procedures did not identify any changes to management's going concern assessment. Management maintained a strong focus on liquidity and have recently updated their stress tests and reverse stress test, including the impact on the Bank of COVID-19.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Bank's ability to continue as a going concern for the period to 30 April 2022 being at least 12 months from when the financial statements are authorised for issue.

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

Overview of our audit approach

Key audit matters	• Improper recognition of income • Adequacy and appropriateness of the allowance for expected credit losses (ECL) under IFRS-9, including the risk of credit loss on undisclosed leases
Materiality	• Overall materiality of £2.4m which represents 1% of equity.

An overview of the scope of our audit

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

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Improper revenue recognition **Income from financing and investing activities: £55.7 million (2019: £53.8 million).** **Income from fees and commissions: £1.8 million (2019 £2.6 million).** *Refer to the Accounting policies (page 34); and Note 5 of the Financial Statements (page 52)* The key risks of improper recognition of income arises from: (i) Income recorded from financing and investing activities might not be complete and accurate, and (ii) Fees and commissions can require judgment as to the amount and timing of recognition. The risk level remains unchanged from 2019.	We took the following approach in response to the risk: • Obtained an understanding of processes and controls related to revenue recognition and assessed the design and tested the operating effectiveness of the key controls with the assistance, where required, of EY IT audit professionals. • Performed analytical procedures to identify trends and corroborate movements not in line with our expectations. • Recalculated, on a sample basis, the EPR ("Effective Profit Rate") income recognised across different product classes to ensure it has been calculated in accordance with the underlying transaction documentation and recorded in the appropriate accounting period. We have increased our standard sample sizes to correspond to the higher risk in this area. Our sample included those Property Finance deals where the EPR involved manual adjustments relating to the exit fee. • Agreed, on a sample basis, fees and commissions to supporting transaction documentation and vice versa, and also cash receipts. We have increased our standard sample sizes to correspond to the higher risk in this area. • Performed year end cut-off testing to ensure that revenue was recognised in the correct period. • Tested supporting evidence for any adjustments to the accounting records that we have identified that have characteristics that could indicate unusual or inappropriate adjustments.	We did not identify any evidence of material misstatement in the recognition of revenue, through our audit procedures performed. We have also tested the design and operating effectiveness of the revenue recognition controls, concluding them to be effective. Based on the procedures performed, we have no material findings to report.

Adequacy and appropriateness of the allowances for expected credit losses (ECL) under IFRS 9, including risk of credit loss on undisclosed leases (Bank) **Financing arrangements** **2020: £819.2 million** *(ECL provision £14.0 million)* **2019: £847.9 million** *(ECL provision £6.2 million)* **Finance lease receivables** **2020: £207.3 million** *(ECL provision £1.3 million)* **2019: £418 million** *(ECL Provision £2.6 million)* **Off balance sheet exposures** **2020: £84 million** *(ECL Provision £0.01 million)* **2019: £104 million** *(ECL Provision £0.1 million)* *Refer to the Accounting policies (page 36); and Note 15 of the Financial Statements (page 61)* An allowance for expected credit losses (ECL) represents management's best estimate of the losses that will occur on the existing exposures at a future date. Management have established a model to estimate the ECL for all stage 1 and stage 2 exposures. For stage 3 exposures that are held at amortised cost, management have performed individual impairment assessments to calculate appropriate ECL. We focussed our testing on financing arrangements, finance lease receivables and off-balance sheet exposures as these are the	We took the following approach in response to the risk: • Assessed the design and tested the operating effectiveness of controls within relevant processes focusing on model governance and credit monitoring of financial assets or liabilities, off balance sheet exposures, and ECL. • Obtained an understanding of the Group process for the onboarding (including KYC procedures) and assessed the design effectiveness and tested the operating effectiveness of the key controls. • Tested the data flow of the underlying records of the Bank's inputs into the ECL model for completeness and accuracy. • With the assistance of EY model specialists, assessed the ECL model used to calculate ECL for stages 1 and 2. This included analysing governance over the model, and the approach taken by the Bank to monitor inputs and outputs. • With the assistance of the EY economic advisory team, reviewed the ECL model's macroeconomic narratives to ensure they are reasonable given our knowledge of the Bank's portfolio, knowledge of significant macroeconomic events such as COVID-19 and Brexit, and the countries and the industries in which they have exposures. • Performed an overall assessment of the expected credit loss provision levels, by stage, to determine if they were reasonable considering the Bank's portfolio, risk profile, credit risk management practices, and the macroeconomic environment. This included benchmarking to peers. • Performed credit file reviews of a sample of financing arrangements allocated as stages 1 and 2 to determine the reasonableness of the staging allocation and to seek to identify any significant increase in credit risk or indicators of impairment not identified by the Bank. We increased our standard sample size to respond to the higher risk in this area.	We challenged the ECL calculation processes and the key assumptions supporting the calculation and based on the result of the procedures performed by our risk modelling and economic advisory specialists, management adjusted weightings in the ECL model to reflect the current market conditions. We are satisfied that management's judgements are reasonable, and that the allowance for expected credit losses are adequate and appropriate. Based on the procedures performed, we have no material findings to report.

areas containing greater subjectivity and risk. Given the subjective nature of the calculation of ECL there is heightened risk that the timing and extent of these allowances could be subject to error or to management override. In addition the Bank acquired leasing portfolios on an undisclosed basis from intermediaries. The Bank does not have visibility over the cash collection and no relationship with the ultimate lessee. For a portion of the portfolio, the intermediaries themselves acquired the leases on an undisclosed basis which means not only the Bank, but also the intermediaries do not have visibility over the cash collections or a relationship with the ultimate lessee. The risk level has increased from last year due to the impact of COVID-19.	• For assets in stage 3, tested the individual impairment and the evidence supporting the assumptions made by the Bank, by forming an independent view of collateral or exit values, cash flow assumptions, and exit strategies. To respond to the higher risk in this area we lowered our testing threshold. • Reviewed the credit files, arrears report, exposures on the watch list, and, where appropriate, collateral arrangements and valuations, as well as publicly available information that we judged to be relevant, in order to corroborate the appropriateness and adequacy of the ECL, focusing on areas where significant estimation is involved. To respond to the higher risk in this area we lowered our testing threshold for items on the watchlist. • For a sample of receivables, ensured the collection of the post year-end payments being paid into the bank accounts of the Bank. • Understood the process followed by the Bank to identify and report impairments on the assets in the portfolio, including monitoring of credit risks and arrears, and ensured this was applied correctly to the portfolio. In addition, for the leases acquired from intermediaries on an undisclosed basis, we performed the following incremental procedures: • Read the underlying agreements between direct intermediaries and the Group.to understand the underlying relationship. • Analysed the profitability of key intermediaries and a sample of the ultimate lessees, and also considered publicly available information. • For a sample of leases, we sent out direct confirmations to the ultimate lessees. • Where, due to commercial concerns by the intermediary, it was not possible to send direct confirmation, we obtained evidence of the cash recoveries from the ultimate lessees.	

Our application of materiality

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

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

We determined materiality for the Bank to be £2.4 million (2019: £2.3 million), which is 1% of net assets (2019: 1% of net assets). We determined our materiality based on equity rather than on profits or revenues, because the Bank's profitability is low relative to the balance sheet size, and also our expectation is that the main users of the financial statements, such as the Prudential Regulatory Authority and the immediate and ultimate parent company, view capital preservation as the key consideration.

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

On the basis of our risk assessments, together with our assessment of the Bank's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £1.2m (2019: £1.2m). We have set performance materiality at this percentage given the number of uncorrected audit differences in the prior year. We conclude that continuing to use the lower testing threshold this year is appropriate.

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.1m (2019: £0.1m), which is set at 5% (2019:5%) of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

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

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 16, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Bank and determined that the most significant are Companies Act 2006, Financial Services and Markets Act 2000, Financial Services Act 2012, Capital Requirements Regulation, Markets in Financial Instruments Directives and relevant Prudential Regulation Authority and Financial Conduct Authority regulations.

- We understood how the Bank is complying with those frameworks by making enquiries of management, internal audit, those charged with governance and those responsible for legal and compliance matters. We also reviewed correspondence between the Bank and UK regulatory bodies, reviewed minutes of the Board, the Executive Committee, the Audit Committee and the Board Risk Committee; and gained an understanding of the Bank's approach to governance demonstrated by the Board's approval of the Bank's risk management framework and governance framework and the internal controls processes.

- We assessed the susceptibility of the Bank's financial statements to material misstatement, including how fraud might occur by considering the controls that the Bank has established to address risks identified by the Bank, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance incentives and their potential to influence management to manage earnings.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved inquiries of management, internal audit, and those responsible for legal and compliance matters; as well as focused testing as referred to in the Key Audit Matters section above. In addition, we performed procedures to test the clearance of significant reconciling items on key reconciliations; identify any significant items inappropriately held in suspense and tested journal entries with a focus on manual journals and journals indicating large or unusual transactions based on our understanding of the business.
- As the audit of banks requires specialised audit skills, the senior statutory auditor considered the experience and expertise of the audit team to ensure that the team had the appropriate competence and capabilities, and included the use of specialists where appropriate.
- We understood the nature of the Company's regulatory permissions, its business activities and understood the regulatory control environment in which it operates.

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

Other matters we are required to address

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

  The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ending 31 December 2017 to 31 December 2020.

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

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

Use of our report

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

Kenneth Eglinton (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
London
27 April 2021

INCOME STATEMENT

For the year 1 January 2020 to 31 December 2020

	Note	2020 £000	2019 £000
Income			
Income from financing and investing activities	*5a*	55,718	53,846
Returns to financial institutions and customers	*6*	(26,230)	(25,782)
Net margin		**29,488**	**28,064**
Fee and commission income	*5b*	1,778	2,613
Fee and commission expense	*7*	(5,175)	(2,230)
Net fee and commission income		**(3,397)**	**383**
Net investment gains	*8*	443	112
Credit impairment losses	*15*	(7,455)	(1,699)
Operating lease income		6,123	8,751
Other operating income	*9*	4,088	7,195
Share of profit of equity-accounted investees, net of tax	*30*	25	9
Net operating income		**29,315**	**42,815**
Expenses			
Personnel expenses	*11*	(12,908)	(13,957)
Other operating expenses	*13*	(9,883)	(7,386)
Operating lease depreciation	*23*	(5,128)	(7,197)
Other depreciation and amortisation	*22, 24*	(866)	(1,518)
Exceptional costs-Offer	*11, 13*	-	(2,851)
Total operating expenses		**(28,785)**	**(32,909)**
Profit before tax		**530**	**9,906**
Tax credit / (expense)	*16*	382	(1,215)
Profit for the year		**912**	**8,691**

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

The notes on pages 31 to 114 are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year 1 January 2020 to 31 December 2020

	Note	**2020 £000**	**2019 £000**
Income			
Profit for the year		912	8,691
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss if specific conditions are met:			
Net (losses) / gains in fair value of FVOCI debt instruments		(148)	1,176
Income tax credit / (expense) on other comprehensive income	*16*	22	(230)
		(126)	**946**
Items that will not be reclassified subsequently to profit or loss:			
Net (losses) / gains in fair value of FVOCI equity instruments		(3)	10
Other comprehensive expense for the year net of income tax		**(3)**	**10**
Total comprehensive income for the year attributable to equity holders of the Company		**783**	**9,647**

The notes on pages 31 to 114 are an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 £000	2019 £000
Assets			
Cash and balances with banks		231,486	66,746
Due from financial institutions	*18*	339,629	23,508
Due from customers	*18*	34,465	14,081
Investment securities	*19*	90,835	111,039
Financing arrangements	*20*	819,162	847,880
Finance lease receivables	*21*	207,307	417,970
Operating lease assets	*23*	-	39,042
Property and equipment	*22*	3,270	4,007
Intangible assets	*24*	-	56
Other assets	*25*	7,326	15,982
Current tax asset		803	-
Deferred tax asset	*16*	7,495	4,497
Investment in joint ventures	*30*	1,142	1,216
Assets held for sale	*31*	477	2,575
Total assets		**1,743,397**	**1,548,599**
Liabilities			
Due to financial institutions	*26*	185,935	375,565
Due to customers	*27*	1,300,714	917,569
Profit rate swaps	*10*	760	1,196
Other liabilities	*28*	21,727	19,571
Current tax liability		-	1,220
Total liabilities		**1,509,136**	**1,315,121**
Equity			
Share capital	*33*	48,933	48,933
Share premium	*33*	140,623	140,623
Capital contribution	*34*	3,527	3,527
Fair value reserve		101	230
Retained earnings		41,077	40,165
Total equity attributable to equity holders of the Bank		**234,261**	**233,478**
Total liabilities and equity		**1,743,397**	**1,548,599**

These financial statements were approved by the Board of Directors on 27 April 2021 and were signed on its behalf by:

Andrew Ball
Chief Executive Officer

Chris Power
Chief Financial Officer and Chief Operations Officer

Company Registration Number: 05897786
The notes on pages 31 to 114 are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year 1 January 2020 to 31 December 2020

	2020	2019
Cash flows from operating activities	**£000**	**£000**
Profit before tax	530	9,906
Adjusted for:		
Exchange differences	332	(394)
Fair value (gain)/loss on investment securities	(232)	(318)
Share of profit of equity-accounted investees, net of tax	(25)	(9)
Provision for impairment	7,455	1,806
Depreciation and amortisation	5,199	7,886
Share-based payment awards	-	392
Movements relating to profit rate swaps*	(854)	327
IFRS 16 - depreciation and finance charges	933	995
Amortisation of investment securities	233	26
	13,571	**20,617**
Net increase in operating assets:		
Due from financial institutions	(311,592)	(15,441)
Due from customers	(20,306)	551
Financing arrangements	14,520	(149,067)
Finance lease receivables	210,667	(160,487)
Operating lease assets	33,914	(2,997)
Other assets	8,560	(10,880)
	(64,237)	**(338,321)**
Net increase in operating liabilities:		
Due to financial institutions	(201,668)	(285,387)
Due to customers	386,573	561,491
Other liabilities	14,255	(5,557)
	199,160	**270,547**
Corporation tax paid	(4,607)	(697)
Net cash inflow/(outflow) from operating activities	**143,887**	**(47,854)**
Cashflow from investing activities		
Purchase of property and equipment	(71)	-
Purchase of investment securities	(37,036)	(63,316)
Sale of investment securities	57,604	84,038
Purchase of interest in assets held for sale	(541)	(11,116)
Sale of interest in assets held for sale	2,100	8,500
Purchase of Interest in joint venture	-	(1,235)
Dividend received from joint venture	99	28
Net cash inflow from investing activities	**22,155**	**16,899**
Cash flows from financing activities		
Payment of principal portion of lease liabilities	(1,104)	(1,156)
Dividend paid to BLME Holdings plc	-	(5,400)
Net cash outflow from financing activities	**(1,104)**	**(6,556)**
Net change in cash and cash equivalents	**164,938**	**(37,511)**
Cash and cash equivalents at the beginning of the period	66,746	103,585
Exchange differences in respect of cash and cash equivalents	(198)	672
Cash and cash equivalents at the end of the period	**231,486**	**66,746**

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

The notes on pages 31 to 114 are an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

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

FVOCI – Fair value through other comprehensive income

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

Capital contribution

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

The notes on pages 31 to 114 are an integral part of these financial statements.

BANK STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019	Share capital	Share premium	Capital contribution	Fair value reserve	Retained earnings / (losses)	Total
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2018	48,933	140,623	2,207	(713)	37,076	228,126
Changes on initial application of IFRS 19	-	-	-	-	(237)	(237)
Restated balance at 1 January 2019	**48,933**	**140,623**	**2,207**	**(713)**	**36,839**	**227,889**
Profit for the year	**-**	**-**	**-**	**-**	**8,691**	**8,691**
Other comprehensive income / (expense)						
Net change in fair value of equity/debt instruments at FVOCI	-	-	-	1,186	-	1,186
Tax on items transferred directly to equity	-	-	-	(230)	-	(230)
Total other comprehensive income	**-**	**-**	**-**	**956**	**-**	**956**
Total comprehensive income for the year	**-**	**-**	**-**	**956**	**8,691**	**9,647**
Contributions by and distributions to owners						
Dividends to Parent company	-	-	-	-	(5,400)	(5,400)
Sale of equity instrument at FVOCI	-	-	-	(13)	13	-
Equity-settled share-based payment awards	-	-	392	-	-	392
Transfer to Retained Earnings	-	-	(22)	-	22	-
Tax on items transferred directly to equity	-	-	950	-	-	950
Total transactions with owners	**-**	**-**	**1,320**	**(13)**	**(5,365)**	**(4,058)**
Balance at 31 December 2019	**48,933**	**140,623**	**3,527**	**230**	**40,165**	**233,478**

FVOCI – Fair value through other comprehensive income
Fair value reserve includes the cumulative net change in fair value of available-for-sale investments until the investment is either derecognised or becomes impaired.
Capital contribution
This is the share-based payment reserve in prior years representing the amortised portion of the fair value of equity instruments issued under the BLME share incentive schemes and accounted for as equity-settled share-based payments. During 2013, the Deferred Annual Bonus Scheme (DABS) was reclassified back from cash-settled to equity-settled accounting and the obligations under all the BLME share incentive schemes were assumed by BLME Holdings plc for no consideration. This assumption of liability was treated as an injection of equity and was recognised as a Capital contribution in 2013**.**
The transfer to retained earnings of £22k represents the recycling of credits previously recognised within the Share Based Payment Reserve in relation to DABS options which have lapsed and/or forfeited.

The notes on pages 31 to 114 are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1. REPORTING ENTITY

Bank of London and The Middle East plc is a Company domiciled in the United Kingdom. The address of the Company's registered office is Cannon Place, 78 Cannon Street, London, England, EC4N 6HL. BLME is a wholesale bank involved in investment, commercial finance, private client banking and wealth management. The financial statements of the Bank are presented as at and for the year ended 31 December 2020.

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Presentation of financial statements

The Bank has prepared its financial statements in accordance with IFRS as adopted by the EU and effective for the Bank's reporting for the year ended 31 December 2020.

The Bank has not produced consolidated financial statements as under Section 401 of the Companies Act 2006 consolidated financial statements are not required, the Bank being a wholly owned subsidiary of BLME Holdings plc which consolidates the financial statements of the Bank as detailed in Note 35. Accordingly these financial statements present information about the Company as an individual undertaking and not about its consolidated group. The Parent's Annual report and financial statements are prepared in accordance with IFRS as adopted by the EU in order to qualify for the exemption.

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

b. Use of estimates and judgements

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

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment cover impairment losses on financial assets, fair value measurement, effective profit rate adjustments, deferred taxes and determining the lease term of contracts with renewal and termination options . Refer to Note 3 from page 48 for further detail.

c. Going concern

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

The Board is required to assess going concern at each reporting period. This assessment includes the Directors reviewing the business activities, financial position and future forecast of the Bank in order to support a conclusion that the Directors have a reasonable expectation that the Bank has adequate resources to continue in operational existence until 30 April 2022.

This assessment is 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 year, the Bank has raised in excess of a net £380m of retail customer deposits (a growth of 42%). 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 £230m of cash sitting on Nostro bank accounts at 31 December 2020 and a Liquidity Coverage Ratio ("LCR") of 234% compared to the minimum regulatory requirement of 100%. The fact that in February 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 31 December 2020 the Bank had £33m 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 as part of the acquisition.

Reverse stress test assessments

In February 2021, the Bank performed an updated reverse stress test assessment in advance of signing these 2020 year-end accounts in order to demonstrate that the reverse stress testing scenario articulated in the most recent Individual Capital Adequacy Assessment Process (ICAAP) and Individual Liquidity Adequacy Assessment Process (ILAAP) for capital and liquidity, respectively, remained appropriate; and thus continued to provide comfort that the Bank is adequately capitalised to withstand any adverse impact in the medium term for approximately three years.

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

d. Changes in accounting policies and disclosures

New and amended standards and interpretations

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

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

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

e. New standards and interpretations not yet adopted

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

i. Other new and amended standards and interpretations

- Amendments to IFRS 9, 'Financial Instruments', IAS 39, 'Financial Instruments: Recognition and Measurement', IFRS 7, 'Financial Instruments: Disclosures', IFRS 4 'Insurance Contracts' and IFRS 16 'Leases' - Interest Rate Benchmark Reform Phase 2
- Amendments to IFRS 3 'Business combinations' - reference to the Conceptual Framework
- Amendment to IFRS 16 Covid-19 Related Rent Concessions
- Amendments to IAS 16 'Property, Plant and Equipment' - proceeds before intended use
- Amendments to IAS 37 'Onerous contracts' - costs of fulfilling a contract
- Annual Improvements 2018-2020 Cycle (issued in May 2020) related to IFRS 1 First-time Adoption of IFRS, IFRS 9 'Financial Instruments', IFRS 16 'Leases' and IAS 41 'Agriculture'
- IFRS 17 'Insurance contracts'
- Amendments to IAS 1 'Presentation of financial statements' - classification of liabilities as current or non-current
- Amendments to IFRS 10, 'Consolidated Financial Statements' and IAS 28, 'Investments in Associates and Joint Ventures' - sale or contribution of assets between an Investor and its Associate or Joint Venture

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

f. Basis of measurement

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

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

g. Functional and presentation currency

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

h. Foreign currency

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

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

i. Revenue recognition

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

(please refer to the Glossary of Islamic Finance Terminology on page 118)

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

ii. Fees and commission

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

iii. Financial assets

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

iv. Due from financial institutions and customers and financing arrangements

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

j. Financial Instruments

i) Categories of financial assets

- **Financial Instruments measured at amortised cost ('AC')**

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

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

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

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

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

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

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

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

ii) Business model assessment

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

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

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on

the fair value of the assets managed or on the contractual cash flows collected); and

- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment.

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

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

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

The most significant elements of the yield from a financing arrangement are typically the consideration for the time value of money and credit risk. To make the SPPY assessment, the Bank applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the profit rate is set.
In contrast, contractual terms that introduce more than a de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic financing arrangement do not give rise to contractual cash flows that are solely payments of principal and yield on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

iv) Impairment of financial assets

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

- **Overview of the ECL principles**

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Bank's policies for determining if there has been a significant increase in credit risk are set out on page 38.

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

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

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

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

• Stage 3: Financing considered credit-impaired, the Bank records a specific provision calculated using a discounted cash flow approach to determine the overall exposure and/or using net exposure after taking into account any collateral. The process to determine whether a customer is in default is explained on page 86 in Note 38 Financial Risk Management.

- **The calculation of ECLs**

Financial institutions need to exercise judgement in determining the appropriate number of forward-looking, macroeconomic scenarios that need to be considered in measuring ECL. Most institutions use a central scenario (sometimes referred to as a base case), an upside scenario and a downside scenario with some banks opting for additional scenarios for a more severe downside and/or optimistic upside. Another factor influencing the number of scenarios used by financial institutions in 2020 is that as a consequence of the COVID-19 pandemic there is less consensus on economic forecasts. Accordingly the Bank has considered it appropriate to increase the number of scenarios used from three to six.

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

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

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

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

The other macro-economic inputs in the ECL model are listed in section vi – multi economic scenarios on pages 38 to 40.

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

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

The mechanics of the ECL method are summarised below:

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

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

• Stage 3: For financing considered credit-impaired, the Bank recognises the lifetime expected credit losses for these financings. The method is similar to that for Stage 2 assets, with the PD set at 100%.

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

- **Significant increase in credit risk**

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

BLME measures the increase in credit risk by monitoring the changes in credit scores of its counterparties since origination. The notch downgrade is based on the credit score, where a “BBB+” or higher rated counterparty has a 3 notch movement required to show deterioration, whilst a lower quality counterparty (“BBB-” to “BB-”) needing a 2 notch movement, and the worst quality (“B+” and below) a 1 notch. This follows the broad principals of credit deterioration being seen when a default rate doubles. In addition, the Bank also considers whether the counterparty payment performance is deteriorating (i.e. payments are 30-day past due and the counterparty is added to the Watchlist as described on pages 87 and 88 in Note 38).

- **Default**

Refer to page 89 in Note 38 for the definition of default.

v) Forward looking information

Six macroeconomics factors are used for determining the forward looking projections. Two variables are considered core drivers in impairment across the three segments and a third, distinct macroeconomic factor is assigned to the segments that relate to their respective portfolios and is determined by expert judgement.

The selected macroeconomic factors are updated quarterly from reports received by a reputable external source. The macroeconomic projections are then used for deriving the forecast PDs which are subsequently incorporated in the impairment model.

vi) Multiple economic scenarios

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

- **Base Case Key Macroeconomic Assumptions for 2021:**

GDP: UK GDP is forecast to rebound by 4.5% in 2021 as more vaccines are approved and made widely available; businesses resume production and consumption recovers with the rebound occurring in Q2. However, we also expect a permanent scarring of the economy from the current crisis with output forecast to remain below its pre-crisis level in the long run.

Bank of England Base Rate (Bank Rate) – Bank Rate is forecast to remain flat at its current level of 0.1% until mid-2025, as a result of the unprecedented scale of the recession leading to the Bank of England to keep monetary policy extremely loose. Thereafter it is expected rates will increase at a very slow pace until their terminal rate of 1.75% is reached toward the end of 2030.

House Price Index (HPI) – Momentum in the housing market has started to pick up after the initial shock as a result of the coronavirus pandemic. However, supportive policy measures are due to be phased out and this momentum is expected to be lost. Despite some improvement in nationwide house price to income measure since 2017, valuations remain high by historic standards.

Unemployment Rates – Reflecting the large shock to the economy, and slow recovery from recession, the Bank expects the labour market to take a significant hit in the short term. The Bank forecasts unemployment rate to increase to 6.3% in 2021 as many businesses are unlikely to open and temporary layoffs become permanent. The recovery of the labour market is expected to be more drawn-out with the unemployment rate only to fall back to 4% by the mid-2020s.

Effective Exchange Rate Index (EERI) – EERI is expected to follow the projections provided by Oxford Economics, in line with what is observed and produced by the Office of Budget and Responsibility (OBR) and takes into account much of the commentary that is to follow in relation to the Coronavirus Pandemic, Brexit and US – China Trade War.

- **Upside Scenario Assumptions for 2021:**

The upside scenarios are also projected by Oxford Economics and are based on the assumption that if scientific advances facilitate a quicker easing of public health restrictions, alleviation of concerns amongst investors, businesses and households and a more robust recovery would ensue. This implies that medical advancements in the forms of a vaccine, therapeutics or robust track and trace networks become widely available in early 2021. As a result, growth would pick up and output returns to its end-2019 levels in Q4 2021. Reflecting the faster recovery from the crisis, permanent damage to capacity is avoided.

- **Downside Scenario Assumptions for 2021:**

The downside scenarios are projected by Oxford Economics and are based on the assumption that protracted lockdowns and a slower easing of social distancing measures deepen the global downturn, triggering a financial crisis and subsequently a fall in UK output. The scale of economic damage and the muted recovery would see the economy ending in 2021 around 15% smaller than the size envisaged prior to the coronavirus outbreak; even by 2025 output would still fall well short of its pre-pandemic levels.

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

Coronavirus Pandemic:
A steep rise in Covid cases through December 2020, largely resulting from the emergence of a new and more transmissible variant, led the UK Government to introduce a third national lockdown in early-January 2021. This lockdown will be in place throughout Q1 2021 before restrictions are gradually lifted throughout Q2 2021. The new restrictions are more severe than those seen in November, with the closure of schools a key difference, but less stringent than the first lockdown in March 2020. We expect GDP to fall by more than 4% q/q in Q1, but this would be much smaller than the 18.8% plunge in Q2 2020 reflecting the lower starting point, less stringent restrictions and greater adaptability of consumers and firms. With the Government aiming to vaccinate the most vulnerable groups quickly, we continue to assume there will be a meaningful relaxation of social distancing restrictions from Q2, leading to a strong rebound in GDP; however uncertainties around the path of the virus and success of the vaccination programme mean the risks are skewed to the downside.

The baseline forecast incorporates the negative shock exerted by the pandemic but assumes that global lockdown stringency peaked in Q2 2020 and that a resumption of activity occurs in H2 2021. It is also assumed that the recovery is further boosted as medical advances (such as the new vaccines or therapeutics) become widely available towards the middle of 2021, allowing activity to gradually recover. However, with a wide range of alternative outcomes possible, Oxford Economics continue to attach more uncertainty than normal to their baseline forecast.

Domestic Risk - Brexit Considerations:
The UK formally left the EU on 31 January 2020, moving into a transition period in which its trading agreements with EU will not change. The UK and EU struck a free-trade agreement that will keep UK-EU trade tariff-free and quota-free. But the new relationship still introduces new trade barriers in the form of customs bureaucracy and some regulatory barriers. These barriers will weigh on export competitiveness.

Global Risks – Trade War Implications:
Change of administration following the US election is likely to reduce fears of an escalation of the current US-China trade war. However, there remains serious concern that existing dynamics will lead to wider decoupling of China from other economies. Supply chains have already been affected by the existing tariff regime, and the latest fifteen-year plan for the Chinese economy released by the CCP emphasises self-sufficiency, particularly in semiconductors, biotech and electric vehicles going forwards. President Biden is unlikely to take a dovish approach to relations with China, as negative perception of China has risen across all political persuasions in recent years. Governments in most developed countries seek to remain engaged with China for now, and US multinational are keen to expand their business in China, wider decoupling remains a downside risk for the global macroeconomy.

Details of the scenario weights and macroeconomic assumptions used for 2020 and 2021 are summarised in Note 15 on page 64.

vii) Write-offs

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

viii) Offsetting financial assets and financial liabilities

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

ix) Derecognition of financial assets

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

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

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

x) Forbearance

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

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

Further disclosures on forbearance can be found on pages 99 to 101 in Note 38.

xi) Financial liabilities

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

xii) Determining fair value

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities at an ask price. Where no active market exists for the particular asset or liability, the Bank uses another valuation technique to arrive at the fair value, including the use of prices obtained in recent arms-length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants (see Note 3(b) on pages 48 and 49).

xiii) Derivatives and hedge accounting

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

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

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

- **Hedge accounting**

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

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

- **Fair value hedge**

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

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

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

- **Hedge effectiveness testing**

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

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

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

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

k. Collateral and netting

See page 103 in Note 38 for details of financial assets and liabilities that have been presented on a net basis in the prior year. There were no equivalent balances as at 31 December 2020.

l. Property and equipment

i. Recognition and measurement

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

ii. Depreciation

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

Useful Lives:

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

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

m. Intangible assets

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

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

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

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

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

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

o. Operating leases

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

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

p. Finance leases

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

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

q. Lessee accounting

Right-of-use assets

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

- Buildings 1 to 10 years

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

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

Lease liabilities

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

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

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

Short-term leases and leases of low-value assets

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

r. Employee benefits

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

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

s. Share-based payments

Equity-settled

The Bank operated equity-settled share-based incentive schemes for employees in conjunction with its ultimate parent undertaking, BLME Holdings plc. The cost of equity-settled share-based payment arrangements is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight line basis over the vesting period. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

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

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

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

Cash-settled

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

t. Own shares

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

u. Provisions

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

v. Taxation

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

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

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

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

w. Cash and cash equivalents

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

x. Other receivables

Trade and other receivables are stated at their nominal amount less expected credit losses. Refer to Note 2(j)(iv) from page 36 for more detail on the forward-looking expected credit loss (ECL) approach.

y. Segmental information

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

z. Investment in subsidiary undertakings

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

aa. Investment in joint ventures

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

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

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

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

bb. Assets held for sale

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

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

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

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

Estimates

a. Impairment losses on financial assets

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

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

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

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 15 '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 38 'Financial Risk Management'.

In addition to the Bank'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 was 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.

b. Determining fair values

The Bank's accounting policy on fair value measurements is in accordance with IFRS 13 Fair Value Measurement and is discussed on page 104 in Note 38.

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

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

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

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

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

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

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

Judgements

a. Deferred taxes

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

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

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

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

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

4. SEGMENTAL INFORMATION

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

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

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

For the year ended 31 December 2020

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

£8.4m of the total operating income was derived through the effective profit rate (EPR) model (2019: £10.6m).

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

For the year ended 31 December 2019

	Wealth Management £000	Commercial Finance £000	Treasury Division £000	Unallocated items £000	Total £000
Net margin from financing and investing activities	13,268	12,620	2,176	-	28,064
Operating lease income	-	7,685	1,066	-	8,751
Net fee and commission income	681	(305)	7	-	383
Net impairment credit / (charge)	288	(1,925)	(62)	-	(1,699)
Net fair value (losses)/gains	-	-	112	-	112
Share of profit of equity-accounted investees, net of Tax	9	-	-	-	9
Other operating income	2,450	4,351	394	-	7,195
Total operating income	**16,696**	**22,426**	**3,693**	**-**	**42,815**
Directly attributable segment expenses	(3,335)	(2,899)	(2,333)	-	(8,567)
Operating lease depreciation	-	(7,197)	-	-	(7,197)
Net segment contribution	**13,361**	**12,330**	**1,360**	**-**	**27,051**
Common costs not directly attributable to segments					(17,145)
Net operating profit before tax					**9,906**
Reportable segment assets	**603,470**	**753,178**	**181,262**	**10,689**	**1,548,599**

Entity wide disclosures

Geographical analysis of non-current assets

	31 December 2020 £000	31 December 2019 £000
United Kingdom	17,970	63,107
Channel Islands	1,142	1,216
United Arab Emirates	121	288
USA	-	189
Total	**19,233**	**64,800**

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

5. INCOME

5(a) Income from financing and investing activities	2020 £000	2019 £000
Due from financial institutions:		
Murabaha income	29	183
Wakala income	1,787	677
Finance lease receivables:		
Finance lease income	5,915	6,122
Hire Purchase income	7,190	6,243
Istisna and Ijara income	147	275
Financing arrangements:		
Murabaha income	37,752	37,649
Wakala income	1,241	542
Participation Agreements	-	7
Investment securities:		
Sukuk income	1,657	2,148
	55,718	**53,846**

5(b) Fee and commission income	2020 £000	2019 £000
Fees - letters of credit and uncommitted facilities	761	1,242
Management fees	910	578
Acquisition and structuring transaction fees	-	291
Other	107	502
	1,778	**2,613**

6. RETURNS TO FINANCIAL INSTITUTIONS AND CUSTOMERS

	2020 £000	2019 £000
Customer deposits	22,419	11,348
Murabaha	702	6,887
Cost of funding*	1,309	4,333
Wakala	1,800	3,214
	26,230	**25,782**

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

7. FEE AND COMMISSION EXPENSE

	2020	2019
	£000	£000
Agent fees	336	303
Brokerage fee*	813	1,927
Portfolio management fee paid to a fellow subsidiary**	4,026	-
	5,175	**2,230**

*relates to an introductory fee for Walbrook acquired lease assets on BLME's behalf
**relates to management fees paid to Walbrook Asset Finance Limited

8. NET FAIR VALUE GAINS ON INVESTMENTS

	2020	2019
	£000	£000
Net realised gains / (losses) on investments	499	(189)
Net unrealised (losses) / gains on investments	(56)	301
	443	**112**

9. OTHER OPERATING INCOME

	2020	2019
	£000	£000
Gain on foreign exchange transactions	-	394
Gain on leased asset sales	678	540
Dividends from subsidiaries	1,770	2,685
Dividend from joint venture	140	254
Managed services recharges from a fellow subsidiary	1,500	750
Termination of a participation agreement with a previously controlled Structured Entity	-	2,572
	4,088	**7,195**

10.PROFIT RATE SWAPS

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. PRS may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. If they do not qualify as hedges, they are classified as FVTPL and the Mark to Market movement is recognised in the income statement. The Bank did not have any PRS as at 31 December 2020 (2019: seven), which did not qualify for hedge accounting and would therefore have been recognised at fair valued through profit and loss.

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

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

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

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

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

The profile of the timing of the nominal amounts of the hedging instruments is one PRS for $15.225m maturing in April 2022 and one PRS for $15.5m maturing in September 2022. The hedging ratio is 1:1 and the weighted average hedged rate of the PRS for the year was 2.03% (2019: 2.32%).

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

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

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

The total impact on the income statement of the PRS that do not qualify for hedges in 2020 was £0.7m (2019: £1.1m) which is recognised in the other operating expenses line in the income statement.

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

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

	2020		2019	
	Carrying amount	Fair value hedge adjustments	Carrying amount	Fair value hedge adjustments
Investment securities	**£000**	**£000**	**£000**	**£000**
Sukuk	23,637	(213)	23,969	697

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

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

	2020	2019
	£000	**£000**
Gains / (losses) on hedging instruments	425	(234)
Gains / (losses) on hedged items attributable to the hedged risk	(213)	697
Hedge effectiveness recognised in the Net investment gains line within the Income Statement	**212**	**463**

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

	£000	£000
Gains / (losses) on hedging instruments	35	69
Hedge ineffectiveness recognised in the Other operating expenses line within the Income Statement	**35**	**69**

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

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

11. PERSONNEL EXPENSES

	2020	2019
	£000	**£000**
Wages and salaries*	10,496	11,193
Social security costs*	1,056	1,149
Defined contribution pension scheme costs	758	916
Recruitment costs	75	92
Other staff costs	523	607
	12,908	**13,957**

*Wages and salaries and Social security costs for 2019 excluded £1.3m of share based payments charges and related social security costs which were classified as exceptional costs as they related to the Offer from Boubyan Bank.

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

	2020 Number	2019 Number
Period end	89	94
Average for the period - management	7	12
Average for the period - non-management	82	93

12. DIRECTORS' EMOLUMENTS

	2020 £000	2019 £000
Directors' emoluments	1,836	2,129
Pension contributions	11	12
	1,847	**2,141**

The aggregate emoluments of the highest paid Director was £0.8 million (2019: £1.1 million), and pension contributions of £nil (2019: £0.002 million) were made on his behalf. During the year, compensation for loss of office amounting to £0.5 million was expensed in relation to an Executive Director who resigned during the year (2019: £nil). On 11 February 2020, two Executive Directors exercised a total of 5,038,053 share options in connection with the Offer made by Boubyan Bank (2019: none).

13. OTHER OPERATING EXPENSES

	2020 £000	2019 £000
Advertising and market development	96	156
Board and SSB related expenses	467	618
Communications and IT costs	1,835	1,742
Consultancy	265	666
Legal and professional fees*	3,161	1,243
Loss on foreign exchange transactions and translation	332	-
Other operating charges	2,810	2,064
Rent and other occupancy costs	917	897
	9,883	**7,386**

*Legal and professional fees for 2019 excluded £1.5m in legal and professional fees classified as exceptional costs as they related to the Offer from Boubyan Bank.

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

	2020 £000	2019 £000
Auditor's remuneration		
Audit of financial statements pursuant to the legislation		
- Ernst & Young LLP	719	483
Tax Advisory and Compliance Services		
- Ernst & Young LLP	-	3
Other advisory and assurance services		
- Ernst & Young LLP	39	39
	758	**525**

14. SHARE-BASED PAYMENTS

As a consequence of the acquisition of the Parent Company by Boubyan Bank, during February 2020 17.2 million share options were equity settled by Boubyan and all of the DABS options were cash settled by the Parent Company. All of the remaining equity settled share options lapsed as the exercise price was higher than the offer price. Accordingly there were no share options in existence as at 31 December 2020.

During the year £Nil million (2019: £0.9 million) was charged to the income statement in respect of share-based payment transactions arising under the following employee share schemes in accordance with the Bank's reward structures:

	2020	2019
Equity settled schemes	**£000**	**£000**
Approved Share Option Plan ("ASOP")	-	32
Unapproved Share Option Plan ("USOP")	-	360
Executive Share Option Scheme ("ESOP")	-	-
Deferred Incentive Plan Scheme ("DIPS")	-	-
	-	**392**
Cash settled schemes		
Deferred Annual Bonus Scheme ("DABS")	-	509
	-	**901**

A corporate reorganisation was implemented on 2 October 2013 by means of a Court-approved Scheme of Arrangement under sections 895 to 899 of the UK Companies Act, whereby BLME Holding plc became the new holding company of the Group.

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

Calculation of fair values

The fair values of equity-settled share options, measured at the date of grant of the option, used to be calculated using a Black-Scholes model. No share options were issued either in 2020 or in 2019.

Equity-settled schemes

Approved share options ("ASOPs")

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

ASOPs	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
	2020	2020	2019	2019
Outstanding at 1 January	2,247,148	47.2	2,582,551	48.6
Forfeited in the year	-	-	(335,403)	58.0
Exercised with the Offer from Boubyan Bank	(2,019,051)	38.0	-	N/A
Lapsed following the Offer from Boubyan Bank	(228,097)	129.2	-	N/A
Outstanding at 31 December	**-**	**N/A**	**2,247,148**	**47.2**
Exercisable at 31 December	**N/A**		**708,410**	

The weighted average remaining contractual life of the above ASOPs outstanding as at 31 December 2019 was 6.9 years. The weighted average exercise price as at 31 December 2019 was 48.6 pence.

During 2010 options were issued in parallel to the then existing approved options that had been granted during 2008 and 2009. These new "parallel" options were granted to staff over the same number of shares as their existing approved options but with an exercise price equivalent to 125 pence per 25p ordinary share as against an exercise price of 162.5 pence per share for their original approved options. The old and new options operated in parallel, meaning that staff could choose which to exercise. When one option was exercised, the other option would lapse. Therefore, although participating staff now had two approved options, they were only able to exercise one of them.

Parallel ASOPs	Number of options	Number of options
	2020	2019
Outstanding at 1 January	39,992	39,992
Forfeited in the year	(6,152)	-
Lapsed following the Offer from Boubyan Bank	(33,840)	N/A
Outstanding at 31 December	**0**	**39,992**
Exercisable at 31 December	**N/A**	**39,992**

The weighted average remaining contractual life of the parallel options outstanding as at 31 December 2019 was 0.2 years. The weighted average exercise price as at 31 December 2019 was 125 pence. All of these parallel options lapsed in 2020 as the exercise price was higher than the Offer price. The issue of these parallel options in 2010 was accounted for under IFRS 2 as a modification with the incremental fair value being amortised to the income statement over the remaining vesting period.

Unapproved share options ("USOPs")

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

USOPs	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
	2020	2020	2019	2019
Outstanding at 1 January	15,360,331	41.7	16,333,663	41.7
Forfeited in the year	-	-	(973,332)	47.7
Exercised with the Offer from Boubyan Bank	(14,915,452)	39.6	-	N/A
Lapsed following the Offer from Boubyan Bank	(444,879)	101.6	-	N/A
Outstanding at 31 December	**0**	**N/A**	**15,360,331**	**41.4**
Exercisable at 31 December	**N/A**		**5,476,566**	

The weighted average remaining contractual life of the USOPs as at 31 December 2019 was 8.0 years. The weighted average exercise price as at 31 December 2019 was 41.4 pence.

Executive share option scheme ("ESOPs")

Share options were first granted to senior management under the BLME Unapproved Share Option Plan in 2009. The options granted in 2009 and 2010 were split equally into employment options and performance options. Employment options vested upon completion of service periods, performance options vested on meeting or surpassing targets for growth in the Net Asset Value of the Bank. The ESOP awards were made in four equal tranches with different vesting periods. The expected option life was dependent on the behaviour of option holders and was incorporated into the model on the basis of best estimate.

ESOPs	Number of options	Number of options
	2020	2019
Outstanding at 1 January	134,807	361,708
Forfeited in the year	-	(226,901)
Lapsed following the Offer from Boubyan Bank	(134,807)	N/A
Outstanding at 31 December	**-**	**134,807**
Exercisable at 31 December	**N/A**	**134,807**

The weighted average remaining contractual life of the executive share options outstanding as at 31 December 2019 was 2.2 years. The weighted average exercise price as at 31 December 2019 was 162.5 pence. All of these ESOP options lapsed in 2020 as the exercise price was higher than the Offer price

Deferred Incentive Plan Scheme ("DIPs")

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

DIPs	Number of options 2020	Number of options 2019
Outstanding at 1 January	246,485	246,485
Forfeited in the year	-	-
Exercised with the Offer from Boubyan Bank	(246,485)	N/A
Outstanding at 31 December	**-**	**246,485**
Exercisable at 31 December	**N/A**	**197,188**

The weighted average remaining contractual life of the above DIPS options as at 31 December 2019 was 5.2 years. The weighted average exercise price as at 31 December 2019 was 45.0 pence.

Cash-settled schemes

Deferred annual bonus scheme ("DABs")

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

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

DABs	Number of nil cost options 2020	Number of nil cost options 2019
Outstanding at 1 January	1,575,001	1,613,765
Forfeited in the year	-	(38,764)
Settled following the Offer from Boubyan Bank	(1,575,001)	N/A
Outstanding at 31 December	**-**	**1,575,001**
Exercisable at 31 December	**N/A**	**1,575,001**

The weighted average remaining contractual life of the above nil cost options outstanding as at 31 December 2019 was 6.1 years. The weighted average exercise price as at 31 December 2019 was nil.

15. IMPAIRMENTS OF FINANCIAL ASSETS

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

Statement of Financial Position

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

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	655	337	5,240	6,232
Finance lease receivables	1,240	1,236	98	2,574
Operating lease assets	54	112	-	166
Due from financial institutions	110	-	-	110
Investment securities	80	-	676	756
Other assets	-	-	537	537
Total Impairment	**2,139**	**1,685**	**6,551**	**10,375**

Within Stage 1 and Stage 2 for financing arrangements there is an ECL balance of £Nil relating to off balance sheet letters of credit and guarantees (2019: £10k) and an ECL balance of £4k relating to undrawn commitments (2019: £55k). The Stage 3 balance for other assets of £250k (2019: £537k) relates to provisions against inventory assets that have been calculated using IAS 36.

Forborne exposures that have not been specifically provided for equates to £Nil (2019: £28m). The Stage 1 and Stage 2 ECLs relating to these forborne exposures is £Nil (2019: £31k). Refer to pages 99 to 101 for further details on how the Group monitors its forborne exposure.

Income Statement

	2020 £000	2019 £000
New and increased provisions (net of releases)	7,074	362
Amounts written off during the year (net of write backs)	381	1,337
Total Impairment Loss	**7,455**	**1,699**

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	2,139	1,685	6,551	10,375
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	138	(138)	-	-
Transferred to Stage 2	(202)	202	-	-
Transferred to Stage 3	-	-	-	-
New and increased provisions (net of releases)	(737)	985	6,826	7,074
Write-offs from specific provisions	-	-	(635)	(635)
Foreign currency translation adjustments	-	-	(148)	(148)
As at 31 December 2020	**1,338**	**2,734**	**12,594**	**16,666**

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2019	1,305	4,425	9,018	14,748
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)	252	(2,158)	2,268	362
Write-offs from specific provisions	-	-	(4,454)	(4,454)
Foreign currency translation adjustments	-	-	(281)	(281)
As at 31 December 2019	**2,139**	**1,685**	**6,551**	**10,375**

Exposure by Stage

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2020	1,476,469	142,975	19,369	1,638,813
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	7,484	(7,484)	-	-
Transferred to Stage 2	(94,099)	94,099	-	-
Transferred to Stage 3	-	-	-	-
New and increased exposure	195,209	(91,176)	22,493	126,526
Write-backs of specific provisions	-	-	(1,164)	(1,164)
Write-offs from specific provisions	-	-	(1,546)	(1,546)
Foreign currency translation adjustments	-	-	(149)	(149)
As at 31 December 2020	**1,585,063**	**138,414**	**39,003**	**1,762,480**
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	267,475	(53,756)	(3,674)	210,045
Write-offs from specific provisions	-	-	(4,347)	(4,347)
Foreign currency translation adjustments	-	-	(382)	(382)
As at 31 December 2019	**1,476,469**	**142,975**	**19,369**	**1,638,813**

Contractual amounts outstanding on financial assets of £1.5m that were written off during the reporting period are still subject to enforcement activity (2019: £4.3m).

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

Upgraded IFRS 9 model using multiple economic scenarios

During 2020, the Bank has developed a new more sophisticated IFRS 9 model and reviewed its approach to sourcing inputs in relation to the macroeconomic outlook that had been significantly impacted by the COVID-19 pandemic.

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

More details regarding these six 12 month forward looking stress scenarios per material portfolio are outlined within the significant accounting policies section of these financial statements (in Note 2 j vi on pages 38 to 40).

The scenario weights and macroeconomic assumption for 2021 are summarised below:

	2021 Assumptions					
	Upside	**Mild Upside**	**Base**	**Stagnation**	**Downside**	**Severe Downside**
Scenario Weights	10%	10%	50%	10%	10%	10%
GDP[1]	15.40%	12.20%	7.10%	3.20%	1.20%	-2.10%
Bank Rate[1]	0.60%	0.40%	0.10%	0.10%	-0.30%	-0.50%
HPI[2]	2.00%	-1.30%	0.70%	-11.70%	-14.30%	-18.70%
Unemployment rate[3]	3.90%	5.10%	6.30%	8.10%	8.60%	9.50%
EERI[4]	78.8	78.9	78.4	79.5	79	78.7

[1] Denotes Core Variables for the three segments

[2] Denotes the macroeconomic variable for the Property segment

[3] Denotes the macroeconomic variable for the Banking (including Leasing Exposures) segment

[4] Denotes the macroeconomic variable for the Treasury segment

Information regarding the Bank's approach to customer payment deferral requests has been included in the management of credit risk section of Note 38, Financial Risk Management. For the avoidance of doubt, the Bank did not receive any direct support from the Government and has not participated in any Government Coronavirus Relief Schemes.

Exposure by credit rating

	Cash	Due from financial institutions		Due from customers	Finance lease receivables			Financing arrangements			Investment securities	Other assets	Undrawn commitm ents	Total
	£000 Stage 1	**£000 Stage 1**	**£000 Stage 2**	**£000 Stage 1**	**£000 Stage 1**	**£000 Stage 2**	**£000 Stage 3**	**£000 Stage 1**	**£000 Stage 2**	**£000 Stage 3**	**£000 Stage 1**	**£000 Stage 3**	**£000 Stage 1**	**£000**
AAA	-	-	-	-	-	-	-	-	-	-	61,808	-	-	**61,808**
aa+	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
aa	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
AA-	1,170	-	-	-	-	-	-	-	-	-	-	-	-	**1,170**
a+	228,784	73,170	-	-	7,674	-	-	3,511	-	-	-	-	1,900	**315,039**
a	-	-	-	-	30,312	1,235	-	106,783	26,877	-	-	-	1,750	**166,957**
a-	-	-	-	-	4,277	-	-	26,261	-	-	-	-	2,947	**33,485**
bbb+	-	-	-	-	7,551	312	-	68,004	-	-	-	-	-	**75,867**
bbb	-	-	-	-	27,161	2,029	-	103,407	-	-	-	-	486	**133,083**
bbb-	-	-	-	-	23,661	2,484	-	280,041	4,453	-	-	-	-	**310,639**
bb+	-	-	-	35,023	26,418	4,246	-	117,772	8,780	-	-	-	-	**192,239**
bb	-	-	-	-	52,108	10,961	-	25,046	27,114	-	-	-	-	**115,229**
bb-	-	-	-	-	4,475	501	-	-	10,627	-	-	-	-	**15,603**
b+	-	260,495	-	-	1,423	2,229	-	-	1,188	-	-	-	-	**265,335**
b	-	-	7073	-	1,089	1,800	-	-	24,516	-	-	-	-	**34,478**
b-	-	-	-	-	556	1,889	-	-	-	-	-	-	-	**2,445**
ccc+	-	-	-	-	-	100	-	-	-	-	-	-	-	**100.00**
ccc	-	-	-	-	-	-	-	-	-	-	-	-	-	**0**
d	-	-	-	-	-	-	-	-	-	38,506	-	497	-	**39,003**
At 31 December 2020	**229,954**	**333,665**	**7,073**	**35,023**	**186,705**	**27,786**	**-**	**730,825**	**103,555**	**38,506**	**61,808**	**497**	**7,083**	**1,762,480**

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

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	-	21,982	-	-	88,759	-	-	-	-	-	-	**110,741**
a-	7,735	7,926	55	-	10,984	-	-	-	2,968	-	-	**29,668**
bbb+	-	15,628	1,029	-	45,719	-	-	-	10,089	-	-	**72,465**
bbb	-	61,280	1,912	-	192,123	-	-	-	-	-	-	**255,315**
bbb-	-	91,317	4,692	-	304,688	473	-	25,470	13,191	7,669	-	**447,500**
bb+	-	81,970	6,609	-	101,436	20,509	-	-	5,213	481	-	**216,218**
bb	-	79,275	21,511	-	94,690	21,572	-	-	-	-	-	**217,048**
bb-	-	18,484	1,729	-	-	8,872	-	-	-	3,169	-	**32,254**
b+	15,891	5,924	2,204	-	-	25,429	-	-	-	-	-	**49,448**
b	-	2,320	9	-	1,750	-	-	-	-	-	-	**4,079**
b-	-	1,122	13,945	-	-	-	-	-	-	-	-	**15,067**
ccc+	-	51	-	-	-	-	-	-	-	-	-	**51**
ccc	-	-	1,106	-	-	-	-	-	-	-	-	**1,106**
d	-	-	-	397	-	-	11,418	6,300	-	-	1,254	**19,369**
At 31 December 2019	**92,774**	**395,954**	**54,801**	**397**	**847,520**	**76,855**	**11,418**	**115,060**	**31,461**	**11,319**	**1,254**	**1,638,813**

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

16.TAXATION

Bank	2020 £000	2019 £000
UK Corporation Tax		
- current tax for the year	3,285	1,471
- prior year current tax adjustment	291	-
	3,576	1,471
Deferred tax for the year	(3,840)	(552)
Prior year adjustment to deferred tax	(118)	296
Tax (credit) / expense in income statement	**(382)**	**1,215**

The tax credit for the year is higher (2019 tax expense: lower) than the standard rate of corporation tax which is explained as follows:

Bank	2020 £000	2019 £000
Reconciliation of effective tax rate		
Profit for the year before tax	530	9,906
Profit for the year multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	101	1,882
Recognition of deferred tax asset	-	(2,718)
Movement in unrecognised deferred tax	(309)	1,736
Tax exempt income	(336)	(509)
Expenses not deductible for tax purposes	109	347
Tax on controlled foreign companies	292	393
Prior year adjustment - current tax	291	296
Prior year adjustment - deferred tax	(118)	-
Impact of Share Based Payments	(27)	(94)
Effect of change in tax rates	(385)	(118)
Tax (credit) / expense in income statement	**(382)**	**1,215**

The main rate of corporate tax for the year ended 31 December 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.

Since the balance sheet date, it was announced in the UK Government's Budget on 3 March 2021 that the main UK corporation tax rate will increase to 25% from 1 April 2023. This change had not yet been substantively enacted as at 31 December 2020. As a result, existing temporary differences on which deferred tax assets have been recognised below at a corporation tax rate of 19% may unwind in periods subject to the 25% rate. The estimated impact on the deferred tax asset of using a rate of 25% from 1 April 2023 is an increase of £4.3m.

Tax recognised in other comprehensive income

Bank	2020	2019
	£000	£000
Fair value reserve:		
-current tax	-	7
-deferred tax	(22)	223
	(22)	**230**

Tax recognised directly in equity

Bank	2020	2019
	£000	£000
Capital contribution reserve	-	(950)
Retained earnings	-	-
	-	**(950)**

Deferred tax

A deferred tax asset (DTA) is recognised on deductible temporary differences, unused tax losses and unused tax credits to the extent that it is probable that future taxable profits will be available against which these can be utilised. The Bank has been profitable for three consecutive years and has forecast taxable profits in future years. Based on the evidence, Management has recognised a DTA as at 31 December 2020 on accelerated depreciation of £7.2m (net) (2019: £1.2m), trading losses carried forward of £Nil (2019: £1.8m net) and other temporary differences of £0.3m (net) (2019: £1.4m).

Movements in deferred tax balances (net)

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

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

Unrecognised deferred tax assets (gross)

Bank	2020	2019
	£000	£000
Accelerated depreciation	853	5,714
Tax losses carried forward	-	-
Other temporary differences	-	-
Deferred tax assets	**853**	**5,714**

17.CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

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

Bank	1 January 2019	Cashflows	FX Movement	Changes in Fair Value	Other	31 December 2019
	£000	£000	£000	£000	£000	£000
Lease liabilities	6,109	(1,156)	(13)	-	167	5,107

18.DUE FROM FINANCIAL INSTITUTIONS AND CUSTOMERS

Due from Institutions

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

Due from Institutions

	0 - 3 months	4 - 12 months	1 - 5 years	2019
	£000	£000	£000	£000
Wakala	6,002	7,727	9,889	23,618
	6,002	**7,727**	**9,889**	**23,618**
Provision for impairment				(110)
				23,508
IFRS 9 Stage 1 and 2 ECL				(110)
				(110)

Due from Customers

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

Due from Customers

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

19. INVESTMENT SECURITIES

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

See pages 104 to 105 in Note 38 for further detail on fair value measurements of investment securities.

Bank	Listed	Unlisted	2019 Total
	£000	£000	£000
Fair value through other comprehensive income			
Equity	-	328	328
Sukuk	59,038	-	59,038
Investment in subsidiaries at cost	-	28,171	28,171
Amortised cost			
Sukuk	24,258	-	24,258
	83,296	**28,499**	**111,795**
Provision for impairment			(756)
			111,039
IFRS 9 Stage 1 and 2 ECL			(80)
IFRS 9 Stage 3 ECL			(676)
			(756)

Investment in subsidiaries includes £6.84m in Aspenway Limited and £21.87m in AQ1 Limited (2019: £6.3m in Aspenway Limited and £21.87m in AQ1 Limited).

20. FINANCING ARRANGEMENTS

These tables represent contractual maturities.

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

Refer to Note 15 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

Bank	Less than 1 year	1 - 5 years	Over 5 years	2019 Total
	£000	£000	£000	£000
Murabaha	758,680	95,432	-	854,112
	758,680	**95,432**	**-**	**854,112**
Provision for impairment				(6,232)
				847,880
IFRS 9 Stage 1 and 2 ECL				(992)
IFRS 9 Stage 3 ECL				(5,240)
				(6,232)

21. FINANCE LEASE RECEIVABLES

Bank	2020	2019
	£000	£000
Gross investment in finance lease receivables		
Within one year	50,268	75,777
One to five years	60,792	116,610
Over five years	3,090	7,376
	114,150	199,763
Hire purchase		
Within one year	38,505	90,686
One to five years	67,580	156,894
Over five years	911	2,385
	106,996	249,965
Unearned future income on finance leases	(5,856)	(13,101)
Unearned future income on hire purchase	(6,707)	(16,083)
IFRS 9 Stage 1 & 2 ECL	(1,276)	(2,476)
IFRS 9 Stage 3 ECL	-	(98)
Net investment in finance leases and hire purchase	**207,307**	**417,970**
The net investment in finance leases comprises:		
Within one year	46,866	68,206
One to five years	57,892	109,834
Over five years	3,049	7,084
	107,807	**185,124**
The net investment in hire purchase comprises:		
Within one year	34,527	81,963
One to five years	64,084	148,573
Over five years	889	2,310
	99,500	**232,846**
Net investment in finance leases and hire purchase	**207,307**	**417,970**

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

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

Refer to Note 15 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

22. PROPERTY AND EQUIPMENT

Bank	Computer Equipment	Office Equipment	Fixtures & Fittings	Buildings	Total
	£000	£000	£000	£000	£000
Cost					
At 1 January 2020	532	78	2,184	4,818	7,612
Additions	72	-	-	-	72
Disposals	-	-	-	-	-
FX differences	-	-	-	1	1
At 31 December 2020	**604**	**78**	**2,184**	**4,819**	**7,685**
At 1 January 2019	532	69	2,184	-	2,785
Additions	-	9	-	4,830	4,839
Disposals	-	-	-	-	-
FX differences	-	-	-	(12)	(12)
At 31 December 2019	**532**	**78**	**2,184**	**4,818**	**7,612**
Depreciation					
At 1 January 2020	530	70	2,176	829	3,605
Charge for the year	2	5	8	795	810
Disposals	-	-	-	-	-
At 31 December 2020	**532**	**75**	**2,184**	**1,624**	**4,415**
At 1 January 2019	527	68	1,702	-	2,297
Charge for the year	3	2	474	829	1,308
Disposals	-	-	-	-	-
At 31 December 2019	**530**	**70**	**2,176**	**829**	**3,605**
Net Book Value					
At 31 December 2020	**72**	**3**	**-**	**3,195**	**3,270**
At 31 December 2019	**2**	**8**	**8**	**3,989**	**4,007**

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

23. OPERATING LEASE ASSETS

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

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

Transfers relates to assets transferred to Walbrook Asset Finance Limited a fellow subsidiary undertaking.

Bank	At 31 December 2018 £000	Additions 2019 £000	Disposals 2019 £000	Transfers 2019 £000	Depreciation 2019 £000	At 31 December 2019 £000
Gross carrying amount	54,626	4,884 *	(10,489)	-	-	49,021
Less depreciation	(11,384)	-	8,768	-	(7,197)	(9,813)
	43,242	**4,884**	**(1,721)**	**-**	**(7,197)**	**39,208**
Provision for impairment						(166)
						39,042

* Additions in 2019 Included £1.4m of advance rentals reclassified from Other Liabilities to current year additions

Rental receipts under operating leases*	**2020**	**2019**
Future rentals are as follows:	**£000**	**£000**
Less than one year	-	5,951
Between one and five years	-	17,025
More than five years	-	1,238
	-	**24,214**

*These future rental receipts represent undiscounted cash flows.

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

24. INTANGIBLE ASSETS

Bank	2020	2019
Cost	**£000**	**£000**
Opening balance	5,643	5,643
Additions	-	-
Disposals	-	-
Closing balance	**5,643**	**5,643**
Amortisation and impairment losses		
Opening balance	5,587	5,377
Charge for the year	56	210
Disposals	-	-
Closing balance	**5,643**	**5,587**
Net Book Value	**-**	**56**

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

25. OTHER ASSETS

Bank	2020	2019
	£000	**£000**
VAT recoverable	-	1,829
Contract assets*	-	17
Collateral deposits**	266	2,805
Prepayments	862	818
Collateral assets***	356	1,975
Foreign exchange forward contracts****	2,949	4,933
Other receivables and assets	2,893	3,605
	7,326	**15,982**

* Per IFRS 15 *Revenue from Contracts with Customers*, a contract asset (accrued income) or a contract liability (deferred income) is recognised for the difference between the cumulative revenue recognised and the cumulative amounts billed for a contract.

** The Bank has pledged cash collateral deposits of £0.03 million (2019: £0.04 million) as security against rental payments on its premises. For 2019 the balance of the £2.8 million related to cash held as deposits with financial institutions.

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

****Foreign exchange forward contracts relates to deal balances with a notional contract amount of £126 million (2019: £274m). Further disclosure on the Bank's foreign exchange forward deals is covered in Note 38.

26. DUE TO FINANCIAL INSTITUTIONS

Bank	2020	2019
	£000	**£000**
Reverse Murabaha	116,906	196,381
Exchange of deposits*	-	34,957
Wakala	69,029	144,227
	185,935	**375,565**

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

27.DUE TO CUSTOMERS

Bank	2020	2019
	£000	£000
Customer deposits	1,291,308	906,513
Security deposits	9,406	11,056
	1,300,714	**917,569**

28. OTHER LIABILITIES

Bank	2020	2019
	£000	£000
Trade payables	70	86
VAT payable	4,306	-
Social security and income tax	280	420
Accruals	6,873	9,934
Collateral advance	1,661	928
Lease liability*	4,137	5,107
Other creditors**	4,400	3,096
	21,727	**19,571**

*Refer to Note 29 for further detail on lease liabilities recognised in line with IFRS 16.
**The Other creditors line for 2019 above included a foreign exchange forward deal balance of £0.6 million with a notional contract amount of £64 million (2020: Nil). Further disclosure on the Bank's foreign exchange forward deals is covered in Note 38. In addition, the Other creditors line for 2019 also included £1.4m of advance rentals reclassified to current year additions in operating lease assets (2020: Nil).

29. LEASES

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

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

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

	Buildings
	£000
At 1 January 2020	3,989
Additions	-
Depreciation expense	(795)
Foreign currency translation adjustments	1
At 31 December 2020	**3,195**

	Buildings £000
At 1 January 2019	-
Additions	4,830
Depreciation expense	(829)
Foreign currency translation adjustments	(12)
At 31 December 2019	**3,989**

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

	2020 £000
At 1 January 2020	5,107
Additions	-
Accretion of finance charges	138
Payments	(1,105)
Foreign currency translation adjustments	(4)
At 31 December 2020	**4,136**

	2019 £000
At 1 January 2019	-
Additions	6,109
Accretion of finance charges	167
Payments	(1,156)
Foreign currency translation adjustments	(13)
At 31 December 2019	**5,107**

The maturity analysis of lease liabilities is as follows:

At 31 December 2020	**Less than 1 month £000**	**1-3 months £000**	**3 - 12 months £000**	**1-5 years £000**	**5+ years £000**	**Total £000**
Future lease payments (undiscounted)	0	241	793	3,388	-	4,422
Total future finance charges						(286)
Lease liability						**4,136**

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**
Future lease payments (undiscounted)	4	249	862	3,935	483	5,533
Total future finance charges						(426)
Lease liability						**5,107**

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

The following are the amounts recognised in profit or loss:

	2020	2019
	£000	£000
Depreciation expense of right-of-use assets	795	829
Finance charge on lease liabilities	138	167
Total amount recognised in profit or loss	**933**	**996**

Depreciation expense of right-of-use assets is disclosed in Note 22 while finance charge on lease liabilities is included in rent and other occupancy costs per Note 13.

The Bank had total cash outflows for leases of £1.1m in the year (2019: £1.2 m). The Bank had non-cash additions to right-of-use assets and lease liabilities of £Nil and £Nil respectively in the year (2019: £4.8m and £6.1m).

The Bank has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Bank's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3 b on page 49).

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

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

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

30.INVESTMENT IN JOINT VENTURES

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

The Bank holds a 14.18% (2019: 31.18%) equity interest in Waterfront however plans to sell all but 10% of its investment. Accordingly, only 10% is accounted for using the equity method with the balance of 4.18% (2019: 21.18%) accounted for as an asset classified as held for sale per IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

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

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

Statement of Financial Position	**2020**	**2019**
	£000	**£000**
Cash and cash equivalents	780	1,221
Other assets	1,119	171
Investment properties	25,827	27,228
Total assets	**27,726**	**28,620**
Other liabilities	529	523
Due to financial institutions	15,779	15,938
Total liabilities	**16,308**	**16,461**
Net Assets	**11,418**	**12,159**
Bank's share in the Net Assets - 10% (2019: 10%)	**1,142**	**1,216**

Income Statement	**2020**	**2019**
	£000	**£000**
Revenue	1,569	1,282
Unrealised loss on revaluation of investment	(573)	-
Management and advisory fees	(187)	(688)
Murabaha profit expense	(480)	(166)
Other expenses	(47)	(339)
Profit before tax	**282**	**89**
Income tax expense	(31)	-
Profit for the year	**251**	**89**

The joint venture had no contingent liabilities or capital commitments as at 31 December 2020 (2019 – none).

Movements in Waterfront Holdings Limited carrying amounts	**2020**	**2019**
	£000	**£000**
Opening balance	1,216	-
Acquisition of interest in joint venture	-	1,235
Share of profit equity-accounted investees, net of tax	25	9
Dividends received	(99)	(28)
Closing net book amount	**1,142**	**1,216**

31.ASSETS HELD FOR SALE

As described in Note 30, the Bank has committed to a plan to sell all but 10% of its interest in Waterfront Holdings Limited ("Waterfront"). This is in line with the investment memorandum provided to all eligible prospective investors. Accordingly, 4.18% of the Bank's investment is presented as an asset held for sale (2019: 21.18%). During the year, the Bank sold 17% of its interest in Waterfront (2019: 68.82%). The Bank expects to reach its target sell down of 90% in early 2021.

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

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

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

32.CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2020 to be disclosed.

33. SHARE CAPITAL AND SHARE PREMIUM

Bank	**Number of shares**	**Share capital £000**	**Share premium £000**
Allotted, called up and fully paid 25p per ordinary share			
At 31 December 2019	195,733,691	48,933	140,623
At 31 December 2020	**195,733,691**	**48,933**	**140,623**

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

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

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

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

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

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

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

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

i. the BLME Scheme of Arrangement

ii. the cancellation of the Scheme shares

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

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

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

34. CAPITAL CONTRIBUTION

Bank	**2020** **£000**	**2019** **£000**
Assumption of share incentive scheme liabilities by parent company:		
Opening balance	3,527	2,207
Equity-settled share-based payment awards	-	370
Tax on items transferred directly to equity	-	950
Closing balance at 31 December	**3,527**	**3,527**

Pursuant to a scheme of arrangement under sections 895 to 899 of the UK Companies Act that was implemented on 2 October 2013, and as explained in Note 14, all existing options under the Bank of London and The Middle East plc share incentive plans lapsed and replacement options were offered by BLME Holdings plc on substantially the same terms and conditions.

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

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

35.PARENT COMPANY AND SUBSIDIARIES

As at 31 December 2020 the Bank's ultimate parent undertaking was Boubyan Bank K.S.C.P, a public shareholding company incorporated in Kuwait and listed on the Kuwait Stock Exchange. The Bank's immediate parent undertaking is BLME Holdings plc, a limited liability company incorporated in the UK and domiciled in England & Wales. BLME Holdings plc is the parent undertaking of the largest and the smallest group of undertakings in the UK for which Group consolidated financial statements are drawn up and of which the Bank is a member. Copies of the Consolidated Group financial statements of BLME Holdings plc can be obtained from the Company Secretary, BLME Holdings plc, Cannon Place, 78 Cannon Street, London EC4N 6HL.

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

Principal Subsidiaries	Country of incorporation and principal operations	BLME interest in equity capital	Issued equity capital (£)	Profit for the year (£'000)	Principal business activity	Ultimate parent undertaking	Immediate parent undertaking
Directly held:							
BLME Asset Management Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
BLME Holdco Limited	United Kingdom	100%	£102	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
BLME 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	314	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%	£24,870,010	179	Investment Holding Company	Boubyan Bank K.S.C.P.	BLME plc
Aspenway Limited	Jersey	56%	£12,270,021	15	Investment Holding Company	Boubyan Bank K.S.C.P.	BLME plc

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

36. RELATED PARTIES

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

	Relationship	2020 £000	2019 £000
Boubyan Bank K.S.C.P	Majority shareholder		
Wakala placement		187,434	132,039
Wakala deposit taking		389,213	493,412
Participation deposit		75,181	61,501
The Public Institution for Social Security *	Shareholder		
Reverse Murabaha		269,737	244,307
NBK SAKP, Bahrain Branch	Branch of a fellow subsidiary of majority shareholder		
Reverse Murabaha		69,260	46,711
Commodity Murabaha		7,753	119,452
Exchange of deposit (receivable)		33,455	126,079
Exchange of deposit (payable)		55,667	302,597
NBK International PLC	Fellow subsidiary of majority shareholder		
Reverse Murabaha		37,653	107,270
Commodity Murabaha		50,000	123,398
Walbrook Asset Finance Limited	Fellow subsidiary of BLME Holdings plc		
Wakala placement		282,129	10,679
Working capital facility		117,771	6,000
Portfolio management and agency fees		1,962	1,927
Overhead charges for managed services		1,500	750

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

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

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

Included within:	2020	2019
Due to financial institutions	£000	£000
Reverse Murabaha	109,737	162,666

As at 31 December 2020, The Public Institution for Social Security held 7.5% (2019: 8.10%) of the Parent Company's voting shares and its Chief Investment Officer (Liquid Investment Sector) is a member of the Parent Company's board and the Company's board.

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

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

	Relationship	2020 £000	2019 £000
Boubyan Bank K.S.C.P.	Majority shareholder		
Cash and balances with banks			
Nostros		710	536
Due to financial institutions			
Wakala deposit taking		23,575	32,506
Financing arrangements			
Participation deposit*		14,412	14,956
NBK SAKP Bahrain Branch	Branch of a fellow subsidiary of majority shareholder		
Due to financial institutions			
Reverse murabaha		-	11,367
Exchange of deposit		-	34,957
NBK International PLC	Fellow subsidiary of majority shareholder		
Due to financial institutions			
Reverse murabaha		7,163	18,558
Walbrook Asset Finance Limited	Fellow subsidiary of BLME Holdings plc		
Wakala deposit taking		292,884	10,924
Working capital facility		-	6,003
Other assets		-	132
Other liabilities		1,261	-
MKL Construction Equipment Finance Limited	Subsidiary		
Other assets		-	646
Other liabilities		997	-

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

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

	2020 £000	2019 £000
Key management emoluments *	1,299	1,917
Bank contributions to pension plans	11	12
	1,310	**1,929**

* Key management emoluments includes share-based payments of £Nil (2019: £0.22 million).

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

37.SUBSEQUENT EVENTS

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

38. FINANCIAL RISK MANAGEMENT

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

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

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

The Bank's strategic business objectives include the following:

- 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; and
- Continued reduction in wholesale funding concentration, by attracting more deposits through BLME's Premier Deposit Account (PDA), which was achieved during 2020.

Risk management framework

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

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

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

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

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

- Risk identification – the process of determining risks that could potentially prevent BLME from achieving its goals and objectives;
- Risk assessment – a careful examination and quantification of the impact and likelihood of potential events;
- Risk mitigation – a strategy to prepare for and reduce the adverse effects and exposure to risks and their likelihood of occurrence. Risk mitigation is achieved through establishing key control processes and practices, including limit structures, impairment allowance criteria and reporting requirements. Ensure all frameworks

and policies are regularly reviewed and kept relevant and up to date;

- Execution and monitoring – separate control functions independent of business lines are responsible for monitoring the operation of the controls and adherence to risk direction and limits;
- Assurance – assurance and advice are provided by the Bank's Third Line of Defence where the Internal Audit function provides the Board with independent, objective assurance or advice whether the risk management, control and governance processes are adequate and operating in line with expectations. Additional assurance is provided by external audit; and
- Monitoring and reporting – the Second Line of Defence is responsible for monitoring the operation of the controls and adherence to risk direction and limits.

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

The constituting elements of the RMF are:

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

Board Risk Appetite

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

The BLME Risk Appetite Statement is set by the BLME Board and reviewed at least semi-annually.

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

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

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

Impairment of Financial assets

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

  BLME operates a 3-step customer classification system:

  - Normal
  - Watchlist
  - Asset Recovery Unit

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

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

  <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 including collateral values and profit rate covenants
  - Obligors sources of recurring income are no longer available to meet BLME finance payments
  - Concerns about the obligors future ability to generate stable and sufficient cash flows
  - Negative shareholder's funds
  - Legal action by other creditors (incl. CCJs)
  - Other banks requesting collateral
  - Auditor's qualification
  - Non-respect of important commitments
  - Regular payment problems

- Improper use of credit lines
- Request for consolidation or renegotiation of credits
- Known or suspected reputational or regulatory damage
- Fraud
- Delayed project progress
- External market considerations, i.e. credit spreads, credit ratings and sector risks

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

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

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

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

Removal criteria from Watchlist would either be:

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

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

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

ARU classification occurs as a result of:

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

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

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

- **Definition of Default**

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

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

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

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

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

- **Internal rating and PD estimation process**

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

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

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

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

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

1. ECAI (Moody's, and Fitch only) long-term issuer rating
2. Moody's Creditedge rating (to be mapped to BLME Internal rating)

3. Moody's RiskCalc
4. Moody's Commercial Real Estate Model
5. Manual Rating

- **BLME Provisioning Guidelines**

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

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

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

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

An instrument is also assigned to Stage 2 if it is 30 days past due, 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 bank's ARU list with other individually impaired connections. See further detail below.

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

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

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

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

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

A minimum of 2 sensitivity calculations are required to be undertaken on a Discounted Cash flow Analysis basis. Once individual sensitivity calculation provision figures have been undertaken, these are weighted (totalling

100%) to account for 'likeliness of occurring'. The final provision amount is calculated on a probability weighted approach.

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 BLME 17). 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. There is no minimum 'cure period' before an asset can be moved from Stage 3 to Stage 2 as defaulted assets are reviewed on a case-by-case basis. However, assets that have been upgraded from Stage 3 to Stage 2 require a minimum recovery period of three months before it can be upgraded to Stage 1.

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

a. Credit risk

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

i. Management of credit risk

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

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

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

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

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

COVID-19: Coronavirus related payment deferral support to customers

In response to the Coronavirus pandemic, the Bank 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 Bank 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 Bank has taken a consistent approach to analysing and acting on such customer requests across the different business lines. The Bank has demonstrated its support for customers through these challenging times in line with its values and principles. The Bank 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 Bank has not charged customers profit on profit as a result of approving a deferral of payments. In addition, the Bank has not increased the profit rate paid by its customers.

In dealing with a payment deferral request, the Bank 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 Bank endeavours to support its customers through what are exceptional circumstances. As part of the necessary assessment of the appropriate support that the Bank can provide, information of a customer's financial position is obtained to provide clarity on the necessity for any payment deferral.

The Bank 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 limited but not 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 Bank, from other cash deposits or other income streams unaffected by the current pandemic crisis.

In this context the Bank has 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 Bank 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 Bank must always comply with Treating Customer Fairly principles.

As the economic environment moved into a second phase of payment deferrals, such as extension requests from customers who had been granted an initial three month payment deferral and new client requests, the Bank moved 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 Bank'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 the initial lockdown have subsequently paid in full, and good progress is being made with the numbers of customers returning to full payment levels.

The Bank has followed guidance issued to assist with its financial and prudential reporting, the PRA recognises that firms are likely to have limited borrower-specific information, in particular noting that at the date of further deferrals being granted there may be no or limited information provided. These assessments are made subsequently and be based on the information available at the next and subsequent reporting dates. Additionally there is importance of using "holistic assessments based on reasonable and supportable information to try to estimate whether SICR has occurred for groups of borrowers in the absence of borrower-level information".

To assist firms with their financial and prudential reporting, the PRA laid out a four-point framework:

- **Consideration of economic conditions**, e.g., the temporary nature of cash flow difficulties, such as a borrower having a temporary income reduction or the overall expected timeline of economic recovery

- **Use of historical information** that firms already hold about obligors, which can be used to gather counterparty-level indicators of SICR and impairment, such as payment history or credit ratings.

- **Information gathered from customers** using payment deferrals that can be used in conjunction with other collated data (e.g., employment status or industry sector of the borrower). It notes this information should be subject to a sense check (e.g., unemployment statistics, sector news and world-wide jurisdictions). However, it also recognises this element of the framework will be a specific operational decision of the bank, considering the large volume of customers involved. It is noted that there is no expectations that borrower-specific information will be gathered before or at the time a deferral is made available

- **Application of expert judgment**, which includes, where individual information is not available, a segmentation approach for groups of borrowers, as well as statistical analysis based on representative samples for areas with data gaps. The results of the analysis may confirm that a firm's other SICR criteria are working effectively, or it may lead to the firm making high-level adjustments to the allocation of segments of the portfolio between ECL stages. This might involve moving pools of higher risk loans to stage two or keeping pools of lower risk loans in stage one. Care will be needed to avoid the risk of double counting.

During the first half of 2020, 30 Customer exposures of the Bank totalling £222.9m within Financing arrangements had seen payment deferrals request approved totalling £6.7m. In addition, 411 customer exposures totalling £252.3m within Finance lease receivables and Operating lease assets had seen payment deferral requests approved totalling £18.4m.

In the second half of 2020 the Bank approved a further 24 customer exposures totalling £180.3m within Financing arrangements where payment deferrals totalled £5.5m. In addition 74 customers with exposures totalling £87.3m within Finance lease receivables and Operating lease assets had payment deferrals totalling £4.5m approved.

ii. Exposure by Statement of Financial Position line

The tables below present the Bank's exposure to credit risk on balance sheet financial instruments as at 31 December 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.

Bank	**2020**	**2019**
	£000	**£000**
Cash and balances with banks	231,486	66,746
Due from financial institutions		
Murabaha	73,170	-
Wakala	266,459	23,508
Due from customers	34,465	14,081
Investment securities	90,835	111,039
Financing arrangements	819,162	847,880
Finance lease receivables	207,307	417,970
Other assets (Foreign exchange forward deals)	2,949	4,933
Total credit exposure	**1,725,833**	**1,486,157**

The Bank had no letters of credit or guarantees outstanding as at 31 December 2020 (2019: 13 letters of credit for £8.45m and 3 guarantees for £1.29m with a total exposure of £10 million). These letters of credit and guarantees mainly related to short dated Trade Finance and Corporate and Asset Finance facilities with a maturity of less than twelve months. BLME was only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. At the end of 2019, BLME expected most guarantees it provided to expire unused. In addition, BLME has a credit exposure to £84m in undrawn commitments (2019: £94m).

iii. Exposure by country of the financed counterparty

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

Bank	**2020**	**2019**
	£000	**£000**
GCC countries		
Kuwait	155,791	90,554
Qatar	5,933	14,655
Saudi Arabia	66,017	87,923
United Arab Emirates	16,624	16,415
EEA countries		
Ireland	752	1,363
United Kingdom	1,400,115	1,223,548
Other countries		
Jersey	28,711	27,418
New Zealand	730	1,434
Switzerland	-	6,475
USA	51,160	16,372
Total credit exposure	**1,725,833**	**1,486,157**

iv. Exposure by economic sector

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

Bank	**2020**	**2019**
	£000	**£000**
Financial services		
GCC financial institutions	182,453	124,696
UK financial institutions	523,013	188,165
Other financial institutions	79,553	42,591
Mining and quarrying	1,652	4,374
Manufacturing	12,234	37,065
Real estate	560,497	470,088
Transportation and storage	31,505	64,895
Government	14,384	45,795
Wholesale / Retail	28,065	129,295
Commodities	-	51,055
Energy	7,587	12,789
Construction	153,328	218,607
Education	-	19,634
Buy to let mortgages	93,871	41,658
Others	37,691	35,450
Total credit exposure	**1,725,833**	**1,486,157**

v. Credit risk quality

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

The table below shows the breakdown of credit quality as at 31 December 2020. Of the total portfolio 17% (31 December 2019: 14%) was directly rated by at least one of the ECAI, with 83% (31 December 2019: 86%) using internal ratings.

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

Bank

At 31 December 2020	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	231,486	-	-	-	-	-	-	231,486
Due from financial institutions	-	-	73,134	266,495	-	-	-	339,629
Due from customers	-	-	-	34,465	-	-	-	34,465
Investment securities								
FVOCI								
Government debt securities	-	-	-	-	-	-	-	-
Other Investment securities	37,540	-	-	318	28,712	-	-	66,570
AC								
Government debt securities	-	-	-	-	-	-	-	-
Other Investment securities	24,265	-	-	-		-	-	24,265
Financing arrangements		-	580,736	158,517	-	41,403	38,506	819,162
Finance lease receivables	-	-	83,641	99,414	22,786	1,466	-	207,307
Other assets (Foreign exchange forward deals)	2,947	-	2	-	-	-	-	2,949
Profit rate swaps	-	-	-	-	-	-	-	-
Total credit exposure	**296,238**	**0**	**737,513**	**559,209**	**51,498**	**42,869**	**38,506**	**1,725,833**

Bank

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	66,746	-	-	-	-	-	-	66,746
Due from financial institutions	-	-	7,727	-	15,781	-	-	23,508
Due from customers	-	-	14,081	-	-	-	-	14,081
Investment securities								
FVOCI								
Government debt securities	11,575	-	-	-	-	-	-	11,575
Other Investment securities	47,456	-	-	328	-	-	-	47,784
AC								
Government debt securities	3,795	-	-	-	-	-	-	3,795
Other Investment securities	20,470	-	-	-	27,415	-	-	47,885
Financing arrangements	47,470	-	461,217	272,214	35,337	16,478	15,164	847,880
Finance lease receivables	-	-	183,945	185,623	47,172	833	397	417,970
Other assets (Foreign exchange forward deals)	4,804	-	129	-	-	-	-	4,933
Profit rate swaps	-	-	-	-	-	-	-	-
Total credit exposure	**202,316**	**0**	**667,099**	**458,165**	**125,705**	**17,311**	**15,561**	**1,486,157**

The Bank's cash balances, amounts due from financial institutions and customers, investment securities and derivative financial instruments were neither past due nor impaired as at 31 December 2020 and 31 December 2019.

Analysis of past due amounts and impairments

Bank	Financing arrangements		Finance Leases	
	2020	2019	2020	2019
	£000	£000	£000	£000
Neither past due nor impaired	751,597	821,478	205,841	416,838
Past due but not impaired	41,403	16,478	1,466	833
Gross exposure associated with impairment provision	38,506	15,164	-	397
Less: allowance for impairments	(12,344)	(5,240)	-	(98)
Total	**819,162**	**847,880**	**207,307**	**417,970**

Past due but not impaired	**£000**	**£000**	**£000**	**£000**
Past due up to 30 days	29,997	7,219	81	743
Past due 30 to 60 days	1,558	-	101	90
Past due 60 to 90 days	9,848	-	273	-
Past due over 90 days		9,259	1,011	-
Total	**41,403**	**16,478**	**1,466**	**833**

The past due but not impaired balances as at 31 December 2020 include £41.4 million (2019: £9.3 million) relating to five real estate transactions (2019: two) where the facility balances are lower than the collateral values. The Bank believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Bank.

An analysis of impairments is provided in Note 15 "Impairment of financial assets".

Forbearance

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

<u>Forbearance classification</u>

Forbearance:

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

A concession refers to either of the following actions:

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

Examples of a concession includes:

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

Modification of a contract that:

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

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

Examples of Forbearance include but are not limited to:

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

<u>Monitoring</u>

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

<u>Forbearance Exit</u>

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

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

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

<u>Forbearance Register</u>

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

Based on the credit exposures existing as at 31 December 2020 there had been nil instances (2019: nil):
- where the Bank waived material financial covenants or agreed to temporary relaxation of payment terms which were subsequently cured;
- where the Bank agreed to provide temporary facilities beyond the terms upon which the facilities were intended to operate; and/or
- where the Bank agreed to extend facilities beyond their contractual term outside of its normal credit criteria.

The carrying value as at 31 December 2020 of exposures relating to forborne counterparties with no specific impairment charge was £Nil million, which represents 0.0% of the Bank's total assets (2019: £28.3 million and 2%). The Stage 1 and 2 ECLs relating to these forborne exposures is £Nil (2019: £31k).

- **Allowance for impairment**

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

vi. Collateral

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

Financial assets or non-financial assets obtained by the Bank by taking possession of collateral held as security against financing arrangements and finance leases and held at the year-end are disclosed within Note 25 Other Assets on page 75.

Bank	2020 On balance sheet exposure	2020 Collateral	2019 On balance sheet exposure	2019 Collateral
	£000	**£000**	**£000**	**£000**
Cash and balances with banks	231,486	-	66,746	-
Due from financial institutions	339,629	260,495	23,508	-
Due from customers	34,465	34,467	14,081	14,081
Investment securities	90,835	-	111,039	-
Financing arrangements	819,162	750,542	847,880	763,685
Finance lease receivables	207,307	198,091	417,970	422,005
Other assets (Foreign exchange forward deals)	2,949	-	4,933	-
Total credit exposure	**1,725,833**	**1,243,595**	**1,486,157**	**1,199,771**

As at 31 December 2020, collateral represented 72% (2019: 81%) of the Bank's total credit exposure.

Plant and equipment	504,276	467,853
Property	737,495	591,791
Raw materials/ finished stock	-	140,127
Cash	1,824	0
Financial guarantees		
Total credit exposure	**1,243,595**	**1,199,771**

In addition, the Bank holds financial guarantees of £60.5 million (2019: £47.9 million) against financing arrangements.

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

As at 31 December 2020, 94% (2019: 90%) of the Bank's property financing exposure had an average financing-to-value ratio equal to or less than 70%.

vii. Offsetting financial assets and liabilities

The offsetting right is a legal right to settle, or otherwise eliminate, all or a portion of an amount due by applying an amount receivable from the same counterparty against it, thus, reducing credit exposure. The tables on the following pages summarise the financial assets and liabilities subject to offsetting as at 31 December 2019. There were no equivalent balances as at 31 December 2020.

Financial assets subject to offsetting:

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

Financial liabilities subject to offsetting:

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

viii. Fair value of financial assets and liabilities

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

Bank	Note	Fair value hierarchy	2020 Carrying value £000	2020 Fair value £000	2019 Carrying value £000	2019 Fair value £000
Cash and balances wih banks		1	231,486	*	66,746	*
Due from financial institutions	i	2	339,629	338,517	23,508	23,455
Due from customers	i	2	34,465	34,311	14,081	14,081
Investment securities	ii, iii	See next table**	90,835	90,835	111,039	111,039
Financing arrangements	iii	3	819,162	814,781	847,880	847,233
Finance lease receivables	iii	3	207,307	206,287	417,970	417,706
Other assets (Foreign exchange forward deals)	iv	2	2,949	2,949	4,933	4,933
Due to financial institutions	iii	3	185,935	185,904	375,565	375,489
Profit rate swaps liability	ii	2	760	760	1,196	1,196
Due to customers	iii	3	1,300,714	1,293,683	917,569	922,196
Other liabilities (Foreign exchange forward deals)	iv	2	-	-	583	583

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

Notes

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

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

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

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

Valuation of Financial Instruments

The Bank's fair value measurement techniques can be found in Note 3 on pages 48 and 49.

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

Bank	2020 Level 1 £000	2020 Level 2 £000	2020 Level 3 £000	2020 Total £000
Investment securities	37,540	-	29,029	66,569
Exchange of deposits (liability)	-	-	-	-
Profit rate swaps (liability)	-	760	-	760
Foreign exchange forward deals (assets)	-	2,949	-	2,949
Foreign exchange forward deals (liabilities)	-	-	-	-
Bank	**2019 Level 1 £000**	**2019 Level 2 £000**	**2019 Level 3 £000**	**2019 Total £000**
Investment securities	59,031	-	27,747	86,778
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 year, there were no transfers between Level 1 and Level 2 fair value measurements (2019: none), and no transfers into or out of Level 3 fair value measurements (2019: none). Transfers between levels occur at the date of the event or change in circumstances that caused the transfer.

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

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

Bank Investment securities	2020 £000	2019 £000
Balance at 1 January	27,747	31,512
Total gains / (losses) recognised in:		
- profit or loss*	741	(765)
- other comprehensive income**	-	-
Purchases	541	-
Sales***		(3,000)
Balance at 31 December	**29,029**	**27,747**

** this amount is included in "net investments losses" in the income statement*
*** this amount is included in "net gain/(losses) on financial assets measured at FVOCI" in the statement of comprehensive income*
****sales relate to the partial sell down of the Bank's investment in AQ1 Limited during the year by 12%. This is in line with the related investment memorandum.*

The reconciliation for investment securities is included in Note 19 on page 70.

ix. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2020.

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

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

Bank	2019 Fair value through profit and loss	2019 Fair value through other comprehensive income	2019 Financial assets at amortised cost	2019 Total
Assets	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	-	-	66,746	66,746
Due from financial institutions	-	-	23,508	23,508
Due from customers	-	-	14,081	14,081
Investment securities:				
Sukuk	-	59,024	24,254	83,278
Equity	-	328	-	328
Investment in subsidiaries	-	-	27,433	27,433
Financing arrangements	-	-	847,880	847,880
Finance lease receivables	-	-	417,970	417,970
Other assets (foreign exchange forward deals)	4,933	-	-	4,933
Total financial assets	**4,933**	**59,352**	**1,421,872**	**1,486,157**

	Fair value through profit and loss	Fair value through other comprehensive income	Financial liabilities at amortised cost	2019 Total
Liabilities	**£000**	**£000**	**£000**	**£000**
Due to financial institutions	34,957	-	340,608	375,565
Due to customers	-	-	917,569	917,569
Profit rate swaps	1,196	-	-	1,196
Other liabilities (Foreign exchange forward deals)	583	-	-	583
Total financial liabilities	**36,736**	**-**	**1,258,177**	**1,294,913**

b. Liquidity risk

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

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

Over and above regulatory liquidity, ALCO establishes its own liquidity performance measures and PRA guidelines. These include a series of early warning triggers and management data on liability stability (i.e. the likelihood of deposits being withdrawn), liability diversification, reserve liquidity and projections of the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). As at 31 December 2020, the Bank held £1,487 million (2019: £1,235 million) of term deposits and held £nil (2019: £nil) of secondary market assets.

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

Residual contractual maturities of financial assets

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

Residual contractual maturities of financial assets

Bank	**Less than 1 month £000**	**1-3 months £000**	**3 - 12 months £000**	**1-5 years £000**	**5+ years £000**	**2019 Total £000**
Cash and balances with banks	66,746	-	-	-	-	66,746
Due from financial institutions	-	-	13,898	10,029	-	23,927
Due from Customers	14,083	-	-	-	-	14,083
Investment securities	27,758	21,376	648	64,317	-	114,099
Financing arrangements	417,733	294,427	44,728	101,183	9,470	867,541
Finance lease receivables	13,316	26,800	123,904	273,504	9,761	447,285
Other assets (Foreign exchange forward deals)	47	4,715	171	-	-	4,933
	539,683	**347,318**	**183,349**	**449,033**	**19,231**	**1,538,614**

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

None of the Bank’s assets have been pledged as collateral apart from cash collateral deposits of £0.03 million (2019: £0.04 million) pledged as security against rental payments on the Bank’s premises and £Nil (31 December 2019: £2.8 million) of cash held as deposits with financial institutions related to foreign exchange forward deals and profit rate swaps.

Residual contractual maturities of financial liabilities

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

Bank	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £	2019 Total £000
Due to financial institutions	230,031	95,107	51,015	-	-	376,153
Due to customers	54,300	-	538,457	347,173	6,388	946,318
Profit rate swaps	-	(44)	-	1,240	-	1,196
Other liabilities (Foreign exchange forward deals)	176	401	6	-	-	583
	284,507	**95,464**	**589,478**	**348,413**	**6,388**	**1,324,250**

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

Whilst BLME has sufficient assets in the short dated time buckets to cover its short dated liabilities as they become due, it also holds significant High Quality Liquid Assets ("HQLA") – in line with the Prudential Regulation Authority BIPRU rules – of £61.8 million as at 31 December 2020 (2019: £83.3 million). These HQLA holdings have been greater than the regulatory liquidity requirement throughout the year (unaudited).

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

Bank	2020 £000	2019 £000
Cash and cash equivalents	231,486	66,746
Highly liquid securities (including HQLA)	61,806	83,292
Total	**293,292**	**150,038**

As at 31 December 2020, there are no limitations on the use of the liquidity reserve held by the Bank (2019: none).

c. Market risk

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

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

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

i. Profit rate risk

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

As at 31 December 2020, the Bank's net profit rate sensitivity to profit and loss on its fixed and variable rate assets and liabilities, and its capital and reserves, as measured by the discounted value of a one basis point change in market rates, was £3,945 (2019: £3,365). The impact of an increase / decrease of 100 basis points in profit rates at the statement of financial position date, subject to a minimum rate of 0%, would be as follows:

	At 31 December 2020		**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 in profit & loss	-	858	-	1,009
Decrease in profit & loss	674	-	900	-
Increase in off-balance sheet	311	-	2,683	-
Decrease in off-balance sheet	-	318	-	2,787

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

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

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

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

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

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

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

ii. Foreign exchange risk

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

	At 31 December 2020 £000	At 31 December 2019 £000
Resultant foreign exchange revaluation (loss) / gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	27	15
	Year to 31 December 2020 £000	**Year to 31 December 2019 £000**
Net foreign exchange (loss) / gain for the year	(332)	394

iii. Equity price risk

Equity prices are monitored by the Bank'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 Bank.

d. Operational risk

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

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

Senior Management ensures the identification and assessment of operational risk through a Risk and Control Self-Assessment ("RCSA") process. 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 Bank 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. In addition, a comprehensive Cyber awareness program has been put in place for staff which includes awareness sessions, training, quarterly (or more frequent) phishing simulation exercises and regular communication to the wider Bank. IT controls have also been strengthened as 2-factor authentication is enforced for all staff attempting to remotely access the network.

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 Bank has remained stable during the pandemic and the Bank has demonstrated good operational resilience.

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

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

	2020	2019
Audited	**£000**	**£000**
Tier 1 Capital - CET1		
Ordinary share capital	48,933	48,933
Share premium	140,623	140,623
Capital contribution	3,527	3,527
Fair value reserve	101	230
Retained earnings	41,077	40,165
Total Tier 1 capital	**234,261**	**233,478**
Unaudited		
Deductions from Tier 1 capital		
Intangible assets	-	(56)
Others	-	(1,604)
Total Tier 1 capital after deductions	**234,261**	**231,818**
Tier 2 capital	-	-
Total Tier 2 capital	**-**	**-**
Total Tier 1 and Tier 2 capital	**234,261**	**231,818**
Deductions from Tier 1 and Tier 2 capital:	NIL	NIL
Total regulatory capital	**234,261**	**231,818**

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

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

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

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

	2020	2019
	£000	**£000**
	(unaudited)	**(unaudited)**
Pillar 1 capital requirements		
Credit risk	95,903	111,291
Market risk - foreign currency PRR	349	196
Counterparty risk capital component	67	103
Operational risk	5,886	5,711
Total Pillar 1 capital requirement	**102,205**	**117,301**
Total regulatory capital in place	**234,261**	**231,818**

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

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

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

The Bank will continue to prudently employ capital and maintain appropriate capital adequacy, liquidity and leverage ratios. BLME reported to the PRA ratios above the minimum requirement throughout 2020. The capital planning process continues to incorporate these measures.

GLOSSARY OF ABBREVIATIONS

AED	Arab Emirate Dirham
AFS	Available-for-Sale
AGM	Annual General Meeting
ALCO	Assets & Liabilities Committee
AML	Anti-Money Laundering
ASOP	Approved Share Option Plan
Basel	Basel Accord or Basel Standards
BCC	Board Credit Committee
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 & COO	Chief Financial Officer & Chief Operating Officer
CGs	Commercial Guidelines
CIC	Change Implementation Committee
CRD IV	Capital Requirements Directive IV
CRM	Customer Relationship Management
CRO	Chief Risk Officer
CSR	Corporate Social Responsibility
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
NPE	Non Performing Exposure
OCI	Other Comprehensive Income
ORC	Operational Risk Committee
PC	Product Committee
PDA	Premier Deposit Account
PIFSS	Public Institution for Social Security
PRA	Prudential Regulation Authority
PROUD	*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
SICR	Significant Increase in Credit Risk

SID	Senior Independent Director
SIF	Special Investment Fund
SMEs	Small and Medium-sized Enterprises
SM&CR	Senior Managers and Certification Regime
SSB	Sharia'a Supervisory Board
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
USOP	Unapproved Share Option Plan
WAF	Walbrook Asset Finance Limited
Walbrook	Walbrook Asset Finance Limited
WMIC	Wealth Management Investment Committee

GLOSSARY OF ISLAMIC FINANCE TERMINOLOGY

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

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