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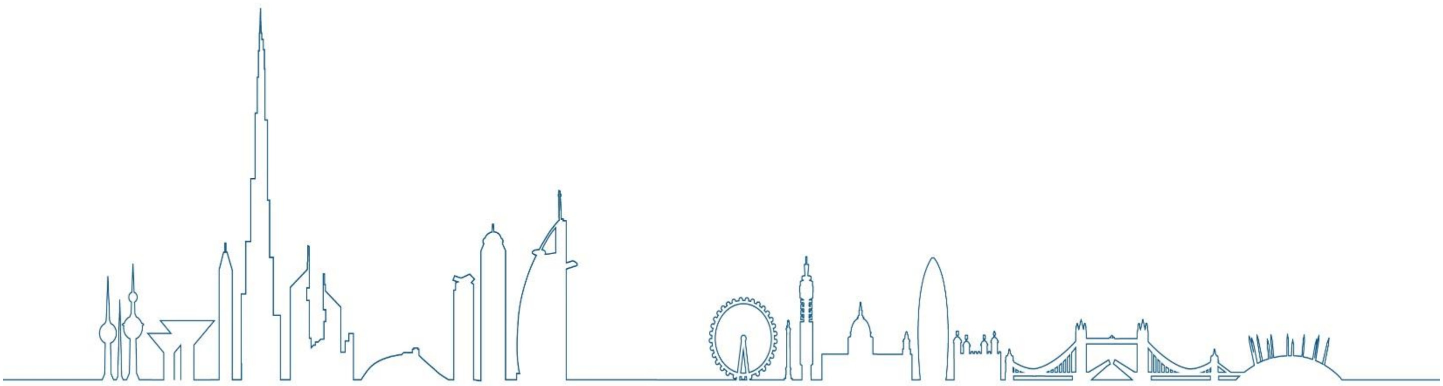
Bank of London & The Middle East

BLME Holdings plc
Annual Report and Financial Statements
For the year ended 31 December 2020

Registered number 08503102



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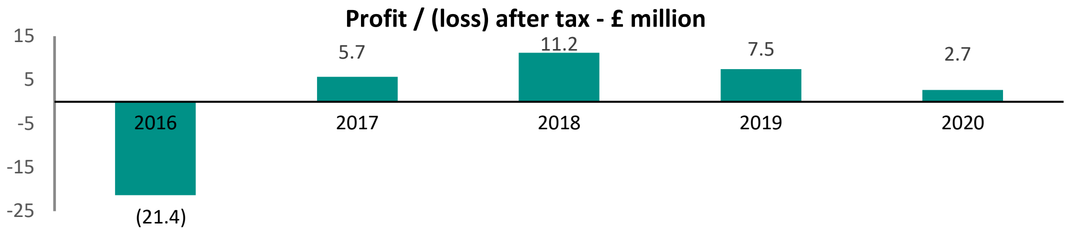
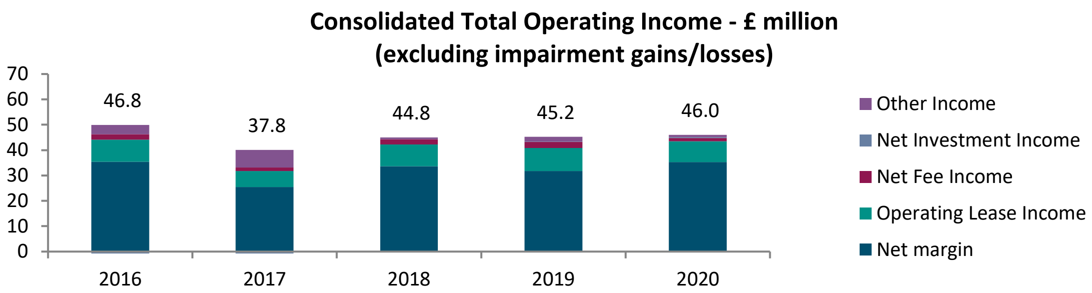
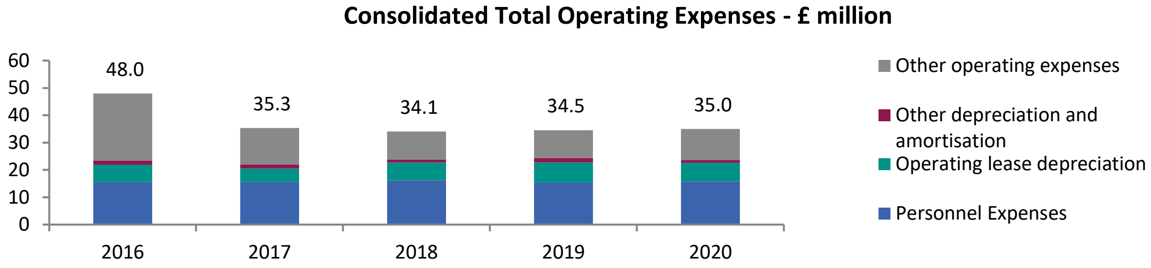
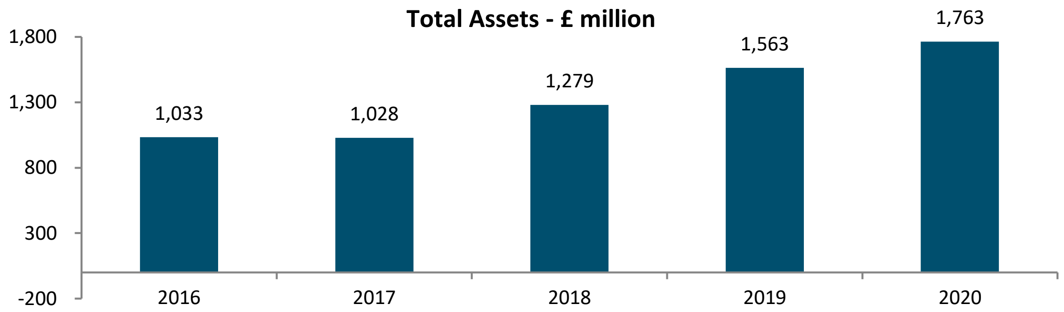
2020 GROUP HIGHLIGHTS FOR BLME HOLDINGS PLC

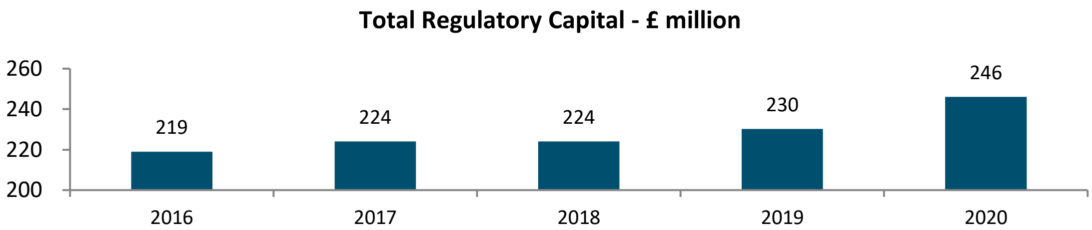
The Group's profit after tax for the year ended 31 December 2020 was £2.7 million (2019: £7.5 million).











CHAIRMAN'S STATEMENT

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

Dear Shareholders

I am pleased to report a year of resilient performance for the Group with 2020 profit after tax of £2.7 million despite challenging global economic conditions as a result of the COVID-19 pandemic.

On 19 February 2020 Boubyan Bank completed its acquisition of BLME Holdings plc and as of 31 December 2020 holds 71.08% of the shares in the Company, following the recommended cash offer. The acquisition was made on the basis of the strong existing ties between the two organisations and the overall strategic fit. This alignment, and the synergies it offers, are coming to fruition. Progress is being made on opening access to Boubyan's client base and franchise in the Middle East, allowing BLME products and services to be offered. The Bank is also drawing on Boubyan's retail banking expertise to enhance the customer experience and broaden its product and service range.

To simplify the structure of the Bank and align to our Group strategy we undertook an orderly exit of our Commodity Trade Finance business. This will allow greater emphasis on our core businesses allowing financial risk to be more tightly managed. In 2019 the Group established Walbrook Asset Finance Limited ("Walbrook") as a subsidiary. This has been successful in allowing Walbrook to focus on opportunities in the asset finance market and provide better service as a dedicated entity and team. In 2020 Walbrook took steps towards operating independently from the Bank across a large number of its business functions and as a consequence expects soon to be in the position where it can start to raise its own funding through different channels.

On 1 November 2020, Andrew Ball succeeded Giles Cunningham as the Group's Chief Executive Officer following a hand over and transition period. Andrew was previously the Company's Head of Business and has over 15 years of experience working with clients in the GCC. He is well placed to take the Group forward towards the goal of being the leading UK provider of Sharia'a-compliant wealth solutions to customers in the GCC.

The period has seen further change within the Group's Board. In June Michael Williams was appointed as Deputy Chairman, a position in which the Group can make full use of his experience and knowledge of BLME. In addition, Abdul-Salam Mohammed Al-Saleh, currently Deputy Chief Executive Officer at Boubyan Bank, joined the Board as a Non-Executive Director. Maged Fanous was appointed as a Non-Executive Director in March. Maged serves as Boubyan Bank's Chief Risk Officer and brings 30 years of experience in this field to the Group.

COVID-19 will continue to present the global economy with challenges and will impact businesses and individuals across the UK and GCC. The Group will not be immune from this. However, as these effects unfold over the next few months, we will continue to manage the Group prudently and, where possible, take action to reduce any negative impact on our business and our people.

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

Adel Abdul Wahab Al-Majed
Chairman
27 April 2021

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

CHIEF EXECUTIVE OFFICER'S STATEMENT

2020 was a year of challenge for the Group, but one in which I am pleased to say we have shown great resilience. Despite the backdrop of a global pandemic, the operation of the Bank has been smooth and effective throughout, allowing for the continued development and delivery of our strategy to focus on wealth management and real estate.

BLME continues to set high standards and to provide market leading products for its clients. This is recognised by the industry, with Moneyfacts awarding us the accolade of Best Fixed Account Provider in 2020 and World Finance awarding us Best Islamic Bank in the UK in the 2020 World Finance Islamic Finance Awards.

Following the acquisition of BLME Holdings plc by Boubyan Bank we are increasingly able to explore opportunities to develop new products and services to our target clients in the Middle East. We expect a significant uplift in our capabilities leveraging the strength and experience of our owners franchise across Wealth Managements and Digital channels.

On a personal note, I am delighted to have been recently appointed to the position of the Group's Chief Executive Officer. I am excited by the opportunity to continue my work with the Group's talented Board, Executive Committee, and Senior Leaders to drive the success of the Company.

Financial Performance

The BLME Group reports a profit after tax of £2.7m, compared with a £7.5m profit after tax for 2019. Credit impairment losses for 2020 were £8.6m compared with £1.8m in 2019. For the fourth consecutive year Net Operating Income excluding credit impairment losses increased, to £46.0 million for 2020 from £45.2 million in 2019. The Group's Balance Sheet has grown in 2020 by 13% to £1.76 billion from £1.56 billion in 2019.

The reduction in profitability is a result of the increase in credit impairment losses. In addition to an increase in Stage 3 specific provisions, this reflects an increase in IFRS 9 stage 1 and stage 2 expected credit loss provisions directly related to updated economic assumptions used in the IFRS 9 model to reflect the COVID-19 crisis. The underlying operational results remain resilient and demonstrate our commitment to growing a sustainable, profitable Group.

The Real Estate financing business unit continues to deliver good performance. Recent deals include the origination of a £24.7 million five-year debt facility to Shelborn Asset Management, the majority owners of Newcastle's Quorum Park. Whilst the outlook remains challenging in the context of Brexit and the Covid pandemic, we continue to see opportunity in the UK Real Estate market.

We are well progressed with the process of migrating the leasing assets from the Bank into Walbrook Asset Finance Limited, 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.

COVID-19

In March 2020 the world was just beginning to see COVID-19 spread to pandemic levels. The Group mobilised decisively to follow Government guidance and successfully implemented remote working as part of its overall business continuity planning - protecting staff and increasing the resilience of the Company. The response from all the team throughout has been impressive. Not only did our business contingency systems and processes work quickly and well, but we came together to support our clients and each other at a time of considerable uncertainty. Clients have continued to receive excellent service with the impact of the pandemic on service provision being extremely limited. This is a performance of which BLME can be proud, with excellent commitment and collaboration demonstrated across the Group.

BLME's employees continue to work from their homes, adhering to the guidelines whilst ensuring that the needs of our clients and the safety of our people remain paramount in our planning. 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. Despite the continuing phases of tiers and lockdowns, morale remains high throughout the Company. We remain focussed on the welfare of our people, mindful of the stresses and strains home working can bring. We provide regular communication and engagement with all team members, keeping them included and informed, and taking concrete steps to ensure their continued well-being.

BLME continues to recognise and step up its social responsibilities at this challenging time, extending our charitable giving to support those areas of society impacted by the effects of COVID-19. In 2020 we focused our charitable giving to NHS hospitals in recognition of their work and based on nominations from staff. Given the unprecedented economic and social ramifications of the crisis, we have also focused on supporting local Food Banks across the UK. Most recently we have partnered with Future Frontiers, which works with young people from disadvantaged backgrounds. Our employees are now participating in the charity's mentor programme.

The Group has not received any support from the Government, has not participated in any of the Government subsidy or loan schemes, has not "furloughed" any staff and has successfully redeployed employees across the Group to effectively resource and retain our people.

The Acquisition of BLME Holdings plc by Boubyan
A strategic review is currently underway to explore the opportunities available to the newly acquired Group and to set out a strategy that allows us to maximise this opportunity in way that aligns with its established principles and values. The review will conclude this year.

Closure of Commodity Trade Finance
We made the strategic decision to implement an orderly withdrawal from the Commodity Trade Finance market during 2020. Since its launch in 2014 it has proved to be a successful and profitable business, but, as BLME has become a more focused and streamlined bank, it is no longer core to the Group's future strategic direction. This part of the business is now fully closed and client arrangements have concluded.

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

In the face of the pandemic the Group has also focussed on operational risk and we shall continue to do so. Included in this is a continued diligent approach to cyber risk, a risk that has gained more prominence as criminal elements seek to exploit the pandemic, particularly among the public.

Whilst we had no material operational events outside of those in response to COVID-19, we continue to carefully manage our risks and frequently test our defences and business recovery plans. We also 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. We believe the care we have extended to our employees has also positively contributed to our risk management.

Outlook
The economic effects of the pandemic are yet to unfold. However, Government support for business and workers in the UK and the rollout of a vaccine provide us with reasons for optimism in the UK and in the Middle East. Furthermore, although BLME does not have business interests in the European Union (EU), the UK now faces the implications of Brexit. Despite a trade deal having been agreed, for the moment there remains uncertainty about the relationship between the UK and EU with regards to the regulation of financial services.

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

Overall, the Group continues to focus on the development of the Wealth Management business and will continue to seek opportunities to grow its customer base through access to both Boubyan's client base and its expertise in technology and the use of digital channels. Despite the uncertainty around COVID-19 we also see opportunity in Real Estate and, encouraged by deal flow in this area, are optimistic for both Real Estate Finance and Real Estate Investments where our reputation and experience is developing well.

I am very proud of our staff and the performance of the Group in 2020 amid some of the most challenging circumstances. Their resilience and hard work gives me great hope for the prospects of the Bank. I would like to thank them, our Board, and our clients for their support and I look forward to a 2021 in which we will meet its challenges and opportunities together.

Andrew Ball
Chief Executive Officer
27 April 2021

THE BOARD AND EXECUTIVE MANAGEMENT

Adel Abdul Wahab Al-Majed – Chairman

Adel is the Non-executive Chairman of the Board of BLME Holdings plc. He has over 30 years of experience in banking. He is currently Chief Executive Officer and Vice-Chairman of the Company's owner group, Boubyan Bank K.S.C.P, having previously held the position of Chairman. From 1980 to 2009 Adel worked for National Bank of Kuwait where he held a number of positions including Deputy Chief Executive Officer and General Manager. Adel is currently the Chairman of Kuwait Banking Association.

Executive Directors

Andrew Ball – Chief Executive Officer

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

Chris Power – Chief Financial & Chief Operating Officer

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

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

Non-executive Directors

Michael Williams (Deputy Chairman and Senior Independent Director)

As well as being Deputy Chairman of the Board, Michael Williams is also the Senior Independent Director of BLME Holdings plc and the Chairman of Walbrook Asset Finance Limited. As Senior Independent Director Michael chaired the Independent Board of Directors during the period leading up to the recent successful takeover offer from Boubyan Bank. He joined the Group in 2012 and held positions including Chairman of the Nominations Committee, the Remuneration

Committee and of the Risk Committee. He was also appointed Chief Executive Officer on an interim basis between May 2015 and March 2016. Michael was appointed Chairman of Walbrook Asset Finance Limited in February 2021. He is a qualified banker with an extensive background in international finance. He has held a number of senior and board level positions in the UK and in the Middle East. Prior to joining the Board of the Company, he was Chief Executive Officer of the International Bank of Qatar in Doha before which he was in Dubai as the Chief Executive Officer of the National Bank of Fujairah, having previously been the Managing Director of Nomura Bank International Plc for 6 years. Michael started his career with Barclays Bank Group working for them for 25 years holding a number of senior positions including Managing Director of Barclays Global Services and Corporate Banking Director at Barclays Bank PLC.

David Williams (Independent)

David Williams joined the Group in October 2015 as an Independent Non-Executive Director and Chairman of the Risk Committee. He is a senior credit risk professional with 29 years of experience in international banking operating at executive and board level in the Middle East, Europe and Asia. Over a career with Barclays PLC his executive roles included Wholesale Credit Risk Director of the Barclays Group and Chief Credit Officer at Barclays Capital. David was a Non-executive Board Director of LCH Clearnet Group Ltd. David is a former British Army officer and is currently Chairman of veterans charity Haig Housing Trust and Deputy Chairman of Care for Veterans.

Jabra Ghandour

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

Calum Thomson (Independent)

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

Joanne Hindle (Independent)

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

Bader Abdullah Al Kandari

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

Maged Fanous

Maged Fanous joined the Board of BLME Holdings in March 2020. He is a member of the Audit Committee and the Risk Committee. Maged is also a member of the Board of Directors of Walbrook Asset Finance Limited. Maged is the Group Chief Risk Officer of Boubyan Bank. He has over 30 years' experience in risk management, treasury and financial regulations working with a number of central banks and financial institutions in the UK, Asia and the Middle East. Before joining Boubyan Group, he was the lead partner of the Risk and Regulatory practices of Ernst & Young in the UK and MENA. Prior to this, he was the lead partner of the Finance and Performance Managed (FPM) of Accenture's UK/Ireland.

Abdul-Salam Mohammed Al Saleh

Abdul-Salam joined the Board of BLME Holdings plc as a Non-executive Director in June 2020. He is Deputy Chief Executive Officer of Boubyan Bank which he joined in October 2012, Chairman at Boubyan Capital Investment Company and a Board Member of Boubyan Takaful Insurance Company. Abdul-Salam has more than 32 years of banking experience. He worked for 18 years at National Bank of Kuwait, where he gained experience in Financial Control and Corporate Banking; and his last position was the head of Domestic Corporate Banking. Prior to joining Boubyan Bank, he worked for over 7 years for National Bank of Abu Dhabi as the Regional Manager of its branch in Kuwait. Abdul-Salam received his bachelor's degree in Finance from Kuwait University, and has attended various executive management development programs over the course of his career.

GROUP STRATEGIC REPORT

THE BUSINESS MODEL

BLME Holdings plc (the "Company") operates as the holding company of The Bank of London and The Middle East plc ("BLME" or "the Bank") which is one of the largest Islamic banks in Europe. BLME aims to become the leading UK provider of Wealth Management solutions to GCC clients, complemented by 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 the Company to 71.08%. Boubyan has been the Company's largest shareholder since the Bank launched in 2006 with active representation on the Boards of BLME and the Company. The Group is working closely with Boubyan on an updated strategic plan to exploit the opportunities and synergies this change in ownership brings. The Group will seek to benefit from Boubyan's expertise in technology and systems, as well as enhanced client collaboration to bring our products and services to a wider audience across their franchise.

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

Since the UK's first lockdown in March 2020, the Group's teams have been working remotely as part of our overall business continuity plan and will continue to do this in line with UK Government guidance and in consultation with our employees. This approach safeguards our employees and their families, as well as making the Group's day-to-day operation more resilient. The Group has not 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 BLME Group 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 Group's complementary businesses of Private Banking and Real Estate. It provides deposit products, banking services, mortgages, residential and investment property finance targeted towards GCC-based High Net Worth individuals. Wealth Management is the main part of the Group's business that 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 Group'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 typically range in size from £25,000 to £20 million with our credit approval process centralised in the London office.

In 2019 we 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 from the Bank 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 and Group's capital, liquidity and funding, ensuring that the Group operates within its market and liquidity risk appetites. To this end Treasury ensures funding sources are diversified and at cost-effective rates.

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.

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

FINANCIAL RESULTS

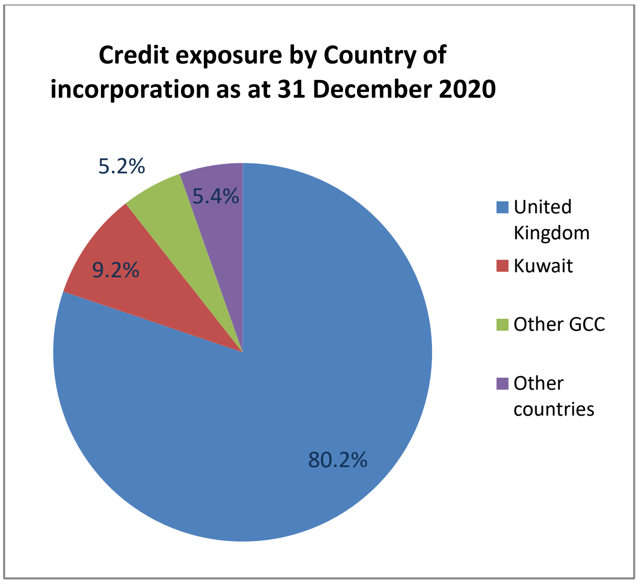
The financial statements for the year ended 31 December 2020 are shown on pages 45 to 54. The profit after tax for the year amounted to £2.7 million (2019: £7.5 million).

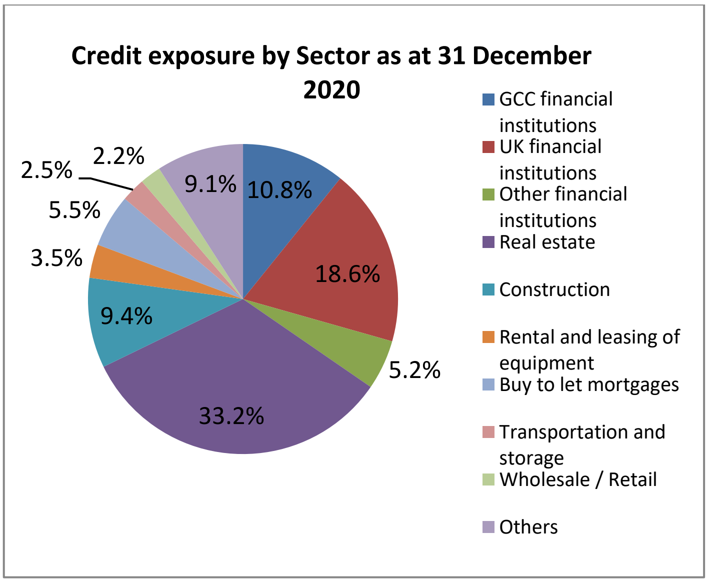
Below are the highlights of the financial performance and the position as at 31 December 2020.

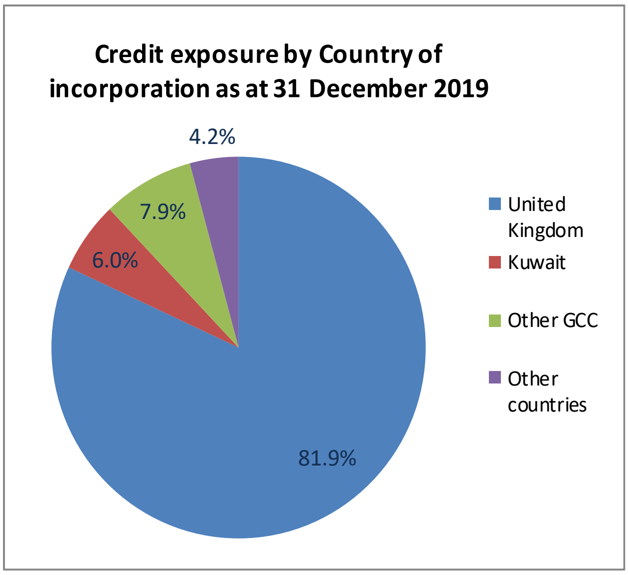
Key performance indicators - £ million	**2020**	**2019**
Profit after tax	2.7	7.5
Consolidated total operating income (excluding credit impairment losses)	46.0	45.2
Consolidated total operating expenses	35.0	34.5
Credit impairment losses	8.6	1.8
Total assets	1,763	1,563
Total regulatory capital	246	230

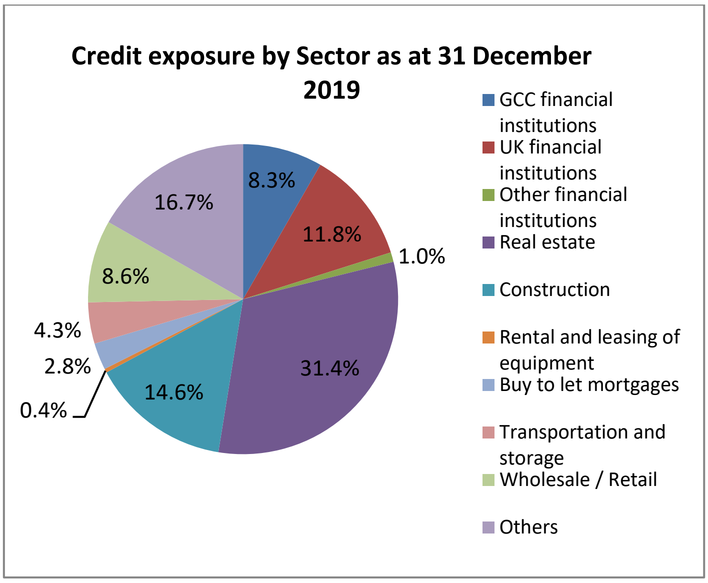
Other performance measures	**2020**	**2019**
Pre-tax return on equity	0.9%	3.6%
Cost income ratio	71.8%	71.8%
Net fee income / total income	3.4%	5.5%
Non-performing Financing Assets to overall Financial Assets	3.0%	1.5%
Number of depositors	19,935	14,135

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









GROUP NON-FINANCIAL INFORMATION STATEMENT

Our Stakeholders

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

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

Shareholders

We appreciate the support and patience our Shareholders have shown over the years and we understand how important it is to communicate openly and engage with them. On 5 December 2019, the Board of Boubyan and the Company's Independent Directors reached agreement on the terms of a recommended all cash offer by Boubyan, for the entire issued and to be issued ordinary share capital of the Company, other than the Company's shares already held by Boubyan or its associates and treasury shares (collectively referred to as "the Offer"). On 27 January 2020, Boubyan Bank announced that it had reduced the acceptance condition in the Offer Document from 75 per cent to more than 50 per cent and that the Offer had been declared unconditional in all respects and that the Offer would close on 19 February 2020. As at 31 December 2020, Boubyan Bank owns 71.08% of the Group. We remain open to ongoing dialogue with minority shareholders in addition to holding Annual General Meetings and sharing our annual and interim reports.

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

Funding

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

Employees

Our employees are central to our success, and we believe that if we make BLME a great place to work they will feel valued and perform to their highest potential. The Group has unreservedly taken significant steps to ensure our employees feel that they not only work in an open, straightforward and collaborative environment, but that their health and well-being is valued and supported. We 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 Group's teams have been working remotely as part of our overall business continuity plan and will continue to do this in line with UK Government guidance. This has safeguarded employees and their families, as well as making the Group'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. Group 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 Group provides annual health assessments, gym memberships and private medical insurance. During late 2019 and early 2020, the Group 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 Group. 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 26% of the Group 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. 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 Group succeeds, and we will continue to build on these successes to maintain a culture and environment that help make us an employer of choice.

<u>Communities and the Environment</u>

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 Group 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 Group's values and Sharia'a compliance. In our employee engagement survey last year over 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 Group's engagement with its stakeholders as described above plays an important role in guiding strategy-related and general decision-making by the Board.

Conduct Risk

Conduct Risk is a significant risk for all organisations and one which the Group takes very seriously. All Group staff receive annual training on conduct alongside regular communication and internal blogs about building a culture based on our values and good conduct. The Group has appointed Conduct Champions from the front-office business areas who are responsible for overseeing the Group's approach to conduct and communicating what good conduct looks like and highlighting conduct risk.

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

Financial Crime and Anti-Corruption and Anti-Bribery

The Group has heavily invested in building a robust financial crime risk management function with supporting policies and processes alongside regular financial crime training and communications. All Group staff including Board members receive annual training on anti-corruption and anti-bribery matters. The Group's core financial crime policies are the Anti-Bribery and Corruption Policy, the Fraud Prevention Policy and Anti-Money Laundering, Counter Terrorism Financing and Sanctions Policy.

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

PRINCIPAL RISKS AND UNCERTAINTIES

The Group's principal risks and uncertainties have been highlighted and discussed in detail in Note 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 the Group 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 Group 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.

We have a strong team that is fully aligned with our goals and who drive the positive culture and success of the Group. I want to thank them for their amazing commitment and resilience in 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 ongoing support. I also look forward to building on our success with the support of Boubyan Bank.

On behalf of the Board

Andrew Ball
Chief Executive Officer
27 April 2021

DIRECTORS' REPORT

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

Principal activities

BLME Holdings plc ("the Company") was incorporated in the United Kingdom on 24 April 2013 and its principal activity is to act as a holding company for Bank of London and The Middle East plc ("the Bank" or "BLME") and its subsidiaries including Walbrook Asset Finance Limited ("Walbrook"). The insertion of the Company as a holding company of the Bank was effected pursuant to a Scheme of Arrangement in 2013. The Company and its subsidiaries are collectively referred to as "the Group".

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. The results for the year are discussed further in the Group's strategic report.

Financial results and dividends

The financial statements for the year ended 31 December 2020 are shown on pages 45 to 54. The consolidated Group profit after tax for the year amounted to £2.7 million (2019: £7.5 million). The result for the stand-alone company, BLME Holdings plc, for the year was a loss of £26.6million (2019: £11.3 million profit). The Directors do not recommend the payment of a dividend for the year ended 31 December 2020 (2019: £Nil).

During the year, the Group 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 Notes 34 and 35).

Directors and Directors' interests

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

Name and Board/Committee Chairmanships **(as at 31 December 2020)**	**Date of Appointment**	**Date of Resignation**	**Board Committee Memberships** **(as at 31 December 2020)**
Adel Abdul Wahab Al-Majed *Chairman of the Board*	26 April 2013		
Andrew Ball *Chief Executive Officer*	11 December 2020		Executive
Giles Cunningham *Chief Executive Officer*	17 November 2016	20 0ctober 2020	

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

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.

Pursuant to the provisions of the Company's Articles of Association, any Director who has been appointed by the Board during the financial year, rather than at a general meeting of Shareholders, must stand for election by the Shareholders at the first Annual General Meeting (AGM) following their appointment. Following that AGM the Directors must stand for re-election by the Shareholders at least every three years. With the exception of Andrew Ball, all of the current Directors were re-elected at the AGM either in 2019 or 2020 and will next offer themselves for re-election at the AGM in 2022. Accordingly Andrew Ball will be the only Director standing for re-election at the AGM in 2021.

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

The Directors who held office at 31 December 2020 had the following beneficial interests in the ordinary shares of the Company at the end of the year.

Name	Class of share	Number of shares held at 31 December 2020	Number of shares held at 31 December 2019
Adel Abdul Wahab Al-Majed	Ordinary 25p	1,000,000	1,000,000
Andrew Ball	Ordinary 25p	Nil	Nil
Chris Power	Ordinary 25p	Nil	30,000
Michael Williams	Ordinary 25p	Nil	30,000
David Williams	Ordinary 25p	Nil	30,000
Calum Thomson	Ordinary 25p	Nil	30,000
Jabra Ghandour	Ordinary 25p	Nil	500,000
Joanne Hindle	Ordinary 25p	Nil	Nil
Bader Abdullah Al Kandari	Ordinary 25p	Nil	Nil
Maged Fanous	Ordinary 25p	Nil	Nil
Abdul-Salam Mohammed Al Saleh	Ordinary 25p	Nil	Nil

During the year five Directors, as detailed above, sold their ordinary shares in the Company by accepting the cash offer by Boubyan Bank K.S.C.P. for the Company and two executive Directors exercised share options.

Chairman's other significant commitments

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

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

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

Sharia'a Supervisory Board members

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

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

Financial Risk Management

The Group has exposure to the following risk categories:

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

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

Following the decision by global regulators to phase out IBORs and replace them with alternative reference rates, the Group established a project to manage the transition for those contracts affected by the move. The Group continues to have a Transition from IBOR project in place, headed by the Group'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 Group website, as well as direct contact with affected customers, will continue as the Transition project enters its latter stages.

The Group have already incorporated new alternative rates into our system, 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 Group 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 Group made no political contributions during the year (2019: £nil).

Climate change risk

The Group has made progress during 2020 in commencing its journey towards setting aims, goals and aspirations for Environmental, Societal and Governance (ESG) matters within the Bank and throughout the Group but recognises that there is still work to do. The Group recognises its responsibility to the environment and is cognisant of the UK Government's announced target for net zero greenhouse gas emissions. Furthermore the Group is fully aligned with the PRA's expectations with regard to the approaches that Banks should follow in managing financial risk relating to climate change.

The Group's Chief Risk and Compliance Officer is the Bank's Senior Management Function holder who has the allocated responsibility for ensuring that the Bank's board and executive management understand and proactively manage the impact of climate change as a financial risk on the Bank both now and in the future.

The Bank's Executive Risk Appetite was updated in early 2020 to include that every Credit Application proposal to the Bank's Counterparty Credit Risk Committee ("CCRC") must include an assessment of the impact of Climate Change on the client. The financing of commercial vehicles by the Group's leasing business has been directed more towards electric and hybrid vehicles over the last 18 months.

A Climate Change tracker is presented to the monthly Executive Risk Committee and monthly Executive Committee meetings as well as the quarterly Board Risk Committee meetings. A position paper was presented to the Board Risk Committee in Q3 2020 setting out some further steps to be taken in order to identify, manage and report our exposure to Climate Change across both Transitional Risk and Physical Risk.

Carbon reporting

In terms of the Group's direct business impact on the environment, the main carbon footprint relates to office premises, which are modern and energy efficient, with approximately 90% of staff being based out of our Cannon Place office in central London. The carbon footprint in 2020 from staff travel was negligible as a direct consequence of travel restrictions due to the COVID-19 pandemic. We are cognisant that as a consequence of our employees working remotely during the pandemic, their domestic carbon emissions will have increased.

The Group consumed more than 40,000 kWh of energy during the year and is therefore above the threshold for reporting under the Streamlined Energy and Carbon Reporting (SECR) framework requirements that were introduced by the UK Government for accounting periods beginning on or after 1 April 2019.

The Group actively engages with the managing agents at our Cannon Place premises on a variety of efficiency measures and have an ongoing dialogue with their sustainability team. Recent initiatives included the installation of waterless urinals, the replacement of lobby and lift lighting with LED bulbs and the optimisation of the building management system in relation to chillers and boilers. Cannon Place has a REGO backed electricity contract with E.ON sourced by electricity from renewable sources.

The Group's has chosen an intensity ratio of using tC02e (tonnes of carbon dioxide equivalent) per £ millions of income as being the most relevant carbon emissions intensity metric for its business type.

The Group's carbon emissions for calendar year 2020 was 20.04 tCO2e
The Group's intensity metric for calendar year 2020 was 0.44 tCO2e

Future developments

The business strategy and prospects for future financial years are included in the Group Strategic Report on pages 10 to 16. The material business risks are set out in Note 38 Financial Risk Management from page 112.

Going concern

The Directors have reviewed the business activities and financial position of the Group and have a reasonable expectation that it has adequate resources to continue in operational existence until 30 April 2022. In making this assessment the Directors have considered a wide range of information about the current and future condition of the Group including the strategic direction, activities and risks that affect the financial position. This review included an assessment of the impact of COVID-19 pandemic on the Group's financial, liquidity and capital positions. More information regarding this aspect of the review is outlined in Note 2 c on pages 55 and 56.

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

Disclosure of information to auditor

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

Auditor

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

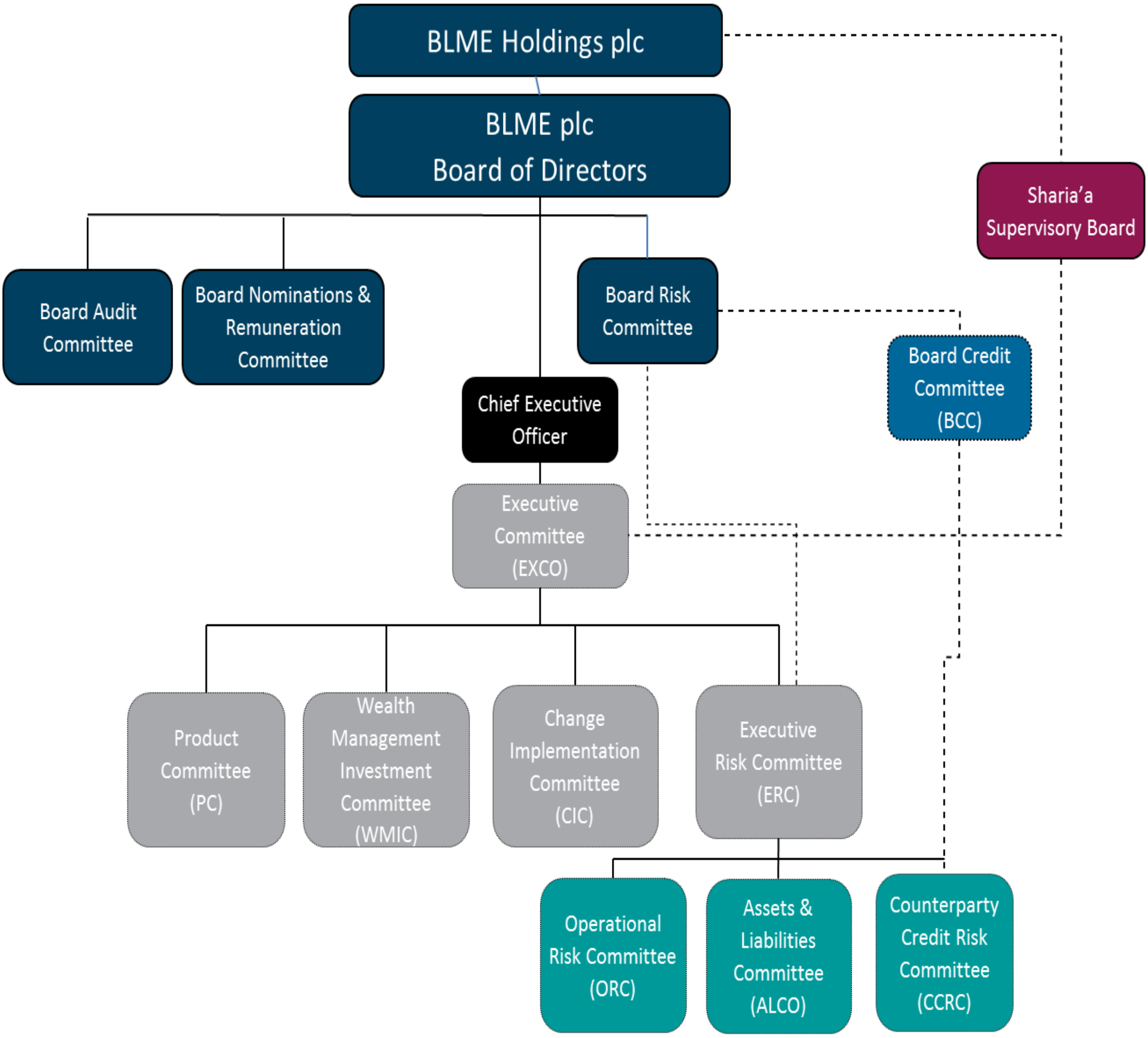
By order of the Board

Peter Bulkeley
Company Secretary
27 April 2021

CORPORATE GOVERNANCE REPORT

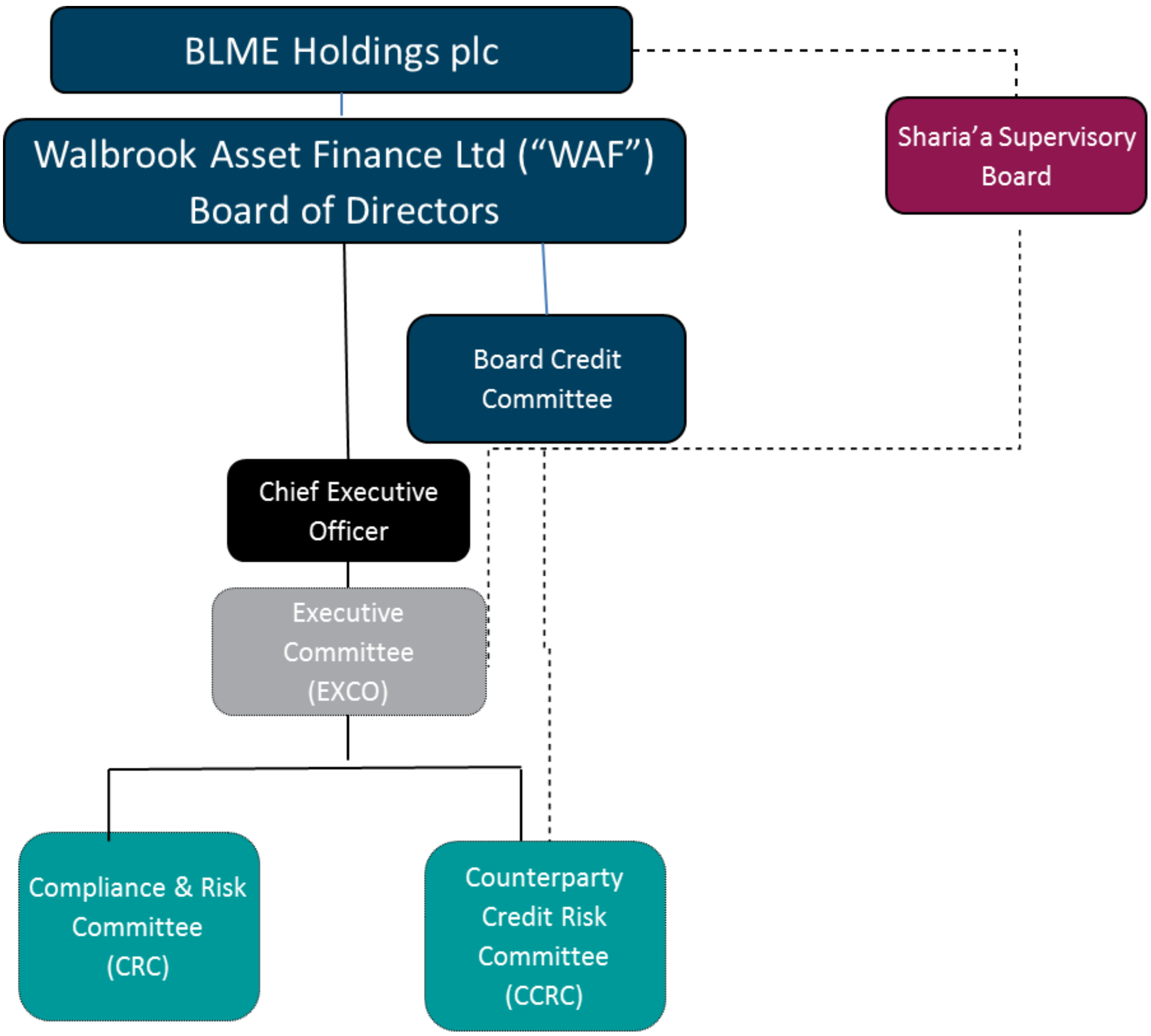
The Board considers that good corporate governance is central to achieving the Group's objectives. To this end, the Board has established a governance framework that sets out procedures, policies and practices that are required by law, regulation and/or best practice guidelines. The framework is also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

Committee structure for governance of the Banking subsidiary



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

Committee structure for governance of the Leasing subsidiary



The Board of Directors

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

As at 31 December 2020 the Board of Directors comprised two Executive Directors:

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

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

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

The appointment of Directors is considered by the Nominations Committee and ratified by the Board. Pursuant to the provisions of the Company's Articles of Association, any Director who has been appointed by the Board during the financial year, rather than at a general meeting of Shareholders, must stand for election by the Shareholders at the first Annual General Meeting following their appointment, and following that meeting, must stand for re-election by the Shareholders at least every three years.

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

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

Board Meetings

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

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

Board Committees

The Board has delegated to the Committees of the Group the responsibility to review and make recommendations to the full Board. The Board Committees operate within clearly defined terms of reference. During the year the Nominations Committee was merged with the Remuneration Committee for efficiency purposes.

Board and Committee meetings attendance record 2020

	Board			Nominations and Remuneration Committee			Audit Committee			Risk Committee		
	Regular meetings attended	Ad hoc meetings attended	Meetings eligible to attend	Regular meetings attended	Ad hoc meetings attended	Meetings eligible to attend	Regular meetings attended	Ad hoc meetings attended	Meetings eligible to attend	Regular meetings attended	Ad hoc meetings attended	Meetings eligible to attend
Executive Directors												
Giles Cunningham	5	4	9									
Andrew Ball	N/A	N/A	Nil									
Christopher Power	6	4	10									
Non-executive Directors												
Adel Abdul Wahab Al-Majed	6	4	11									
Michael Williams	6	4	10	4	9	13				4	7	11
David Williams	6	4	10	4	9	13				4	7	11
Jabra Ghandour	6	5	11				5	2	7			
Calum Thomson	6	5	11	4	9	13	6	2	8	4	7	11
Joanne Hindle	6	5	11	4	9	13	6	2	8	4	7	11
Bader Abdullah Al Kandari	6	4	10				6	2	8	4	6	11
Maged Fanous	4	4	8				4	2	6	3	5	8
Abdul-Salam Mohammed Al Saleh	3	3	6	2	2	5						

Of the eleven board meetings held during the year, six were regular meetings and five were ad hoc meetings. The approval of the 2019 Annual Report and Financial Statements, the approval of the notice of the 2020 AGM and the approval of the 2020 Interim Report were covered in regular scheduled Board meetings. The approval of the 2020 ICAAP, ILAAP and RRP were covered in an ad-hoc Board meeting. Other topics considered at ad-hoc Board meetings included the Group's response to the COVID-19 pandemic, a refresh of the Business Strategy and CEO succession planning. Adel Abdul Wahab Al-Majed and Jabra Ghandour did not attend a meeting in January 2020 of an Independent Committee of the Board that was established to consider the Offer from Boubyan Bank K.S.C.P. The Executive Directors regularly attend the Audit Committee and Risk Committee meetings as guests. The high number of ad-hoc Risk Committee meetings convened during 2020 is a reflection of the Board oversight of the Group's response to the COVID-19 pandemic.

Board Audit Committee

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

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

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

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

More information regarding the Group's Audit Committee is included in the Audit Committee report on page 30.

Board Risk Committee

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

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

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

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

Board Nominations and Remuneration Committee

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

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

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

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

Chairman and Chief Executive

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

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

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

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

Board balance

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

During the year ended 31 December 2020, two of the Directors were Executive Directors and; four were Non-executive Directors who were considered by the Company to be independent.

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

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

The Board of the Company was further enhanced by the appointment of two additional Directors from Boubyan Bank during 2020.

Information and professional development

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

Board effectiveness review

The most recent external effectiveness review of the Board was undertaken in late 2018 by a specialist consultancy firm with no connections with the Group. This independent review consisted of a review of board papers; confidential interviews with all Directors; confidential interviews with selected executives who have significant interaction with the Board and its Committees; and observation of a Committee meeting and a Board meeting. The review outcomes were discussed fully with the Board in 2019 and an action plan was instigated to cover key recommendations. The clearance of the action plan items was overseen by the Nominations Committee during 2019 and completed in 2020.

Financial reporting

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

Internal control

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

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

Relations with Shareholders

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

SHARIA'A SUPERVISORY BOARD REPORT

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

To the Shareholders of BLME Holdings plc

Assalamu Alaikum wa Rahmat Allah wa Barakatuh.

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

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

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

1. The operations, agreements and transactions entered into and conducted by the Group through its offices in England and in the Dubai International Financial Centre during the year 1 January 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 the Group are in compliance with the principles of the Sharia'a.
3. All profit generated by the Group 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 Group's dealings in the disposal of this income in a Sharia'a-compliant manner.

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

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

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

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

Sheikh Dr. Abdulaziz Al-Qassar
Chairman
27 April 2021

AUDIT COMMITTEE REPORT

Statement from the Chairman of the Board Audit Committee

The Audit Committee met eight times during 2020.

In a meeting held on 18 March 2020, the Committee received and reviewed the results report from the external auditors on the annual audit and the Annual Report and Financial Statements for the year ended 31 December 2019 and recommended the approval of these to the Board. In a meeting held on 18 August 2020, the Committee received and reviewed the Interim Report for the six months ended 30 June 2020 and recommended its approval to the Board.

The Group uses an outsourced model for its internal audit needs having appointed BDO LLP as its internal audit partner in March 2019. BDO presented its internal audit plan for the year to 31 December 2020 which was reviewed and approved by the Committee. During the course of 2020, the Committee received and reviewed a total of nine individual reports from BDO.

Audit Committee Members
Calum Thomson – Chair
Bader Abdullah Al Kandari
Joanne Hindle
Jabra Ghandour
Maged Fanous

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

Role of the Audit Committee

The Audit Committee's main functions are:

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

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

Significant Issues & Internal Controls

- The Committee covered various matters facing the Group including the development of a new IFRS 9 ECL model, the impact of the COVID-19 coronavirus pandemic on impairment provisions and the going concern basis of accounting, the audit of lease receivable balances relating to leases purchased on an undisclosed basis, the separation of the Leasing business into Walbrook Asset Finance Limited and cyber security.
- The Committee reviewed and challenged the level of impairments including IFRS 9 Stage 1, 2 and 3 provisions and the IFRS 9 model assumptions throughout the year.
- The Committee had a detailed review of the financial statements including the appropriateness of the accounting policies adopted for the recognition of income, allowance for expected credit losses as required by IFRS 9 and the valuation of the Company's investment in its subsidiaries, and recommended that the financial statements be approved by the Board.

- The Committee reviewed the Internal Auditor's risk assessment, and provided input into the audit plan for 2020 and 2021.
- The Committee reviewed each internal audit review report issued and the key findings were discussed with Internal Audit during Committee meetings. The Committee evaluated the risk and control framework of those areas in light of the reports and recommendation and did not note any critical weaknesses in the Group's internal controls.
- Internal Audit issued nine reports for Committee review in 2020. The reports covered the following activities:
    - Compliance function
    - Settlement of share option awards
    - Retail deposit taking
    - IT Access Management
    - Business Continuity Planning and Disaster Recovery
    - Real Estate Finance Business
    - Credit Risk Management in the Leasing subsidiary
    - Management of pre-sale funds
    - IFRS 9 model validation
- In addition to reviewing individual internal audit review reports, the Committee was kept up to date on the status of action taken by management to address the findings raised by Internal Audit. This included Committee approval of any extensions to original implementation dates (as requested by management).
- The Committee reviewed regular quarterly updates from the Chief Compliance Officer including access to Compliance Monitoring Reports issued during the year

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

The process through which the Committee assesses the auditor's independence and objectivity each year includes the following is described within the Corporate Governance report on page 26.

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

After each audit, the Audit Committee reviews the audit process and considers its effectiveness. The review of the 2020 audit concluded that the audit process had worked well, and the issues raised during the year have been adequately addressed.

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

Calum Thomson
Chairman, Board Audit Committee
27 April 2021

NOMINATIONS AND REMUNERATION REPORT

Statement from the Chairman of the Board Nominations and Remuneration Committee

Committee Members
Joanne Hindle – Chairman
Michael Williams – SID
David Williams – INED
Calum Thomson – INED
Abdul-Salam Al Saleh – NED

Committee Guests
Giles Cunningham/Andrew Ball – CEOs
Chris Power – CFO/COO
Tracey Carlton – Director, HR & Corporate Communications
Gordon Clark – Advisor from Mercer|Kepler

During the year the Nominations Committee was merged with the Remuneration Committee for efficiency purposes. The Committees met on thirteen occasions during 2020. This included two meetings solely as a Nominations Committee, four meetings solely as a Remuneration Committee and seven times either as a joint meeting or as a merged Committee.

Role of the Nominations and Remuneration Committee

The Committee's main remuneration related functions are to:

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

The Committee's main nominations related functions are to:

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

Remuneration policy

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

- Remuneration is set at appropriate levels and is benchmarked against the external market place;
- A total remuneration philosophy is operated wherein the Group seeks to balance short term considerations against alignment of the interest of shareholders;
- Remuneration is designed to promote effective risk management, consistent with the Group's stated risk appetite;
- Any breaches of risk appetite or conduct failures are considered by the Committee when determining both the overall bonus pool and individual executive remuneration;

- Performance measures and targets contain both financial and non-financial metrics and are cascaded from the Group's strategy to the CEO metrics and downwards. They are aligned with shareholder interests and consistent with the business strategy and objectives; and
- Compliance with the regulatory environment is mandatory.

2020 activity

The Committee's activity during the year included:

- Approval of updates to the regulatory Remuneration Policy Statement and categorisation of Material Risk Takers;
- Annual review of staff salaries in conjunction with a salary benchmarking survey and considering total remuneration;
- Review of the benefits package offered to employees which aims to support their physical, mental, family and financial well-being;
- Review of initiatives put in place to support employees well-being during the extended remote working since March 2020 due to the COVID-19 pandemic;
- Review of gender pay gap results (although the Group is not required to formally report on this);
- Review and approval of Executive Directors, Material Risk Takers and other higher-paid staff remuneration;
- Review and approval of the remuneration of the Chairman of the Board;
- Review and approval of the Policy for Risk Adjustment of the Annual Bonus Pool;
- Review and challenge of the treatment of deferred bonus awards;
- Approval of the 2020 bonus pool payable in 2021 including the discretionary bonuses for senior staff and material risk takers with mandatory deferral applied above a threshold of £25,000;
- Review and approval of the cash deferral portions due to be paid out in 2021 (from the 2018 and 2019 bonus year awards);
- Review and approval of the exercise of share option awards for executives, senior and key staff as a result of the recommended cash offer for BLME Holdings plc by Boubyan Bank K.S.C.P. ;
- Review and approval of the appointment of two new Non-executive Directors to the Board; and
- Managed the succession planning of a change in CEO and appointment of the new CEO as an executive Director.

Remuneration report

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

Long-term incentives are designed with external independent expert advice and in keeping with relevant industry best practice. The Group does not apply a formulaic approach to remuneration on the grounds that this could encourage inappropriate risk taking. The pay-out levels depend on the performance of the Group, the relevant business units and the individual; forfeiture and claw-back mechanisms operate where appropriate and consistent with Sharia'a law. During 2020 no share options were awarded and no awards were made under a new retention programme.

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

Joanne Hindle
Chairman, Board Remuneration Committee
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 Group and Parent Company 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 Group and the Company and of the profit or loss of the Group and the Company for that period.

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

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

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

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

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

Opinion

In our opinion:

- BLME Holdings plc's group financial statements and parent company financial statements (the "financial statements") give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;

- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006;

- the parent company financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 as applied in accordance with section 408 of the Companies Act 2006; and

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

We have audited the financial statements of BLME Holdings for the year ended 31 December 2020 which comprise:

Group	Parent Company
Consolidated statement of financial position as at 31 December 2020	Statement of financial position as at 31 December 2020
Consolidated income statement for the year then ended	
Consolidated statement of comprehensive income for the year then ended	
Consolidated statement of changes in equity for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of cash flows for the year then ended	Statement of cash flows for the year then ended
Related notes 1 to 38 to the financial statements, including a summary of significant accounting policies, except for note 38e marked as unaudited	Related notes 1 to 38 to the financial statements including a summary of significant accounting policies, except for note 38e marked as unaudited

The financial reporting framework that has been applied in their preparation is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and, as regards the parent company financial statements, as applied in accordance with section 408 of the Companies Act 2006.

Basis for opinion

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

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

Conclusions relating to going concern

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

- In conjunction with our walkthrough of the Group's financial close process, we confirmed our understanding of management's going concern assessment process and also engaged with management early to ensure all key factors were considered in their assessment;

- We obtained management's going concern assessment, 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 Group 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 Group.

- 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 Group utilising all liquidity or capital during the going concern period, including the plausibility of management actions available to mitigate the impact of the reverse stress test.

- We considered the mitigating factors included in the cash flow forecasts that are within control of the Group. This includes review of the Company's non-operating cash outflows and evaluating the Company's ability to control these outflows as mitigating actions if required. We also verified the credit facility available to the Group from the parent company.

- We reviewed the Group'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 group and parent company 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 group and parent company'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 group's ability to continue as a going concern.

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of group and parent company • Our group audit scope included all operating subsidiaries of BLME Holdings plc, all of which are audited by the engagement team
Key audit matters	• Group - Improper recognition of income • Group - Adequacy and appropriateness of the allowance for expected credit losses (ECL) under IFRS-9, including the risk of credit loss on undisclosed leases • Parent Company – Adequacy and appropriateness of the provision made in relation to the investment in subsidiaries
Materiality	• Overall Group materiality of £2.6million which represents 1% of equity.

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

Tailoring the scope

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

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 (Group) **Income from financing and investing activities: £61.5 million (2019: £58.2 million).** **Income from fees and commissions: £1.8 million (2019 £2.1 million).** *Refer to the Accounting policies (page 58); and Note 5 of the Consolidated Financial Statements (page 78).* 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 (Group) **Financing arrangements** **2020: £856.6 million** *(ECL provision £14.0 million)* **2019: £883.7 million** *(ECL provision £7.0 million)* **Finance lease receivables** **2020: £420.0 million** *(ECL provision £2.3 million)* **2019: £432.6 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 61); and Note 14 of the Consolidated Financial Statements (page 86).* 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 Group'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 Group 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 Group and Bank's portfolio, knowledge of significant macroeconomic events such as COVID-19 and Brexit, and the countries and the industries in which the Group and Bank have exposures. • Performed an overall assessment of the expected credit loss provision levels, by stage, to determine if they were reasonable considering the Group's portfolio, risk profile, credit risk management practices, and the macroeconomic environment. This included benchmarking to peers. • 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 Group. We increased our standard sample size to respond to the higher risk in this area. • For assets in stage 3, tested the individual impairment and the evidence supporting the	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 Group acquired leasing portfolios on an undisclosed basis from intermediaries. The Group 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 Group, 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.	assumptions made by the Group, by forming an independent view of collateral or exit values, cash flow assumptions, and exit strategies in light of COVID-19. 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, we have ensured the collection of the post year-end payments being paid into the bank accounts of the Group. • Understood the process followed by the Group 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.	

Investment in Subsidiaries **Investment in Bank of London and the Middle East plc ("Bank"): £81.9 million (2019 £108.5 million).** **Investment in Walbrook Asset Finance Limited ("WAF"): £11.8 million (2019 £5.1 million).** *Refer to the Accounting policies (page 72); and Note 19 of the Consolidated Financial Statements (page 97).* The valuation of investment in Bank of London and the Middle East plc ("Bank") and Walbrook Asset Finance Limited ("WAF)") is an area of judgement and therefore there is a risk that the carrying value of the investments are impaired and are not reflected accurately in the accounts of the parent company. The risk level has increased from last year as the Parent Company has increased its investment in another subsidiary WAF.	We took the following approach in response to the risk: • Confirmed our understanding of the impairment assessment process and evaluated the design effectiveness of key controls over the process. After our assessment we adopted a substantive audit approach. • Compared management's impairment assessment and the estimation of the recoverable amount to the carrying value recorded in the Parent Company financial statements; • With the assistance of EY valuation specialists, critically assessed the data used by management to value the subsidiaries, taking into consideration the impact of COVID-19; • Performed comparative checks such as calculating value in use, recalculating the fair value less cost of disposal and considering discount rates, long term growth rate, terminal values and the costs of disposal of the investment in subsidiaries.	We conclude that the recoverable amount of the investment in subsidiaries included in the Statement of financial position as at 31 December 2020 is fairly stated. Based on the procedures performed, we have no material findings to report.

Our application of materiality

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

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

We determined materiality for the Group to be £2.6 million (2019: £2.3 million), which is 1% (2019: 1%) of net assets. We determined our materiality based on equity rather than on profits or revenues, because the Group's profitability is low relative to the balance sheet size, and also our expectation is that the main users of the financial statements, including the members of the Company, view capital restoration as a key consideration as the Group has only become profitable since 2017.

We determined materiality for the Parent Company to be £0.9 million (2019: £1.1 million), which is 1% (2019: 1%) of net assets. We determined our materiality based on equity rather than on profits or revenues, because the Parent Company is not profitable and also our expectation is that the main users of the financial statements, including the members, view capital restoration as a key consideration.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 50% (2019: 50%) of our planning materiality, namely £1.3m (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 the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 34, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management.

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

- We understood how BLME Holdings plc 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 Group and UK regulatory bodies, reviewed minutes of the Board, the Executive Committee, the Audit Committee and the Board Risk Committee; and gained an understanding of the Group's approach to governance demonstrated by the Board's approval of the Group's risk management framework and governance framework and the internal controls processes.

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

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

Other matters we are required to address

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

  The period of total uninterrupted engagement including previous renewals and reappointments is 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 group or the parent company and we remain independent of the group and the parent company in conducting the audit.

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

Use of our report

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

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

CONSOLIDATED 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*	61,502	58,166
Returns to financial institutions and customers	*6*	(26,230)	(25,782)
Net margin		**35,272**	**32,384**
Fee and commission income	*5b*	1,754	2,127
Fee and commission expense		(497)	(314)
Net fee and commission income		**1,257**	**1,813**
Net investment gains	*7*	443	112
Credit impairment losses	*14*	(8,644)	(1,814)
Operating lease income		8,174	9,095
Other operating income	*8*	856	1,839
Share of profit of equity-accounted investees, net of tax	*30*	25	9
Net operating income		**37,383**	**43,438**
Expenses			
Personnel expenses	*10*	(15,839)	(15,386)
Operating lease depreciation	*23*	(6,783)	(7,331)
Other depreciation and amortisation	*22, 24*	(1,037)	(1,597)
Other operating expenses	*12*	(11,292)	(7,383)
Exceptional costs-Offer	*10, 12*	-	(2,851)
Total operating expenses		**(34,951)**	**(34,548)**
Profit before tax		**2,432**	**8,890**
Tax credit / (expense)	*15*	246	(1,388)
Profit for the year		**2,678**	**7,502**
Attributable to:			
Owners of the parent		2,219	6,721
Non controlling interest		459	781
		2,678	**7,502**
Earnings per share		**Pence**	**Pence**
Basic earnings per share	*16*	1.12	3.67
Diluted earnings per share	*16*	1.12	3.33

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

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year 1 January 2020 to 31 December 2020

	Note	2020 £000	2019 £000
Income			
Profit for the year		2,678	7,502
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss if specific conditions are met:			
Foreign currency translation differences for foreign operations		-	56
Net (losses) / gains in fair value of FVOCI debt instruments		(148)	1,176
Income tax credit / (expense) on other comprehensive income	*15*	22	(230)
		(126)	**1,002**
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 income for the year net of income tax		**(3)**	**10**
Total comprehensive income for the year attributable to equity holders of the Parent company		**2,549**	**8,514**
Attributable to:			
Owners of the parent		2,090	7,733
Non Controlling Interest		459	781
		2,549	**8,514**

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	2020 £000	2019 £000
Assets			
Cash and balances with banks		233,606	71,891
Due from financial institutions	*18*	80,208	7,619
Due from customers	*18*	34,465	14,081
Investment securities	*19*	62,124	83,620
Financing arrangements	*20*	856,640	883,738
Finance lease receivables	*21*	419,942	432,639
Operating lease assets	*23*	52,030	39,489
Property and equipment	*22*	3,320	4,031
Intangible assets	*24*	243	367
Other assets	*25*	10,161	17,166
Current tax asset		770	-
Deferred tax asset	*15*	7,479	4,497
Investment in joint ventures	*30*	1,142	1,216
Assets held for sale	*31*	477	2,575
Total assets		**1,762,607**	**1,562,929**
Liabilities			
Due to financial institutions	*26*	185,935	375,565
Due to customers	*27*	1,300,340	917,120
Profit rate swaps	*9*	760	1,196
Other liabilities	*28*	18,763	20,176
Current tax liability		-	1,334
Total liabilities		**1,505,798**	**1,315,391**
Equity			
Share capital	*33*	50,091	48,933
Share premium		1,140	-
Other reserve		15,226	15,226
Capital redemption reserve		50	50
Fair value reserve		101	230
Non Controlling Interest		8,698	8,228
Share-based payment reserve		-	3,527
Retained earnings		181,503	171,344
Total equity attributable to equity holders of the Parent company		**256,809**	**247,538**
Total liabilities and equity		**1,762,607**	**1,562,929**

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

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

	Note	**2020 £000**	**2019 £000**
Assets			
Cash and balances with banks		374	374
Investment in subsidiaries	*19*	93,673	113,593
Total assets		**94,047**	**113,967**
Liabilities			
Other liabilities		1	1
Total liabilities		**1**	**1**
Equity			
Share capital	*33*	50,091	48,933
Share premium		1,140	-
Share-based payment reserve		-	3,527
Retained earnings		42,815	61,506
Total equity attributable to equity holders of the Parent Company		**94,046**	**113,966**
Total liabilities and equity		**94,047**	**113,967**

The company loss for the year ended 31 December 2020 was £26.63 million (2019: £11.26 million profit). The current year loss includes an impairment loss in the investment in the Bank of £26.63m which is explained in Note 19 to the accounts. The prior year profit included a dividend of £5.40m paid by the Bank and an impairment loss reversal on the investment in the Bank of £5.86m. As permitted by section 408 of the Companies Act 2006, a separate profit and loss account of the parent has not been presented.

These financial statements were approved by the Board of Directors on 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: 08503102

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED 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	2,432	8,890
Adjusted for:		
Exchange differences	332	(394)
Fair value gains on investment securities	(232)	(318)
Share of profit of equity-accounted investees, net of tax	(25)	(9)
Provision for impairment	8,644	1,859
Depreciation and amortisation	7,000	8,085
Share-based payment awards	-	392
Movements relating to profit rate swaps*	(854)	326
IFRS 16 - depreciation and finance charges	959	1,009
Amortisation of investment securities	-	26
	18,256	**19,866**
Net increase in operating assets:		
Due from financial institutions	(66,986)	448
Due from customers	(20,306)	551
Financing arrangements	12,167	(149,036)
Finance lease receivables	11,172	(175,527)
Operating lease assets	(19,325)	(3,508)
Other assets	6,875	(11,995)
	(76,403)	**(339,067)**
Net increase in operating liabilities:		
Due to financial institutions	(201,668)	(285,387)
Due to customers	386,648	561,116
Other liabilities	10,728	(3,534)
	195,708	**272,195**
Corporation tax paid	(4,809)	(748)
Net cash inflow /(outflow) from operating activities	**132,752**	**(47,754)**
Cashflow from investing activities		
Purchase of property and equipment	(119)	(6)
Purchase of intangible assets	(80)	(311)
Purchase of investment securities	(37,036)	(63,316)
Sale of investment securities	58,589	81,031
Purchase of interest in assets held for sale	-	(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	**23,553**	**13,575**
Cash flows from financing activities		
Payment of principal portion of lease liabilities	(1,113)	(1,168)
Dividend paid by a subsidiary to a Non-controlling interest	(418)	(773)
Sale of investments in Non-controlling interest	429	3,000
Issue of ordinary shares	6,711	-
Net cash inflow from financing activities	**5,609**	**1,059**
Net change in cash and cash equivalents	**161,914**	**(33,120)**
Cash and cash equivalents at the beginning of the period	71,891	104,339
Exchange differences in respect of cash and cash equivalents	(199)	672
Cash and cash equivalents at the end of the period	**233,606**	**71,891**

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

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CASH FLOWS

For the year 1 January 2020 to 31 December 2020

	2020	2019
	£000	£000
Cash flows from operating activities		
(Loss) / profit for the year before tax	(26,631)	11,263
Adjusted for:		
Impairment loss / (reversal) on subsidiary	26,631	(5,863)
Net cash inflow from operating activities	-	5,400
Cash flows from financing activities		
Proceeds from issue of new ordinary shares	1,815	-
Proceeds from issue of ordinary shares out of treasury	4,052	-
Proceeds from issue of own shares held by EBT	844	-
Net cash inflow from financing activities	6,711	-
Cash flows from investing activities		
Purchase of investment in subsidiaries	(6,711)	(5,100)
Net cash outflow from financing activities	(6,711)	(5,100)
Net change in cash and cash equivalents	**-**	**300**
Cash and cash equivalents at the beginning of the period	374	74
Cash and cash equivalents at the end of the period	**374**	**374**

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020	Share capital	Share premium account	Other reserve	Capital redemption reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Foreign currency translation reserve	Total	Non-Controlling Interest	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2019	48,933	-	15,226	50	230	3,527	171,344	-	239,310	8,228	247,538
Profit for the year	-	-	-	-	-	-	2,219	-	**2,219**	459	**2,678**
Other comprehensive income / (expense)											
Foreign currency translation	-	-	-	-	-	-	-		-	-	-
Net change in fair value of equity/debt instrument at FVOCI	-	-	-	-	(151)	-	-	-	(151)	-	(151)
Tax on items transferred directly to equity	-	-	-	-	22	-	-	-	22	-	22
Total other comprehensive income / (expense)	**-**	**-**	**-**	**-**	**(129)**	**-**	**-**	**-**	**(129)**	**-**	**(129)**
Total comprehensive income for the year	**-**	**-**	**-**	**-**	**(129)**	**-**	**2,219**	**-**	**2,090**	**459**	**2,549**
Contributions by and distributions to owners											
Issue of new ordinary shares	1,158	657	-	-	-	-	-	-	1,815	-	1,815
Issue of ordinary shares out of treasury	-	483	-	-	-	-	3,569	-	4,052	-	4,052
Issue of ordinary shares out of shares held by EBT	-	-	-	-	-	-	844	-	844	-	844
Dividend paid by subsidiaries to a Non-controlling interest	-	-	-	-	-	-	-	-	-	(418)	(418)
Increase in investment by NCI shareholders	-	-	-	-	-	-	-	-	-	429	429
Sale of equity instrument at FVOCI	-	-	-	-		-		-	-	-	-
Equity-settled Share-based payment awards	-	-	-	-	-	-	-	-	-	-	-
Transfer to Retained Earnings	-	-	-	-	-	(3,527)	3,527	-	-	-	-
Tax on items transferred directly to equity	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**1,158**	**1,140**	**-**	**-**	**-**	**(3,527)**	**7,940**	**-**	**6,711**	**11**	**6,722**
Balance at 31 December 2020	**50,091**	**1,140**	**15,226**	**50**	**101**	**-**	**181,503**	**-**	**248,111**	**8,698**	**256,809**

FVOCI – Fair value through other comprehensive income
Fair value reserve includes the cumulative net change in fair value of FVOCI instruments until the investment is either derecognised or becomes impaired.
Share-based payment reserve represented the amortised portion of the fair value of equity instruments issued under the BLME and the Company's share incentive schemes accounted for as equity-settled share-based payments.
Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.
The **Capital redemption reserve** arose on 26 June 2014 following the redemption of 50,000 preference shares of £1 each and the repurchase of one A ordinary share of £1.
The **Other reserve** arose when the BLME Scheme of Arrangement took effect on 2 October 2013.
Non-Controlling Interest relates to the minority shareholders in MKL Construction Equipment Finance Limited, AQ1 Limited and Aspenway Limited.

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

FVOCI – Fair value through other comprehensive income

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

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

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

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

The **Other reserve** arose when the BLME Scheme of Arrangement took effect on 2 October 2013.

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

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020	Share capital	Share premium account	Share-based payment reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 31 December 2019	**48,933**	**-**	**3,527**	**61,506**	**113,966**
Loss for the year	-	-	-	(26,631)	(26,631)
Other comprehensive income / (expense)	-	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**-**	**(26,631)**	**(26,631)**
Contributions by and distributions to owners					
Issue of new ordinary shares	1,158	657	-	-	1,815
Issue of ordinary shares out of treasury	-	483	-	3,569	4,052
Issue of ordinary shares held by EBT	-	-	-	844	844
Equity-settled share-based payment awards	-	-	-	-	-
Settlement of share-based payment awards by BLME	-	-	-	-	-
Transfer to Retained Earnings	-	-	(3,527)	3,527	-
Tax on items transferred directly to equity	-	-	-	-	-
Total transactions with owners	**1,158**	**1,140**	**(3,527)**	**7,940**	**6,711**
Balance at 31 December 2020	**50,091**	**1,140**	**-**	**42,815**	**94,046**

Share-based payment reserve

The share-based payment reserve represented the amortised portion of the fair value of equity instruments issued under the BLME and the Company's share incentive schemes and accounted for as equity-settled share-based payments. Pursuant to the BLME Scheme of Arrangement, which took effect on 2 October 2013, the obligations under all of the BLME share incentive schemes were assumed by the Company for nil consideration. This assumption of liability during 2013 was treated as an injection of equity and recognised as a capital contribution within the financial statements of the Bank.

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Share capital	Share-based payment reserve	Retained earnings	Total
	£000	£000	£000	£000
Balance at 31 December 2018	**48,933**	**2,207**	**50,243**	**101,383**
Profit for the year	-	-	11,263	11,263
Other comprehensive income / (expense)	-	-	-	-
Total comprehensive income for the period	**-**	**-**	**11,263**	**11,263**
Contributions by and distributions to owners				
Equity-settled share-based payment awards	-	392	-	392
Settlement of share-based payment awards by BLME	-	(22)	-	(22)
Tax on items transferred directly to equity	-	950	-	950
Total transactions with owners	**-**	**1,320**	**-**	**1,320**
Balance at 31 December 2019	**48,933**	**3,527**	**61,506**	**113,966**

Share-based payment reserve

The share-based payment reserve represented the amortised portion of the fair value of equity instruments issued under the BLME and the Company's share incentive schemes and accounted for as equity-settled share-based payments. Pursuant to the BLME Scheme of Arrangement, which took effect on 2 October 2013, the obligations under all of the BLME share incentive schemes were assumed by the Company for nil consideration. This assumption of liability during 2013 was treated as an injection of equity and recognised as a capital contribution within the financial statements of the Bank.

The notes on pages 55 to 141 are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. REPORTING ENTITY

BLME Holdings plc ("the Company") is a Company domiciled in the United Kingdom. The address of the Company's registered office is Cannon Place, 78 Cannon Street, London, England, EC4N 6HL. The Company's principal activity is to act as a holding Company for Bank of London and The Middle East plc ("the Bank" or "BLME") and its subsidiaries and Walbrook Asset Finance Limited ("Walbrook"). BLME is a wholesale bank involved in investment, commercial finance, private client banking and wealth management. The consolidated financial statements of the Group are presented as at and for the year ended 31 December 2020 and comprise BLME Holdings plc and its subsidiaries (together referenced as "the Group").

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

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

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

a. Presentation of financial statements

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

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

b. Use of estimates and judgements

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

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment cover impairment losses on financial assets, fair value measurement, effective profit rate adjustments, deferred taxes, consolidation assessments, impairment of subsidiary and determining the lease term of contracts with renewal and termination options. Refer to Note 3 from page 73 for further detail.

c. Going concern

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

The Board is required to assess going concern at each reporting period. This assessment include the Directors reviewing the business activities, financial position and future forecast of the Group in order to support a conclusion that the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence until 30 April 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 Group 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 the regulated Bank reported 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 Group had £49m 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 Group 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 Group 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 Group has sufficient capital and liquidity resources to enable it to continue to meet its regulatory capital requirements and continue in operational existence for a period of at least 12 months from the date of approval of these financial statements. The Directors are satisfied that the Group will be able to continue to meet all its obligations as, and when, they fall due. Accordingly they continue to adopt a going concern basis in preparing these financial statements.

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 Group:

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

i. Other new and amended standards and interpretations

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

f. Basis of consolidation

i. Subsidiaries

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

ii. Structured Entities ("SE")

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

iii. Employee Benefit Trust ("EBT")

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

iv. Loss of control

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

g. Consolidation of foreign operations

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

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

h. Basis of measurement

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

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

i. Functional and presentation currency

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

j. Foreign currency

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

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

k. Revenue recognition

i. Murabaha, Wakala, Mudaraba, Sukuk, Ijara, Istisna and Participation Agreement income and expense
(please refer to the Glossary of Islamic Finance Terminology on page 145)

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

ii. Fees and commission

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

iii. Financial assets

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

iv. Due from financial institutions and customers and financing arrangements

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

l. Financial Instruments

i) Categories of financial assets

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

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

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

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

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

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

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

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

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

ii) Business model assessment

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

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

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

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

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

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

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

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

iv) Impairment of financial assets

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

- **Overview of the ECL principles**

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

The ECL allowance is based on the credit losses expected to arise over the life of the asset (the lifetime expected credit loss or LTECL), unless there has been no significant increase in credit risk since origination, in which case, the allowance is based on the 12 months' expected credit loss (12mECL). The Group's policies for determining if there has been a significant increase in credit risk are set out in page 63.

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

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

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

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

• Stage 3: Financing considered credit-impaired, the Group records a specific provision calculated using a discounted cash flow approach to determine the overall exposure and/or using net exposure after taking into account any collateral. The process to determine whether a customer is in default is explained on page 116 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 Group has considered it appropriate to increase the number of scenarios used from three to six.

The Group 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 Group may lose prior to adjustment for collateral. This takes into account the committed facility amount. The same approach has been taken for off-balance sheet credit exposures such as letters of credit and financial guarantees where current circumstances indicate that losses may be incurred.

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

The other macro-economic inputs in the ECL model are listed in section vi – multiple economic scenarios on page 63 and 64.

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

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

The mechanics of the ECL method are summarised below:

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

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

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

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

- **Significant increase in credit risk**

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

The Group measures the increase in credit risk by monitoring the changes in credit scores of its counterparties since origination. The notch downgrade is based on the credit score, where a "BBB+" or higher rated counterparty has a 3 notch movement required to show deterioration, whilst a lower quality counterparty ("BBB-" to "BB-") needing a 2 notch movement, and the worst quality ("B+" and below) a 1 notch. This follows the broad principals of credit deterioration being seen when a default rate doubles. In addition, the Group also considers whether the counterparty payment performance is deteriorating (i.e. payments are 30-day past due and the counterparty is added to the Watchlist as described on page 114 in Note 38).

- **Default**

Refer to page 116 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 Group carries out six 12 month forward looking stress scenarios per material portfolio. Each stress event is based on the macroeconomic conditions most impactful to each of the Group's material portfolios and is taken from published reports by Oxford Economics.

- **Base Case Key Macroeconomic Assumptions for 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 Group expects the labour market to take a significant hit in the short term. The Group 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 50^{th} 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 5^{th} percentile, the mild upside is determined from the 15^{th} percentile, stagnation is determined from the 75^{th} percentile, the downside is determined from the 85^{th} percentile and the severe downside from the 95^{th} 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 are summarised in Note 14 on page 89.

vii) Write-offs

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

viii) Offsetting financial assets and financial liabilities

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

ix) Derecognition of financial assets

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

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

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

x) Forbearance

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

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

Further disclosures on forbearance can be found on pages 126 to 128 in Note 38.

xi) Financial liabilities

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

xii) Determining fair value

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

xiii) Derivatives and hedge accounting

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

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

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

- **Hedge accounting**

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

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

- **Fair value hedge**

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

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

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

- **Hedge effectiveness testing**

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

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

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

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

m. Collateral and netting

See page 130 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.

n. Property and equipment

i. Recognition and measurement

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

ii. Depreciation

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

Useful Lives:

- Computer equipment – 3 years
- 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.

o. Intangible assets

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

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

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

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

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

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

q. Operating leases

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.

r. Finance leases

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

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

s. Lessee accounting

Right-of-use assets

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

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

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

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

Lease liabilities

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

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

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

Short-term leases and leases of low-value assets

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

t. Employee benefits

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

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

u. Share-based payments

Equity-settled

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

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

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

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

Cash-settled

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

v. Own shares

Own shares comprised:

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

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

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

w. Provisions

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

x. 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.

y. Cash and cash equivalents

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

z. Other receivables

Trade and other receivables are stated at their nominal amount less expected credit losses. Refer to Note 2(j) (iv) from page 61 for more detail on the forward-looking expected credit loss (ECL) approach.

aa.Segmental information

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

bb. Earnings per share

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

cc. Investment in subsidiary undertakings

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

dd. Investment in joint ventures

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

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

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

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

ee. Assets held for sale

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

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

ff. Business combinations

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

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

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

Estimates

a. Impairment losses on financial assets

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

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

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

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 14 '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 Group's existing suite of credit risk stress tests, a bespoke COVID-19 credit stress test was developed to assess the potential stress impacts of a further deterioration on the portfolio. The portfolio 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 Group's accounting policy on fair value measurement is in accordance with IFRS 13 Fair Value Measurement and is discussed on page 131 in Note 38.

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

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

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

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

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

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

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

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. Consolidation assessments

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

c. Impairment of subsidiaries

Under IAS 36, an investment is impaired if the cost of investment is greater than the recoverable amount. A formal estimate of recoverable amount is performed for the Company's investments in the Bank and Walbrook if there are indications that an impairment loss may have occurred. In the current year, the transfer of leasing portfolio assets from the Bank to Walbrook provided an indication that an impairment loss may have occurred in the Company's investment in the Bank. This transfer of assets was a common control transaction undertaken at book value. The last observable price of BLME Holdings plc was used to estimate the recoverable amount of the Group. This recoverable amount was apportioned between the Bank and Walbrook, the two main trading subsidiaries, using their respective proportion of Group future profits; and used for the purpose of calculating the impairment loss in the Bank.

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

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

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

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

4. SEGMENTAL INFORMATION

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

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

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

For the year ended 31 December 2020

	Wealth Management	Commercial Finance	Treasury Division	Unallocated items	Total
	£000	£000	£000	£000	£000
Net margin from financing and investing activities	21,106	12,651	1,515	-	35,272
Operating lease income	-	7,295	879	-	8,174
Net fee income	343	909	5	-	1,257
Net impairment charge	(1,065)	(7,651)	72	-	(8,644)
Net investment gains	(7)	-	450	-	443
Share of profit of equity-accounted investees, net of Tax	25	-	-	-	25
Other operating income	140	716	-	-	856
Net operating income	**20,542**	**13,920**	**2,921**	**-**	**37,383**
Directly attributable segment expenses	(3,126)	(6,342)	(2,444)	-	(11,912)
Operating lease depreciation	-	(6,783)	-	-	(6,783)
Net segment contribution	**17,416**	**795**	**477**	**-**	**18,688**
Common costs not directly attributable to segments					(16,256)
Net operating profit before tax					**2,432**
Reportable segment assets	**761,947**	**339,686**	**636,127**	**24,847**	**1,762,607**

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

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

For the year ended 31 December 2019

	Wealth Management £000	Commercial Finance £000	Treasury Division £000	Unallocated items £000	Total £000
Net margin from financing and investing activities*	15,825	14,383	2,176	-	32,384
Operating lease income	-	8,029	1,066	-	9,095
Net fee income*	681	1,125	7	-	1,813
Net impairment credit / (charge)	288	(2,040)	(62)	-	(1,814)
Net fair value gains	-	-	112	-	112
Share of profit of equity-accounted investees, net of Tax	9	-	-	-	9
Other operating income	254	1,191	394	-	1,839
Net operating income	**17,057**	**22,688**	**3,693**	**-**	**43,438**
Directly attributable segment expenses	(3,348)	(4,391)	(2,333)	-	(10,072)
Operating lease depreciation	-	(7,331)	-	-	(7,331)
Net segment contribution	**13,709**	**10,966**	**1,360**	**-**	**26,035**
Common costs not directly attributable to segments					(17,145)
Net operating profit before tax					**8,890**
Reportable segment assets	**611,919**	**753,958**	**181,265**	**15,787**	**1,562,929**

*prior year figures for Commercial Finance have been restated to be consistent with current year presentation

Entity wide disclosures

Geographical analysis of non-current assets

	31 December 2020 £000	31 December 2019 £000
United Kingdom	73,113	65,073
Channel Islands	1,142	1,216
United Arab Emirates	121	288
USA	-	189
Total	**74,376**	**66,766**

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

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*	6,627	6,504
Hire Purchase income*	9,589	7,525
Istisna and Ijara income	147	275
Financing arrangements:		
Murabaha income	40,425	40,312
Wakala income	1,241	542
Investment securities:		
Sukuk income	1,657	2,148
	61,502	**58,166**

*prior year figures have been restated to be consistent with current year presentation

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*	83	16
	1,754	**2,127**

*prior year figure has been restated to be consistent with current year presentation

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 Group. This cost arises due to the profit rate differential between the GBP and non-GBP currencies and also the markets factoring economic/political impact on the future exchange rates.

7. NET FAIR VALUE GAINS ON INVESTMENTS

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

8. OTHER OPERATING INCOME

	2020	2019
	£000	£000
Gain on foreign exchange transactions	-	394
Gain on leased asset sales	716	865
Dividend from joint venture	140	254
Termination of a participation agreement with a previously controlled Structured Entity	-	326
	856	**1,839**

9. PROFIT RATE SWAPS

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. PRS may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. If they do not qualify as hedges, they are classified as FVTPL and the Mark to Market movement is recognised in the income statement. The Group 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. The valuation technique used to determine the fair value of the Group's profit rate swaps is the present value of the estimated future cash flows base on observable yield curves.

The Group's fair value hedges consist of PRS that are used to protect against changes in the fair value of fixed rate financial instruments due to movements in market rates and to accommodate the Group's risk management policy. For effective fair value hedges, all changes in the fair value of the PRS and in the fair value of the item in relation to the risk being hedged are recognised in the 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 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 Group does not hedge its entire exposure to a class of financial instruments, therefore the carrying amounts below do not equal the total carrying amounts disclosed in other notes.

	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

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 ineffectiveness 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.

10. PERSONNEL EXPENSES

	2020	2019
	£000	£000
Wages and salaries*	12,728	12,251
Social security costs*	1,328	1,284
Defined contribution pension scheme costs	1,023	1,029
Recruitment costs	121	154
Other staff costs	639	668
	15,839	**15,386**

*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 by Boubyan Bank.

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

	2020	2019
	Number	Number
Period end	123	123
Average for the period - management	10	12
Average for the period - non-management	112	109

11. DIRECTORS' EMOLUMENTS

	2020	2019
	£000	£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 5,038,054 share options in connection with the Offer made by Boubyan Bank (2019: none).

12. OTHER OPERATING EXPENSES

	2020	2019
	£000	£000
Advertising and market development	96	156
Board and SSB related expenses	491	618
Communications and IT costs	2,059	1,894
Consultancy	778	704
Legal and professional fees*	3,504	1,328
Loss on foreign exchange transactions	334	-
Other operating charges	3,076	1,769
Rent and other occupancy costs	954	914
	11,292	**7,383**

*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 Group auditors categorised as follows:

	2020	2019
	£000	£000
Auditor's remuneration		
Audit of financial statements pursuant to the legislation		
- Ernst & Young LLP	783	549
Tax Advisory and Compliance Services		
- Ernst & Young LLP	-	3
Other advisory and assurance services		
- Ernst & Young LLP	39	40
	822	**592**

13.SHARE-BASED PAYMENTS

As a consequence of the acquisition of the 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 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 (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 Group'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	0	-	(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 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 2020	Number of options 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	**-**	**39,992**
Exercisable at 31 December	**N/A**	**39,992**

The weighted average remaining contractual life of the parallel options 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 2020	Weighted average exercise price (pence) 2020	Number of options 2019	Weighted average exercise price (pence) 2019
Outstanding at 1 January	15,360,331	41.4	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	**-**	**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 Group. 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 2020	Number of options 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 Group in March 2015 with participation open to all Group 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.

14. 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	1,021	1,322	-	2,343
Operating lease receivables	6	-	-	6
Due from financial institutions	2	34	-	36
Due from customers	2	-	-	2
Investment securities	2	-	-	2
Other assets	-	-	250	250
Total Impairment	**1,086**	**2,986**	**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	730	337	5,917	6,984
Finance lease receivables	1,295	1,236	98	2,629
Operating lease assets	54	112	-	166
Due from financial institutions	110	-	-	110
Investment securities	4	-	-	4
Other assets	-	-	537	537
Total Impairment	**2,193**	**1,685**	**6,552**	**10,430**

Within Stage 1 and Stage 2 for financing arrangements there is an ECL balance of £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 £0.17m (2019: £28m). The Stage 1 and Stage 2 ECLs relating to these forborne exposures is £5k (2019: £31k). Refer to pages 126 to 128 for further details on how the Group monitors its forborne exposure.

Income Statement

	2020	2019
	£000	£000
New and increased provisions (net of releases)	7,019	158
Amounts written off during the year (net of write-backs)	1,625	1,656
Total Impairment Loss	**8,644**	**1,814**

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

ECL by Stage

	Stage 1 Collective	Stage 2 Collective	Stage 3 Specific	Total
	£000	£000	£000	£000
Carrying amount as at 1 January 2020	2,193	1,685	6,552	10,430
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	141	(141)	-	-
Transferred to Stage 2	(202)	202	-	-
Transferred to Stage 3	-	-	-	-
New and increased provisions (net of releases)	(1,046)	1,240	6,825	7,019
Write-offs from specific provisions	-	-	(635)	(635)
Foreign currency translation adjustments	-	-	(148)	(148)
As at 31 December 2020	**1,086**	**2,986**	**12,594**	**16,666**
Carrying amount as at 1 January 2019	1,305	4,425	9,276	15,006
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	665	(665)	-	-
Transferred to Stage 2	(83)	83	-	-
Transferred to Stage 3	-	-	-	-
New and increased provisions (net of releases)	306	(2,158)	2,011	159
Write-offs from specific provisions	-	-	(4,454)	(4,454)
Foreign currency translation adjustments	-	-	(281)	(281)
As at 31 December 2019	**2,193**	**1,685**	**6,552**	**10,430**

Exposure by Stage

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2020	1,491,736	143,082	19,369	1,654,187
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	7,592	(7,592)	-	-
Transferred to Stage 2	(94,099)	94,099	-	-
Transferred to Stage 3	-	-	-	-
New and increased exposure	155,203	(84,539)	22,492	93,156
Write-backs of specific provisions			(1,164)	(1,164)
Write-offs from specific provisions	-	-	(1,546)	(1,546)
Foreign currency translation adjustments	-	-	(148)	(148)
As at 31 December 2020	**1,560,432**	**145,050**	**39,003**	**1,744,485**

	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2019	1,215,991	196,034	21,472	1,433,497
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	57,529	(57,529)	-	-
Transferred to Stage 2	(58,226)	58,226	-	-
Transferred to Stage 3	(6,300)	-	6,300	-
New and increased exposure	282,742	(53,649)	(3,674)	225,419
Write-offs from specific provisions	-	-	(4,347)	(4,347)
Foreign currency translation adjustments	-	-	(382)	- 382
As at 31 December 2019	**1,491,736**	**143,082**	**19,369**	**1,654,187**

Contractual amounts outstanding on financial assets of £1.6m 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 Group 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 Group considers six scenarios (a base case, a mild upturn, an upturn, a stagnation, a downturn and a severe downturn). Each stress event is based on the macroeconomic conditions most impactful to each of the Bank's material portfolios and is taken from published reports by Oxford Economics.

More details regarding these six 12 month forward looking stress scenarios per material portfolio are outlined within the significant accounting policies section of these financial statements (in Note 2 l vi on pages 63 to 65)

The scenario weights and macroeconomic assumptions 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 Group'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 Group has not received 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	Operating lease assets	Other assets	Undrawn commitments	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	Stage 1	Stage 1	Stage 2	Stage 1	Stage 1	Stage 2	Stage 3	Stage 1	Stage 2	Stage 3	Stage 1	Stage 1	Stage 3	Stage 1	
AAA	-	-	-	-	-	-	-	-	-	-	61,808	-	-	-	**61,808**
aa+	-	-	-	-	3,626	-	-	-	-	-	-	-	-	-	**3,626**
aa	-		-	-	-	-	-	-	-	-	-	-	-	-	**-**
AA-	1,170	-	-	-	-	-	-	-	-	-	-	-	-	-	**1,170**
A+	-	-	-	-	-	-	-	-	-	-	-	-	-	-	**-**
a+	230,977	73,170	-	-	8,589	-	-	3,511	-	-	-	-	-	1,900	**318,147**
a	-	-	-	-	46,908	1,235	-	106,783	26,877	-	-	903	-	1,750	**184,456**
a-	-		-	-	6,253	-	-	26,261	-	-	-	1,246	-	2,947	**36,707**
bbb+	-	-	-	-	24,233	312	-	68,004	-	-	-	4,883	-	-	**97,432**
bbb	-	-	-	-	42,833	2,031	-	103,407	-	-	-	10,072	-	486	**158,829**
BBB-					43,119	-	-	-	-	-	-	4,546	-		**47,665**
bbb-	-	-	-	-	23,661	2,484	-	280,041	4,453	-	-	-	-	-	**310,639**
bb+	-	-	-	35,023	52,439	4,246	-	117,772	8,781	-	-	2,747	-	-	**221,008**
bb	-	-	-	-	102,551	12,139	-	25,047	27,113	-	-	295	-	-	**167,145**
bb-	-	-	-	-	12,595	501	-	-	10,627	-	-	1,729	-	-	**25,452**
B+	-	-	-	-	15,407	175	-	-	-	-	-	-	-	-	**15,582**
b+	-		-	-	1,423	2,229	-	-	1,188	-	-	-	-	-	**4,840**
b	-	-	7,073	-	9,494	6,872	-	-	24,516	-	-	-	-	-	**47,955**
b-	-	-	-	-	712	2,057	-	-	-	-	-	-	-	-	**2,769**
ccc+	-	-	-	-	111	-	-	-	-	-	-	-	-	-	**111**
ccc	-	-	-	-	-	141	-	-	-	-	-	-	-	-	**141**
d		-	-	-	-	-	-	-	-	38,506	-	-	497		**39,003**
At 31 December 2020	**232,147**	**73,170**	**7,073**	**35,023**	**393,954**	**34,422**	**-**	**730,826**	**103,555**	**38,506**	**61,808**	**26,421**	**497**	**7,083**	**1,744,485**

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	-	22,046	-	-	88,759	-	-	-	-	-	-	**110,805**
a-	7,735	8,343	55	-	10,984	-	-	-	2,968	-	-	**30,085**
bbb+	-	15,628	1,029	-	45,719	-	-	-	10,089	-	-	**72,465**
bbb	-	61,281	1,911	-	192,123	-	-	-	-	-	-	**255,315**
bbb-	-	92,528	4,693	-	298,388	473	-	31,770	13,191	7,669	-	**448,712**
bb+	-	85,366	6,609	-	101,436	20,509	-	-	5,213	481	-	**219,614**
bb	-	86,381	21,511	-	94,690	21,572	-	-	-	-	-	**224,154**
bb-	-	21,148	1,836	-	-	8,872	-	-	-	3,169	-	**35,025**
b+	15,891	6,154	2,204	-	-	25,429	-	-	-	-	-	**49,678**
b	-	2,498	9	-	1,750	-	-	-	-	-	-	**4,257**
b-	-	1,122	13,945	-	-	-	-	-	-	-	-	**15,067**
ccc+	-	51	-	-	-	-	-	-	-	-	-	**51**
ccc	-	-	1,106	-	-	-	-	-	-	-	-	**1,106**
d	-	-	-	397	-	-	17,718	-	-	-	1,254	**19,369**
At 31 December 2019	**92,774**	**411,221**	**54,908**	**397**	**841,220**	**76,855**	**17,718**	**115,060**	**31,461**	**11,319**	**1,254**	**1,654,187**

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

15.TAXATION

Group	2020	2019
	£000	£000
UK Corporation Tax		
- current tax for the year	3,405	1,644
- adjustments in respect of prior years	291	-
	3,696	1,644
Deferred tax for the year	(3,824)	(552)
Prior year adjustment to deferred tax	(118)	296
Tax (credit) / expense in income statement	**(246)**	**1,388**

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

Group	2020	2019
	£000	£000
Reconciliation of effective tax rate		
Profit for the year before tax	2,432	8,890
Profit for the year multiplied by standard rate of corporation tax in the UK of 19% (2019: 19%)	462	1,689
Recognition of deferred tax asset	(19)	(2,718)
Movement in unrecognised deferred tax	(309)	1,736
Tax exempt income	(540)	-
Expenses not deductible for tax purposes	107	203
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)	(117)
Tax (credit) / expense in income statement	**(246)**	**1,388**

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

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

Tax recognised directly in equity

Group	2020	2019
	£000	£000
Share based-payment 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 Group has been profitable for three consecutive years and has forecast taxable profits in future years. Based on the evidence, Management has recognised a DTA as at 31 December 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)

Group - 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	5,930	-	7,179
Tax losses carried forward	1,812	(1,812)	-	-
Other temporary differences	1,436	(176)	(960)	300
Deferred tax assets	**4,497**	**3,942**	**(960)**	**7,479**

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

Unrecognised deferred tax assets (gross)

Group	2020	2019
	£000	£000
Accelerated depreciation	853	5,714
Tax losses carried forward	-	142
Other temporary differences	-	-
Deferred tax assets	**853**	**5,856**

16. EARNINGS PER SHARE

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

	2020	2019
Earnings per share	**pence**	**pence**
Basic	1.12	3.67
Diluted	1.12	3.33

	2020	2019
Profit attributable to ordinary shareholders	**£000**	**£000**
Profit attributable to shareholders (basic)	2,219	6,721
Profit attributable to shareholders (diluted)	2,219	6,721

	2020	2019
Weighted average number of ordinary shares	**Number**	**Number**
Number of ordinary shares of 25p in issue at period end*	200,365,281	195,733,691
Share held by the BLME Holdings EBT**	-	(2,192,029)
Treasury shares repurchased in December 2018**	-	(10,357,374)
Weighted average number of shares for the year (basic)	198,427,980	183,184,288
Effect of dilutive share options in issue	-	18,755,985
Weighted average number of shares for the year (diluted)	198,427,980	201,940,273

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

** The EBT shares and the treasury shares were utilised as part of the settlement of staff share options in February 2020

17.CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

Group	1 January 2020	Cashflows	FX Movement	Changes in Fair Value	Other	31 December 2020
	£000	£000	£000	£000	£000	£000
Lease liabilities	5,130	(1,113)	(4)	-	139	4,152

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

18.DUE FROM FINANCIAL INSTITUTIONS AND CUSTOMERS

Due from financial institutions

	0 - 3 months	4 - 12 months	1 - 5 years	2020
	£000	£000	£000	£000
Commodity Murabaha	73,170	-	-	73,170
Wakala	7,073	0	-	7,073
	80,243	**0**	**-**	**80,243**
Provision for impairment				(35)
				80,208
IFRS 9 Stage 1 and 2 ECL				(35)
				(35)

Due from financial institutions

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

Due from Customers

	0 - 3 months	4 - 12 months	1 - 5 years	2020
	£000	£000	£000	£000
Wakala	5,223	29,244	-	34,467
	5,223	**29,244**	**-**	**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

Group	Listed	Unlisted	2020 Total
	£000	£000	£000
Fair value through other comprehensive income			
Equity	-	318	318
Sukuk	37,542	-	37,542
Amortised cost			
Sukuk	24,266	-	24,266
	61,808	**318**	**62,126**
Provision for impairment			(2)
			62,124
IFRS 9 Stage 1 and 2 ECL			(2)
			(2)

See pages 131 and 132 in Note 38 for further detail on fair value measurements of investment securities.

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

Company	Listed	Unlisted	2020 Total
	£000	£000	£000
Investment in subsidiaries			
Bank of London and The Middle East plc	-	81,862	81,862
Walbrook Asset Finance Limited	-	11,811	11,811
	-	93,673	93,673

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

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

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

Company	2020	2019
	£000	£000
Investment in subsidiaries		
Opening balance	113,593	101,310
Acquisitions*	6,711	5,100
Equity-settled share-based payment awards	-	1,320
Impairment (charge) / reversal	(26,631)	5,863
Closing balance at 31 December	**93,673**	**113,593**

* This represents the cost of share capital issued by Walbrook Asset Finance Limited

The transfer of leasing portfolio assets from the Bank to Walbrook during 2020 provided an indication that an impairment loss may have occurred in the Parent Company's investment in the Bank because of a reduction in the Bank's projected future earnings. The last observable transaction of USD$1.05 per BLME Holdings plc share has been used as an estimate of the Group's fair value less costs to sell. This value was apportioned between the two main trading subsidiaries, BLME and WAF, using the respective proportion of Group future profits to be generated by BLME and WAF based on the latest five year Group budget which takes account of the forecast impact of the COVID-19 pandemic. As a result a £26.6 million impairment charge in the investment in BLME was recognised in the current year's income statement of the Parent Company. No corresponding uplift in the fair value of the Parent Company's equity shareholding in WAF (arising from the transfer of leasing portfolio assets from the Bank) is permitted under the accounting rules.

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

20. FINANCING ARRANGEMENTS

Group	Less than 1 year	1 - 5 years	Over 5 years	2020 Total
	£000	£000	£000	£000
Murabaha	776,469	94,194	-	870,663
	776,469	**94,194**	**-**	**870,663**
Provision for impairment				(14,023)
				856,640
IFRS 9 Stage 1 and 2 ECL				(1,679)
IFRS 9 Stage 3 ECL				(12,344)
				(14,023)

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

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

21. FINANCE LEASE RECEIVABLES

Group	2020	2019
	£000	£000
Gross investment in finance lease receivables		
Within one year	70,760	76,434
One to five years	92,826	119,016
Over five years	3,880	7,983
	167,466	203,433
Hire purchase		
Within one year	110,930	97,285
One to five years	170,066	162,516
Over five years	1,262	2,412
	282,258	262,213
Unearned future income on finance leases	(9,484)	(13,551)
Unearned future income on hire purchase	(17,954)	(16,827)
IFRS 9 Stage 1 & 2 ECL	(2,344)	(2,531)
IFRS 9 Stage 3 ECL	-	(98)
Net investment in finance leases and hire purchase	**419,942**	**432,639**
The net investment in finance leases comprises:		
Within one year	65,611	68,735
One to five years	87,982	111,929
Over five years	3,826	7,669
	157,419	**188,333**
The net investment in hire purchase comprises:		
Within one year	100,682	88,118
One to five years	160,614	153,852
Over five years	1,227	2,336
	262,523	**244,306**
	419,942	**432,639**

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

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

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

22. PROPERTY AND EQUIPMENT

	Computer Equipment £000	Office Equipment £000	Fixtures & Fittings £000	Buildings £000	Motor vehicles £000	Total £000
Cost						
At 1 January 2020	541	78	2,191	4,831	20	7,661
Additions	116	-	4	-	-	120
Disposals	-	-	-	-	-	-
FX difference	-	-	-	2	-	2
At 31 December 2020	**657**	**78**	**2,195**	**4,833**	**20**	**7,783**
At 1 January 2019	541	69	2,185	-	-	2,795
Additions	-	9	6	4,842	20	4,877
Disposals	-	-	-	-	-	-
FX difference	-	-	-	(11)	-	(11)
At 31 December 2019	**541**	**78**	**2,191**	**4,831**	**20**	**7,661**
Depreciation						
At 1 January 2020	537	69	2,181	837	6	3,630
Charge for the year	9	6	10	801	7	833
Disposals	-	-	-	-	-	-
At 31 December 2020	**546**	**75**	**2,191**	**1,638**	**13**	**4,463**
At 1 January 2019	534	67	1,706	-	-	2,307
Charge for the year	3	2	475	837	6	1,323
Disposals	-	-	-	-	-	-
At 31 December 2019	**537**	**69**	**2,181**	**837**	**6**	**3,630**
Net Book Value						
At 1 January 2020	4	9	10	3,994	14	4,031
At 31 December 2020	**111**	**3**	**4**	**3,195**	**7**	**3,320**
At 31 December 2019	**4**	**9**	**10**	**3,994**	**14**	**4,031**

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

23. OPERATING LEASE ASSETS

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

Group	At 31 December 2019 £000	Additions 2020 £000	Disposals 2020 £000	Depreciation 2020 £000	FX 2020 £000	At 31 December 2020 £000
Gross carrying amount	49,481	19,825	(1,605)	-	-	67,701
Less depreciation	(9,826)	-	944	(6,783)	-	(15,665)
	39,655	**19,825**	**(661)**	**(6,783)**	**-**	**52,036**
Provision for impairment						(6)
						52,030

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

*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	9,667	6,017
Between one and five years	24,601	17,352
More than five years	1,177	1,281
	35,445	**24,650**

*These future rental receipts represent undiscounted cash flows.

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

24. INTANGIBLE ASSETS

Group	2020	2019
Cost	**£000**	**£000**
Opening balance	6,020	5,645
Additions	80	375
Disposals	-	-
Closing balance	**6,100**	**6,020**
Amortisation and impairment losses		
Opening balance	5,653	5,379
Charge for the year	204	274
Disposals	-	-
Closing balance	**5,857**	**5,653**
Net Book Value	**243**	**367**

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

25. OTHER ASSETS

Group	2020	2019
	£000	**£000**
VAT recoverable	-	1,970
Contract assets*	-	17
Collateral deposits**	267	2,805
Prepayments	931	830
Collateral assets***	356	1,975
Foreign exchange forward contracts****	2,949	4,933
Other receivables and assets	5,658	4,636
	10,161	**17,166**

* Per IFRS 15 *Revenue from Contracts with Customers*, a contract asset (accrued income) or a contract liability (deferred income, see Note 28) is recognised for difference between the cumulative revenue recognised and the cumulative amounts billed for a contract.
** The Group has pledged cash collateral deposits of £0.03 million (2019: £0.04 million) as security against rental payments on its premises. For 2019 the balance of £2.8 million related to cash held as deposits with financial institutions.
***Collateral assets relate to seized assets from customers in default.
****Foreign exchange forward contracts relate to deal balances with a notional contract amount of £126 million (2019: £274m). Further disclosure on the Group's foreign exchange forward deals is covered in Note 38.

26. DUE TO FINANCIAL INSTITUTIONS

Group	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

Group	2020	2019
	£000	£000
Customer deposits	1,290,934	906,064
Security deposits	9,406	11,056
	1,300,340	**917,120**

28. OTHER LIABILITIES

Group	2020	2019
	£000	£000
Trade payables	81	86
VAT payable	2,822	-
Contract liability	5	17
Collateral advance	1,661	928
Social security and income tax	280	420
Accruals	6,966	10,157
Lease liability*	4,137	5,130
Other creditors**	2,811	3,438
	18,763	**20,176**

*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 Group's foreign exchange forward deals is covered in Note 38. In addition, other creditors also includes £0.1m (2019: £1.4m) of advance rentals reclassified to current year additions in operating lease assets.

29. LEASES

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

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

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

	Buildings	Motor vehicles	Total
	£000	£000	£000
At 1 January 2020	3,994	14	4,008
Additions			-
Depreciation expense	(801)	(7)	(808)
Foreign currency translation adjustments	2		2
At 31 December 2020	**3,195**	**7**	**3,202**

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

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

	2020
	£000
At 1 January 2020	5,130
Additions	-
Accretion of finance charges	139
Payments	(1,113)
Foreign currency translation adjustments	(4)
At 31 December 2020	**4,152**

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

The maturity analysis of lease liabilities is as follows:

At 31 December 2020	Less than 1 month	1-3 months	3 - 12 months	1-5 years	5+ years	Total
	£000	£000	£000	£000	£000	£000
Future lease payments (undiscounted)	9	243	799	3,387	-	4,438
Total future finance charges						(286)
Lease liability						**4,152**

At 31 December 2019	Less than 1 month	1-3 months	3 - 12 months	1-5 years	5+ years	Total
	£000	£000	£000	£000	£000	£000
Future lease payments (undiscounted)	6	251	875	3,942	483	5,557
Total future finance charges						(427)
Lease liability						**5,130**

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

The following are the amounts recognised in profit or loss:

	2020	2019
	£000	£000
Depreciation expense of right-of-use assets	821	843
Finance charge on lease liabilities	139	168
Total amount recognised in profit or loss	**960**	**1,011**

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

The Bank had total cash outflows for leases of £1.1m in the year (2019: £1.2m). The Bank also had non-cash additions to right-of-use assets and lease liabilities of £Nil and £Nil respectively in the year (2019: £4.9m and £6.1m).

The Group has several lease contracts that include extension and termination options. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises significant judgement in determining whether these extension and termination options are reasonably certain to be exercised (see Note 3 d on page 75).

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

	Within five years	More than five years	Total
	£000	£000	£000
Extension options expected not to be exercised	4,832	-	4,832
At 31 December 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 Group holds 50% of the voting rights in Waterfront Holdings Limited ("Waterfront") giving it joint control of the entity. The primary purpose of Waterfront is the ownership of an investment property in Edinburgh in the United Kingdom through its wholly owned subsidiary Waterfront Property Limited.

The Group holds a 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 Group's investment in Waterfront Holdings Limited:

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**
Group'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 Group has committed to a plan to sell all but 10% of its interest in Waterfront Holdings Limited. This is in line with the investment memorandum provided to all eligible prospective investors. Accordingly, 4.18% of the Group's investment is presented as an asset held for sale (2019: 21.18%). During the year, the Group sold 17% of its interest in Waterfront Holdings Limited (2019: 68.82%). The Group 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 Group.

32.CONTINGENT LIABILITIES

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

33. SHARE CAPITAL

Group and Company	**Number of shares**	**Share capital £000**	**Share premium £000**
Allotted, called up and fully paid 25p per Ordinary share			
At 31 December 2019	195,733,691	48,933	0
Add: Issue of new shares	4,631,590	1,158	657
Add: Sale of treasury shares	-	-	483
At 31 December 2020	**200,365,281**	**50,091**	**1,140**

The shares issues during the year occurred in February 2020 in order to satisfy the Company's obligations under various employee share option plans (see Note 13) further to the exercise of options by employees pursuant to the offer made by Boubyan Bank.

34. SUBSIDIARIES AND OTHER ENTITIES

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:							
Bank of London and The Middle East plc	United Kingdom	100%	£48,933,422	912	Regulated Bank	Boubyan Bank K.S.C.P.	BLME Holdings plc
Walbrook Asset Finance Limited	United Kingdom	100%	£11,811,000	185	Leasing	BLME Holdings plc	BLME Holdings plc
Indirectly held:							
BLME Asset Management Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
BLME Holdco Limited	United Kingdom	100%	£102	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
BLME Holdings EBT	Jersey	N/A	N/A	-	Employee benefit trust	Boubyan Bank K.S.C.P.	BLME plc
BLME Limited	United Kingdom	100%	£2	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
Global Liquidity Solutions Limited	United Kingdom	100%	£1	-	Dormant	Boubyan Bank K.S.C.P.	BLME plc
MKL Construction Equipment Finance Limited	United Kingdom	60%	£1,000	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: 26 New Street, St Helier, Jersey JE2 3RA, Jersey
BLME Holdings EBT does not have a registered address as it is not a company.

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

As at 31 December 2019 the BLME Holdings Employee Benefit Trust ('EBT') held a stock of 2,192,029 own shares that had been acquired at a cumulative cost of £3.5 million, which had historically been deducted from retained earnings in the Consolidated Statement of Changes in Equity. In February 2020 these shares were used by the EBT in order to satisfy part of the Company's obligations under the employee unapproved share option plan (see Note 13) further to the exercise of options by employees pursuant to the offer made by Boubyan Bank. The EBT did not purchase any Company shares during the year ended 31 December 2020 (2019: Nil). Stamp duty of £4,235 was incurred by the Group during the year on behalf of the EBT (2019: Nil).

- **Significant restrictions**

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of Bank of London and The Middle East Plc's assets and liabilities are £1,743 million and £1,509 million respectively (2019: £1,549 million and £1,315 million respectively).

- **Interests in unconsolidated structured entities**

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

- **Contractual arrangements and financial support**

The Group does not have any contractual arrangements that could require the parent or its subsidiaries to provide financial support to a consolidated or unconsolidated structured entity (2019: none).

Except for a letter of support provided to MKL Construction Equipment Finance Limited and Walbrook Asset Finance Limited, the Group did not provide financial support to any of its consolidated or unconsolidated structured entities during 2020 (2019: nil) and does not have any current intentions to provide such support (2019: none).

35. NON-CONTROLLING INTEREST

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

36. RELATED PARTIES

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

	Relationship	2020	2019
		£000	£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

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

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

	Relationship	2020	2019
		£000	£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

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

As at 31 December 2020, 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 Company's board.

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

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

	2020	2019
	£000	**£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).

During the year five Directors, as detailed in the Director's report, sold their ordinary shares in the Company by accepting the cash offer by Boubyan Bank K.S.C.P. for the Company and two executive Directors exercised share options.

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 Group, the results of those operations or the state of affairs of the Group in subsequent financial years.

38. FINANCIAL RISK MANAGEMENT

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

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

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

The Group'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 the Bank's Premier Deposit Account (PDA), which was achieved during 2020.

Risk management framework

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

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

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

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

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

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

including limit structures, impairment allowance criteria and reporting requirements. Ensure all frameworks and policies are regularly reviewed and kept relevant and up to date;

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

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

The constituting elements of the RMF are:

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

Board Risk Appetite

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

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

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

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

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

Impairment of Financial assets

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

The Group operates a 3-step customer classification system:

- Normal
- Watchlist
- Asset Recovery Unit

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

Normal

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

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

Watchlist

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

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

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

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

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

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

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

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

Removal criteria from Watchlist would either be:

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

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

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

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

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

ARU classification occurs as a result of:

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

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

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

- **Definition of Default**

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

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

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

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

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

- **Internal rating and PD estimation process**

  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.

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

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

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

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

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

- **Group Provisioning Guidelines**

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

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

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

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

An instrument is also assigned to Stage 2 if it is 30 days past due, unless the payment deferment has been purely COVID-19 related with no wider evidence of Significant Increase in Credit Risk.

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

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

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

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

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

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

- Timings of expected cash receipt/cost payment timings
- Assumptions supporting the above

A minimum of 2 sensitivity calculations are required to be undertaken on a Discounted Cash flow Analysis basis. Once individual sensitivity calculation provision figures have been undertaken, these are weighted (totalling 100%) to account for 'likeliness of occurring'. The final provision amount 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 17 on the Group internal rating scale). If the Stage 3 provision amount is lower than the Stage 2 Provision amount then the Stage 2 Provision amount will be used as a Stage 3 Provision figure.

- **Transfers between stage categorisation**

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

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

a. Credit risk

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

i. Management of credit risk

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

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

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

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

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

COVID-19: Coronavirus related payment deferral support to customers

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

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

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

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

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

The Group considers both the client, relationship Information, historical customer data (including payment history) and the economic environment including higher risk industry sectors and concentrations. Coupled with expert risk judgment this analysis has been utilised to identify if further Significant Increase in Credit Risk ("SICR") criteria at client level and collectively exists that may necessitate a move to Stage 2 under IFRS9. A request for payment deferral alone has not been considered as an automatic repositioning of the client under IFRS 9 to be consistent with legislation. BLME has 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 Group, from other cash deposits or other income streams unaffected by the current pandemic crisis.

In this context the Group have considered the following solutions:

1) Customer to cover the due payment in full from other sources;

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

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

As 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 Group 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 Group's Leasing business has seen an increase in economic activity since mid to late May and the outlook of customers has slowly improved in line with the easing of the lockdown. A number of customers who requested reduced payments during the early stages of 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 Group 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, 29 Customer exposures of the Group totalling £222.9m within Financing arrangements had seen payment deferrals request approved totalling £6.7m. In addition, 428 customer exposures totalling £256.7m within Finance lease receivables and Operating lease assets had seen payment deferral requests approved totalling £18.9m.

In the second half of 2020 the Group approved a further 24 customer exposures totalling £180.3m within Financing arrangements where payment deferrals totalled £5.5m. In addition 80 customers with exposures totalling £88.9m within Finance lease receivables and Operating lease assets had payment deferrals totalling £4.6m approved.

Of the totals above throughout 2020 the specific exposure booked in Walbrook Asset Finance Limited was 17 clients with exposure of £5.4m and payment deferrals of £0.5m during the period until 30 June 2020 and 6 clients with exposure of £1.6m and payment deferrals of £0.01m approved throughout the second half of 2020.

ii. Exposure by Statement of Financial Position line

The tables below present the Group's exposure to credit risk on balance sheet financial instruments as at 31 December 2020, before taking account of any collateral held or other credit enhancements. The amounts at the current reporting date are indicative of the amounts at risk throughout the year.

Group	**2020**	**2019**
	£000	**£000**
Cash and balances with banks	233,606	71,891
Due from financial institutions		
Murabaha	73,170	-
Wakala	7,038	7,619
Due from customers	34,465	14,081
Investment securities	62,124	83,620
Financing arrangements	856,640	883,738
Finance lease receivables	419,942	432,639
Other assets (Foreign exchange forward deals)	2,949	4,933
Total credit exposure	**1,689,934**	**1,498,521**

The Group 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 relate to short dated Trade Finance and Corporate and Asset Finance facilities with a maturity of less than twelve months. The Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. At the end of 2019, the Group expected most guarantees it provided to expire unused. In addition, the Group has a credit exposure to £84m in undrawn commitments (2019: £94m).

iii. Exposure by country of the financed counterparty

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

Group	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	16,413
EEA countries		
Ireland	752	1,363
United Kingdom	1,355,448	1,227,473
Other countries		
Switzerland	-	6,475
Jersey	37,479	35,859
New Zealand	730	1,434
USA	51,160	16,372
Total credit exposure	**1,689,934**	**1,498,521**

iv. Exposure by economic sector

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

Group	**2020**	**2019**
	£000	**£000**
Financial services		
GCC financial institutions	182,453	124,696
UK financial institutions	315,132	177,421
Other financial institutions	88,320	15,097
Mining and quarrying	3,147	4,374
Manufacturing	16,276	37,065
Real estate	560,955	470,088
Transportation and storage	42,354	64,895
Government	10,392	45,795
Wholesale / Retail	36,943	129,295
Commodities	-	51,055
Energy	7,587	12,789
Construction	159,143	218,607
Education	25,490	19,634
Buy to let mortgages	93,871	41,658
Renting and Leasing of Equipment	59,095	5,865
Others	88,776	80,187
Total credit exposure	**1,689,934**	**1,498,521**

v. Credit risk quality

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

The table below shows the breakdown of credit quality as at 31 December 2020. Of the total portfolio 18% (31 December 2019: 14%) was directly rated by at least one of the ECAI, with 82% (31 December 2019: 86%) using internal ratings.

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

Group

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	233,606	-	-	-	-	-	-	233,606
Due from financial institutions	-	-		34,465	-	-	-	34,465
Due from customers	-	-	73,169	7,039	-	-	-	80,208
Investment securities								
FVOCI								
Government debt securities	-	-	-	-	-	-	-	0
Other Investment securities	37,541	-	-	318	-	-	-	37,859
AC								
Government debt securities	-	-	-	-	-	-	-	0
Other Investment securities	24,265	-	-	-	-	-	-	24,265
Financing arrangements	0	-	580,734	158,518	37,479	41,403	38,506	856,640
Finance lease receivables	-	-	205,379	190,310	22,749	1,504	-	419,942
Other assets (Foreign exchange forward deals)	2,947	-	2	-	-	-	-	2,949
Profit rate swaps	-	-	-	-	-	-	-	-
Total credit exposure	**298,359**	**-**	**859,284**	**390,650**	**60,228**	**42,907**	**38,506**	**1,689,934**

Group

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

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

Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	2020	2019	2020	2019
	£000	£000	£000	£000
Neither past due nor impaired	789,075	851,713	418,438	431,507
Past due but not impaired	41,403	16,478	1,504	833
Gross exposure associated with impairment provision	38,506	21,464	-	397
Less: allowance for impairments	(12,344)	(5,917)	-	(98)
Total	**856,640**	**883,738**	**419,942**	**432,639**
Past due but not impaired	**£000**	**£000**	**£000**	**£000**
Past due up to 30 days	29,997	7,219	83	743
Past due 30 to 60 days	1,558	-	103	90
Past due 60 to 90 days	9,848	-	307	-
Past due over 90 days	-	9,259	1,011	-
Total	**41,403**	**16,478**	**1,504**	**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 Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group.

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

Forbearance

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

<u>Forbearance classification</u>

Forbearance:

- is a concession granted to a counterparty for reasons of financial difficulty that would not be otherwise considered by the Group. A concession is provided on a transaction basis.
- can be provided to any current classification of customer (Normal, Watchlist, ARU).
- is considered to be granted when, the Group, for reasons pertaining to the actual, imminent or perceived financial stress of a customer, allows, grants or restructures facilities on terms that are outside of its current financing appetite when considered against the credit risk of the customer.
- For clarity, positive identification of a customer being in financial difficulty is a prerequisite to Forbearance being granted. This does not necessarily mean that any granting of facilities that fall outside of the Group acceptable financing parameters constitutes Forbearance. Agreement to Forbearance does not necessarily convey a necessity for a Stage 3 impairment.

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

A concession refers to either of the following actions:

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

Examples of a concession includes:

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

Modification of a contract that:

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

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

Examples of Forbearance include but are not limited to:

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

<u>Monitoring</u>

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

Forbearance Exit

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

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

Forbearance Register

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

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

The carrying value as at 31 December 2020 of exposures relating to forborne counterparties with no specific impairment charge was £0.17 million, which represents 0.01% of the Group's total assets (2019: £28.3 million and 2%). The Stage 1 and 2 ECLs relating to these forborne exposures is £5k (2019: £31k).

- **Allowance for impairment**

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

vi. Collateral

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

Financial assets or non-financial assets obtained by the Group by taking possession of collateral held as security against financing arrangements and finance leases and held at the year-end are disclosed within Note 25 Other Assets on page 102.

Group	2020 On balance sheet exposure	2020 Collateral	2019 On balance sheet exposure	2019 Collateral
	£000	£000	£000	£000
Cash and balances with banks	233,606	-	71,891	-
Due from financial institutions	80,208	-	7,619	-
Due from customers	34,465	34,467	14,081	14,081
Investment securities	62,124	-	83,620	-
Financing arrangements	856,640	750,542	883,738	763,685
Finance lease receivables	419,942	407,833	432,639	432,809
Other assets (Foreign exchange forward deals)	2,949	-	4,933	-
Total credit exposure	**1,689,934**	**1,192,842**	**1,498,521**	**1,210,575**

As at 31 December 2020, collateral represented 70% (2019: 81%) of the Group's total credit exposure.

Group analysis of collateral	2020	2019
	£000	£000
Plant and equipment	453,524	478,656
Property	737,494	591,792
Raw materials/ finished stock	1,824	140,127
Total credit exposure	**1,192,842**	**1,210,575**

In addition, the Group 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 Group's property financing exposure had an average financing-to-value ratio equal to or less than 70%.

vii. Offsetting financial assets and liabilities

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

Group	Note	Fair value hierarchy	2020 Carrying value £000	2020 Fair value £000	2019 Carrying value £000	2019 Fair value £000
Cash and balances with banks		1	233,606	*	71,891	*
Due from financial institutions	i	2	80,208	80,208	7,619	7,688
Due from customers	i	2	34,465	34,311	14,081	14,081
Investment securities	ii, iii	See next table**	62,124	62,124	83,620	83,620
Financing arrangements	iii	3	856,640	852,260	883,738	883,092
Finance lease receivables	iii	3	419,942	418,505	432,639	432,375
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
Due to customers	iii	3	1,300,340	1,293,309	917,120	921,747
Profit rate swaps liability	ii	2	760	760	1,196	1,196
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 Group's fair value measurement techniques can be found in Note 3b on page 74.

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

Group	2020 Level 1 £000	2020 Level 2 £000	2020 Level 3 £000	2020 Total £000
Investment securities	37,540	-	318	37,858
Exchange of deposits (liability)	-	-	-	-
Profit rate swaps (liability)	-	760	-	760
Foreign exchange forward deals (assets)	-	2,949	-	2,949
Foreign exchange forward deals (liabilities)	-	-	-	-

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

During the 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.

Group Investment securities	2020 £000	2019 £000
Balance at 1 January	328	341
Total gains / (losses) recognised in:		
- profit or loss*	(10)	(13)
- other comprehensive income**	-	-
Purchases	-	-
Sales	-	-
Balance at 31 December	**318**	**328**

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

The reconciliation for investment securities is included in Note 19 on page 96.

ix. Financial assets and liabilities

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

Group	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	-	-	233,606	233,606
Due from financial institutions	-	-	80,208	80,208
Due from customers	-	-	34,465	34,465
Investment securities:				
Sukuk	-	37,541	24,265	61,806
Equity	-	318	-	318
Financing arrangements	-	-	856,640	856,640
Finance lease receivables	-	-	419,942	419,942
Other assets (foreign exchange forward deals)	2,949	-	-	2,949
Total financial assets	**2,949**	**37,859**	**1,649,126**	**1,689,934**

Group	2020 Fair value through profit and loss	2020 Fair value through other comprehensive income	2020 Financial liabilities at amortised cost	2020 Total
Liabilities	**£000**	**£000**	**£000**	**£000**
Due to financial institutions		-	185,935	185,935
Due to customers	-	-	1,300,340	1,300,340
Profit rate swaps	760	-	-	760
Other liabilities (Foreign exchange forward deals)	-	-	-	-
Total financial liabilities	**760**	**-**	**1,486,275**	**1,487,035**

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

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

b. Liquidity risk

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

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

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

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

Residual contractual maturities of financial assets

Group	**Less than 1 month £000**	**1-3 months £000**	**3 - 12 months £000**	**1-5 years £000**	**5+ years £000**	**2020 Total £000**
Cash and balances with banks	233,606	-	-	-	-	233,606
Due from financial institutions	80,275	-	-	-	-	80,275
Due from customers	-	-	5,184	29,498	-	34,682
Investment securities	316	12,331	992	51,316	-	64,955
Financing arrangements	133,428	10,942	154,452	574,479	2,133	875,434
Finance lease receivables	10,502	18,953	85,972	165,169	4,707	285,303
Other assets (Foreign exchange forward deals)	2,164	785	-	-	-	2,949
	460,291	**43,011**	**246,600**	**820,462**	**6,840**	**1,577,204**

Group	**Less than 1 month £000**	**1-3 months £000**	**3 - 12 months £000**	**1-5 years £000**	**5+ years £000**	**2019 Total £000**
Cash and balances with banks	71,891	-	-	-	-	71,891
Due from financial institutions	-	-	7,787	-	-	7,787
Due from customers	14,083	-	-	-	-	14,083
Investment securities	244	21,376	648	64,317	-	86,585
Financing arrangements	453,678	294,427	44,728	101,183	9,470	903,486
Finance lease receivables	13,860	28,262	128,582	280,879	19,841	471,424
Other assets (Foreign exchange forward deals)	47	4,715	171	-	-	4,933
Profit rate swaps (asset)	-	-	-	-	-	-
	553,803	**348,780**	**181,916**	**446,379**	**29,311**	**1,560,189**

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

None of the Group's assets have been pledged as collateral apart from cash collateral deposits of £0.03 million (2019: £0.04m) pledged as security against rental payments on the Group'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

Group	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	135,492	-	380,851	786,187	30,852	1,333,382
Profit rate swaps	-		-	760	-	760
Other liabilities (Foreign exchange forward deals)	-	-	-	-	-	-
	298,020	**14,669**	**389,681**	**786,947**	**30,852**	**1,520,169**

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

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

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

Group	2020 £000	2019 £000
Cash and cash equivalents	233,606	71,891
Highly liquid securities (including HQLA)	61,806	83,292
Total	**295,412**	**155,183**

As at 31 December 2020, there are no limitations on the use of the liquidity reserve held by the Group (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 Group's Market Risk Management Policy, ALCO is responsible for reviewing all classes of market price risk and positions, sanctioning dealing limits and approving the Group's stress testing program in accordance with the Group's Stress Testing and Scenario Analysis Policy.

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

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

i. Profit rate risk

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

As at 31 December 2020, the Group's net profit rate sensitivity to profit and loss on its fixed and variable rate assets and liabilities, and its capital and reserves, as measured by the discounted value of a one basis point change in market rates, was £8,295 (2019: £5,178). The impact of an increase / decrease of 100 basis points in profit rates at the statement of financial position date, subject to a minimum rate of 0%, would be as follows:

	At 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	510	-	-	3,254
Decrease in profit & loss	-	405	3,062	-
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 Group uses the following time buckets where the shocks are applied to:

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

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

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

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

ii. Foreign exchange risk

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

	At 31 December 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 Group's Assets & Liabilities Committee ("ALCO") but due to the limited exposure to equity price risk, the sensitivity risk is not currently significant in relation to the overall results and financial position of the Group.

d. Operational risk

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

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

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

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

Basel III requires Pillar 1 capital to be retained for operational risk, which the Group 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 Group's profitability, which result in a reduction in available capital. BLME and WAF together comprise a UK Regulatory Consolidation Group that came into being during 2020 and which is subject to regulatory capital requirements. The Consolidated regulatory position as at 31 December 2020 has been set out below. The comparative position as at 31 December 2019 is reflective of the Bank which was the only entity subject to Regulatory Capital requirements at that date. Throughout the year the Group complied with the capital requirements that were in force as set out by the Prudential Regulation Authority ("the PRA") (unaudited). The PRA adopted the Basel III requirements with effect from 1 January 2014.

The UK Regulatory Consolidation Group capital position as at 31 December was as follows:

	2020	2019
Audited	**£000**	**£000**
Tier 1 Capital - CET1		
Ordinary share capital	60,744	48,933
Share premium	140,623	140,623
Retained earnings	44,748	42,400
Total Tier 1 capital	**246,115**	**231,956**
Unaudited		
Deductions from Tier 1 capital		
Intangible assets	(243)	(56)
Others	-	(1,604)
Total Tier 1 capital after deductions	**245,872**	**230,296**
Tier 2 capital	-	-
Total Tier 2 capital	**-**	**-**
Total Tier 1 and Tier 2 capital	**245,872**	**230,296**
Deductions from Tier 1 and Tier 2 capital:	NIL	NIL
Total regulatory capital	**245,872**	**230,296**

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

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

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

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

	2020 £000 (unaudited)	2019 £000 (unaudited)
Pillar 1 capital requirements		
Credit risk	117,633	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	**123,935**	**117,301**
Total regulatory capital in place	**245,872**	**230,296**

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

The PRA reviews the Group's ICAAP assessment of its Pillar 2 capital requirement as part of the Individual Capital Guidance (ICG) process. The 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 Group website www.blme.com.

The Group will continue to prudently employ capital and maintain appropriate capital adequacy, liquidity and leverage ratios. BLME reported to the PRA ratios above the minimum requirement throughout 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
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
SECR	Streamlined Energy and Carbon Reporting framework
SIC	Standard Interpretations Committee of the IASB
SICR	Significant Increase in Credit Risk
SICAV	Société d'Investissement À Capital Variable
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
tCO2e	Tonnes of carbon dioxide equivalent
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 the Company are responsible for paying Zakat on their shareholding.
Fatwa	Islamic law given by a recognized authority

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