



بنك لندن والشرق الأوسط  
Bank of London & The Middle East

**BLME Holdings plc**  
**Annual Report and Financial Statements**  
**For the year ended 31 December 2017**  
Registered number 08503102



# CONTENTS

Glossary of abbreviations	2
Glossary of Islamic Finance Terminology	4
Group Highlights	6
Chairman's statement	7
Chief Executive Officer's statement	8
The Board and Executive management	10
Group Strategic report	12
Directors' report	16
Corporate governance report	20
Sharia'a Supervisory Board report	26
Audit Committee report	27
Remuneration report	29
Statement of Directors' responsibilities	32
Independent auditor's report	33
Consolidated income statement	42
Consolidated statement of comprehensive income	43
Consolidated statement of financial position	44
Company statement of financial position	45
Consolidated statement of cash flows	46
Company statement of cash flows	47
Consolidated statement of changes in equity	48
Company statement of changes in equity	50
Notes to the consolidated financial statements	52
1. Reporting entity	52
2. Basis of preparation and significant accounting policies	52
3. Use of critical accounting estimates and judgements in applying accounting policies	65
4. Segmental information	67
5. Income from financing and investing activities	70
6. Returns to financial institutions and customers	70
7. Net fair value losses on investment securities	70
8. Other operating income	71
9. Profit rate swaps	71
10. Personnel expenses	72
11. Directors' emoluments	73
12. Other operating expenses	73
13. Share-based payments	74
14. Impairments of financial assets	78
15. Taxation	79
16. Earnings per share	81
17. Changes in Liabilities from Financing Activities	82
18. Due from financial institutions and customers	82
19. Investment securities	83
20. Financing arrangements	85
21. Finance lease receivables	86
22. Property and equipment	87
23. Operating lease assets	88
24. Intangible assets	89
25. Other assets	89
26. Due to financial institutions	89
27. Due to customers	89
28. Other liabilities	90
29. Commitments under operating leases	90
30. Contingent liabilities	91
31. Share capital	91
32. Merger reserve	91
33. Subsidiaries and other entities	92
34. Non-Controlling Interest	94
35. Related parties	94
36. Financial risk management	96
Company Information	117

## GLOSSARY OF ABBREVIATIONS

AED	Arab Emirate Dirham
AFS	Available-for-Sale
AGM	Annual General Meeting
ALCO	Assets & Liabilities Committee
AMIC	Asset Management Investment Committee
AML	Anti-Money Laundering
ASOP	Approved Share Option Plan
Basel	Basel Accord or Basel Standards
BCC	Board Credit Committee
BLME	Bank of London and The Middle East plc
BLMEH	BLME Holdings plc
BREEAM	Building Research Establishment Environmental Assessment Method
BRC	Board Risk Committee
CCR	Counterparty Credit Risk
CCRC	Counterparty Credit Risk Committee
CEO	Chief Executive Officer
CET1	Common Equity Tier 1
CFO	Chief Financial Officer
CGs	Commercial Guidelines
CIC	Change Implementation Committee
COO	Chief Operating Officer
CRD IV	Capital Requirements Directive IV
CRO	Chief Risk Officer
DABS	Deferred Annual Bonus Scheme
DFSA	Dubai Financial Services Authority
DIFC	Dubai International Finance Centre
DIPs	Deferred Incentive Planned 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 Standard
IASB	International Accounting Standard 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 Customers
LAB	Liquid Asset Buffer
LGD	Loss Given Default
LLP	Limited Liability Partnership
LOD	Lines of Defence
MBA	Master of Business Administration
MCOBs	Mortgage and Home Finance Conduct of Business rules
MENA	Middle East and North Africa
MIFID	Markets in Financial Instruments Directive
MLRO	Money Laundering Reporting Officer
NCI	Non-Controlling Interest
NEDs	Non-executive Directors
OCI	Other Comprehensive Income
ORC	Operational Risk Committee
PC	Product Committee
PDA	Premier Deposit Account
PIFSS	Public Institution for Social Security
PRA	Prudential Regulation Authority
PRR	Position Risk Requirement
PRS	Profit Rate Swap
PVO1	Present Value to 1 basis point
RAF	Renaissance Asset Finance
RMF	Risk Management Framework
RRP	Recovery Resolution Plan
RSCA	Risk Control Self-Assessment
SE	Structured Entities
SIC	Standard Interpretations Committee of the IASB
SICAV	Société d'Investissement À Capital Variable
SID	Senior Independent Director
SIF	Special Investment Fund
SM&CR	Senior Managers and Certification Regime
SMR	Senior Managers Regime
SSB	Sharia'a Supervisory Board
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
USOP	Unapproved Share Option Plan
WMIC	Wealth Management Investment Committee

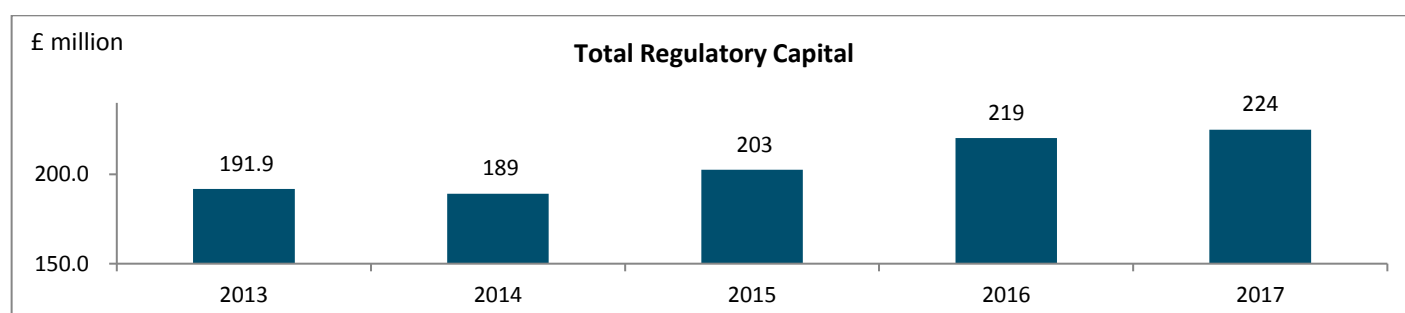
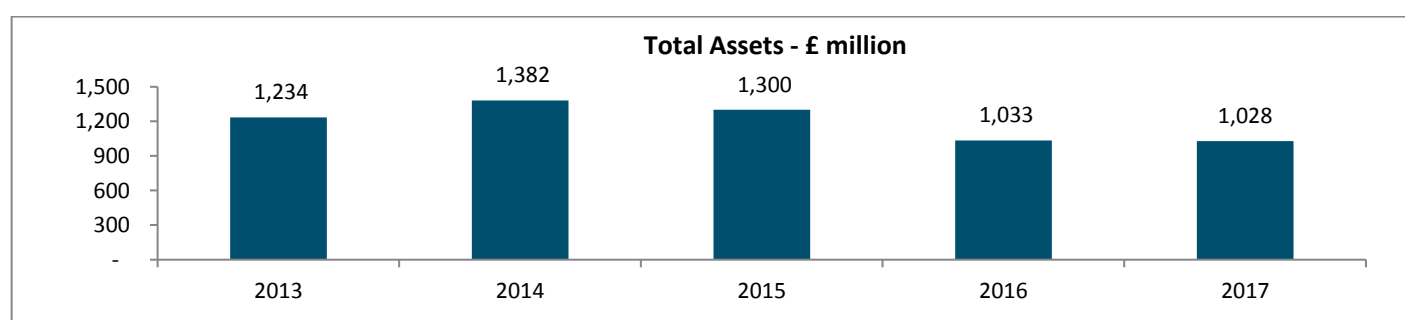
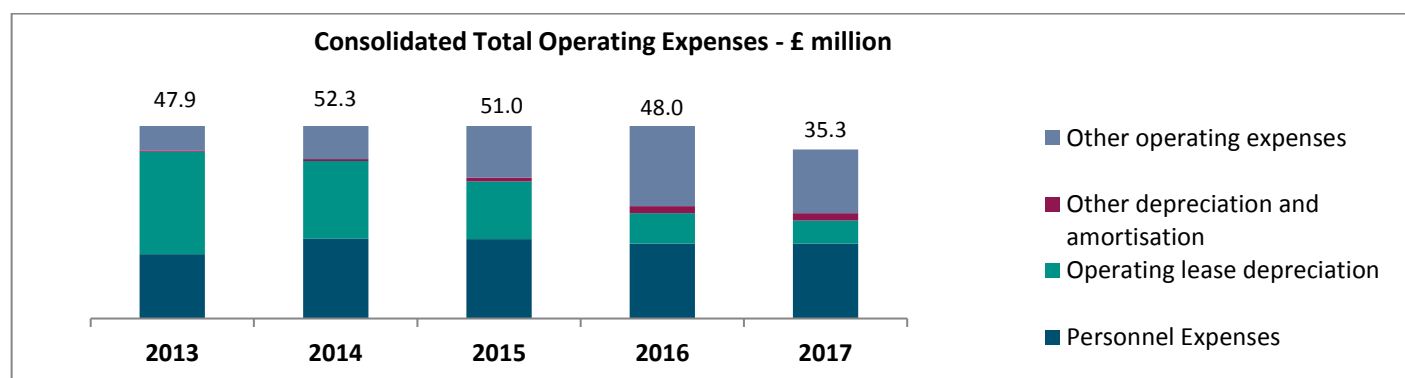
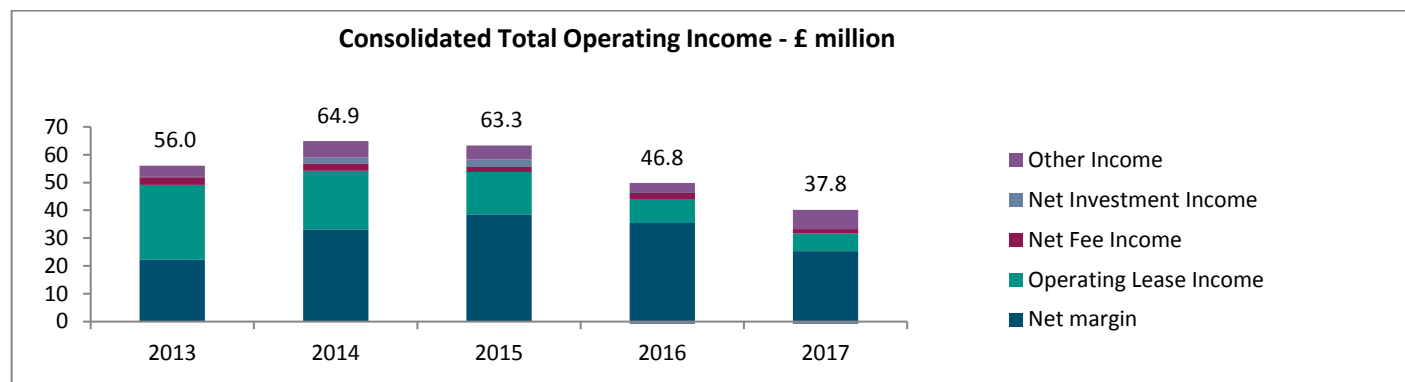
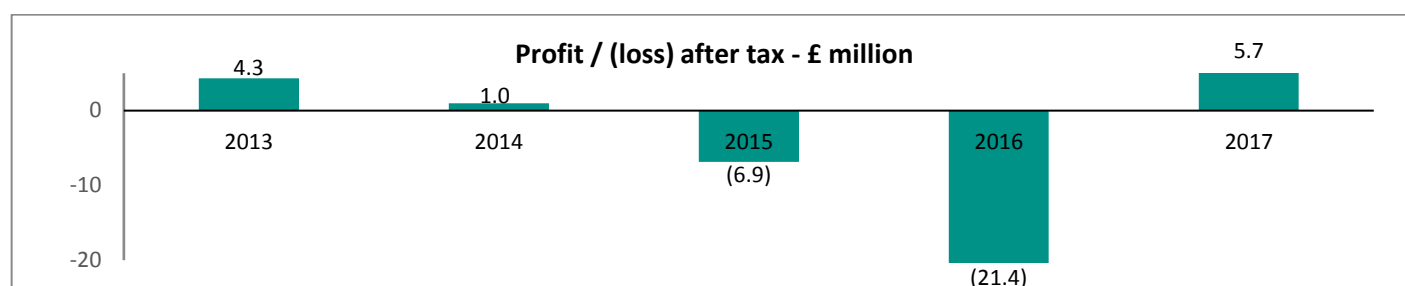
## GLOSSARY OF ISLAMIC FINANCE TERMINOLOGY

Murabaha	A Murabaha contract is a deferred sale of goods at cost plus an agreed profit mark-up under which one party purchases goods from a supplier and sells the goods to another party at cost price plus an agreed mark-up. The delivery of the goods is immediate whilst payment is deferred. Murabaha has a variety of applications and is often used as a financing arrangement, for instance for working capital and trade finance.
Commodity Murabaha	A Commodity Murabaha contract (a subset of Murabaha) is often used as a liquidity management tool by financial institutions. The Commodity Murabaha is today the mainstay of the Islamic interbank short term liquidity market. In these transactions the commodity, usually a London Metal Exchange base metal, is sold on a deferred basis with a mark-up. The mark-up is close to conventional money market levels.
Wakala	Wakala means agency and is often used in an arrangement where one party (the principal) places funds with another (the agent). The agent invests funds on the behalf of the principal for an agreed fee or profit share.
Ijara	An Ijara is a contract allowing the granting of the right to use an asset by one party to another which equates to the leasing of an asset in return for rental payments. Ijara is typically used for medium to long term financing of real estate, equipment, machinery, vehicles, vessels or aircraft.
Mudaraba	A Mudaraba is a partnership contract in which a capital owner (Rab al Mal) enters into a contract with a partner (Mudarib) to undertake a specific business or project. The Mudarib provides the labour or expertise to undertake a business or activity. Profits are shared on a pre-agreed ratio but losses are borne by the Rab al Mal unless negligence of the Mudarib is demonstrated.
Musharaka	An agreement under which the Islamic bank provides funds which are mingled with the funds of the business enterprise and others. All providers of capital are entitled to participate in the management but not necessarily required to do so. The profit is distributed among the partners in predetermined ratios, while the loss is borne by each partner in proportion to his/her contribution.
Sukuk	Sukuk (also referred to as Islamic bonds) are certificates that reflect ownership in an underlying asset. Profits are calculated according to the performance of the underlying asset or project. Sukuk are usually issued by Structured Entities ("SE") which are set up to acquire and to issue financial claims on the assets. Such financial claims represent a proportionate beneficial ownership for a defined period when the risk and the return associated with cash-flows generated by the underlying asset are passed to the Sukuk holders. Sukuk are commonly used as funding and investment tools.
Istisna	An Istisna contract is usually used for construction finance. The asset is not in existence at the start of the contract and is built or manufactured according to detailed specifications defined by the client, and delivered at the agreed date and price. Payment is deferred. Istisna contracts are commonly applied in project finance, construction finance and pre-export finance where the bank acts as an intermediary between the producer and the ultimate client.

Profit rate swaps	A profit rate swap is a contract between two parties where each counterparty agrees to pay either a fixed or floating rate denominated in a particular currency to the other counterparty providing a means of exchanging fixed rate profit rate risk for floating rate risk – or vice versa.
Participation agreement	A participation agreement is an agreement executed between the relevant Structured Entity (SE) and the Bank. The main objective of this agreement is to facilitate the required funding to enable the SE to acquire leased assets or investment property and to convey the beneficial ownership of the asset to the Bank. Under this agreement the risks and rewards are transferred to the Bank and the SE is indemnified against actual losses that arise as a result of any lease transaction it enters into except in cases where it misappropriates any funds.
Zakat	Zakat is an a legitimate obligation to donate a proportion on certain kinds of wealth each year to certain deserving classes of recipients prescribed for in accordance with the principles of Sharia'a. The purpose of zakat is to make society coherent so that the rich feel the suffering of the poor and the needy in society. Zakat is paid by Muslims who have wealth above a certain threshold. Zakat is paid on "shares" and shareholders of BLME are responsible for paying zakat on their shareholding.
Fatwa	Islamic law given by a recognized authority

## 2017 GROUP HIGHLIGHTS FOR BLME HOLDINGS PLC

The Group's profit after tax for the year ended 31 December 2017 was £5.7 million (year to 31 December 2016: loss after tax of £21.4 million)



## CHAIRMAN'S STATEMENT

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

**Dear Shareholders**

I am pleased with the progress the Group has made in 2017. The Group has been transformed over the past 18 months and is now on track to operating within the newly focussed Wealth Management strategy. The refinement of the strategy is reflected in the results, as the Group reports a return to profit.

The senior management team have been instrumental in producing this turnaround and building more efficient operations alongside a reduction in costs of 27% in 2017. This success is an encouraging start; however, there is still a way to go. I am confident that we have the correct team in place to continue to produce change in the Group.

The Board will continue to strive to meet the expectations of our shareholders. The Board and the Group value the support of our shareholders and will maintain an open dialogue. We sincerely thank our shareholders for their support throughout the years to help us achieve this positive outcome.

I would like to thank the Sharia'a Supervisory Board for their guidance and support over the past year and to the staff for their hard work and commitment.

Adel Abdul Wahab Al-Majed

**Chairman**

20 March 2018

### **Naming convention and abbreviations:**

The expression "the Company" or "the Group" or "the BLME Group" refers to BLME Holdings plc and its subsidiaries. BLME Holdings Plc is the ultimate parent company and is listed on Nasdaq Dubai.

The name of the principal subsidiary, Bank of London and The Middle East plc is shortened to "BLME" or "the Bank" in narrative text.



## **CHIEF EXECUTIVE OFFICER'S STATEMENT**

2017 proved to be a transformational year for BLME. We set ourselves the challenge of fundamentally changing our business model; to become a lower risk and more focused bank, whilst delivering a return to profit following a disappointing 2016. We have successfully delivered across all key objectives, which is a great achievement given the backdrop of uncertain economic conditions.

### **Financial Performance**

In 2017 we achieved a record profit after tax for BLME of £5.7 million, compared to a loss of £21.4 million in 2016. Financing assets were stable over 2017, with new business growth offset by some major repayments during the year, maintaining the balance sheet at £1 billion. In 2017, there have been a number of recoveries relating to legacy issues however the profit trajectory, with the ongoing business, leaves me optimistic for the year ahead.

### **Improved Efficiency**

During the year, we have worked hard to reduce our costs and achieved a reduction of 27% (2016: 6%), this was necessitated as a result of moving to a lower risk return portfolio of assets. Our cost to income ratio improved from 103% in 2016, to 93% in 2017, and should fall further as we adapt to our new model. Despite this dramatic reduction in costs, we were still able to invest in the new strategy, and in particular in growing our Wealth Management products and services.

### **Risk Management**

Further to the enhancements made to our risk management framework during 2016, we have continued to maintain a conservative risk appetite. Non-Performing financing assets as a proportion of our financing portfolio decreased to 5.5% in 2017, from 7.8% a year earlier. Impairment charge of £15.8 million in 2016 reduced due to recoveries and resulted in a net impairment credit of £3.3 million in 2017. We have successfully reduced concentration risk in our financing and funding, this will remain a priority moving forward. Our cost of funds has reduced and as a result, our product pricing has become more market competitive.

General Data Protection Regulation (GDPR) preparation has had a significant impact internally and we have invested in systems and resources to ensure that we are ready for 25 May 2018. The GDPR team are working to prepare every department across the bank for the changes and to put processes in place to ensure that moving forward our operations remain GDPR compliant.

### **Distribution**

A challenge for BLME has always been the distribution of products and services. In 2017 we began to focus more on establishing and building partnerships with other banks. Boubayan Bank, our largest shareholder, has been very supportive and in 2017 we participated alongside them in one of the largest transactions BLME has completed.

There have been several initiatives to improve our distribution capability, the most significant has been to upgrade our Dubai International Financial Centre (DIFC) license from a representative office to a branch, this has now been approved in principle by the Dubai Financial Services Authority (DFSA). As a branch we will be able to provide a more comprehensive service to our clients. This is an important step in our expansion of BLME Wealth Management.

### **People**

Developing and embedding BLME values has been an important element of our success this year. Our corporate values have become part of our everyday working life and influence all aspects of our operations from customer service to recruitment. We have spent the past year reflecting on the feedback from our employees and addressing their areas of concern to make BLME a great place to work. We have recruited talent aligned with our values, and cultivated our culture to be one that is collaborative, goal orientated and resilient.

## **Products**

We have launched mortgages (outside of Mortgage Conduct of Business (MCOB) rules) and continue to invest in expanding our Wealth Management offering. Our newly created Investment Solutions team have completed their first deal. There is a growing interest amongst Gulf Cooperation Council (GCC) nationals for UK real estate assets outside of London and the recent transaction indicates our ability to connect our clients to strong and diverse income yielding assets.

We also successfully launched our online 90 Day Notice Account and improved our Premier Deposit Account which have both contributed further in diversifying our deposit base and reducing liability concentration risk.

## **Future**

2017 has been a breakthrough year for BLME. We drew a line under the legacy issues that have cast a long shadow over the bank in recent years. We have built strong foundations, and can now focus on growing the Bank as we continue the implementation of our focused strategy.

We have a strong team that are fully aligned with our goals and who drive the culture and success of the Bank. I want to thank them for their amazing commitment and resilience in 2017. I would also like to thank the Chairman and the Board for their ongoing support, and the Sharia'a Supervisory Board for their continued guidance.

Giles Cunningham

**Chief Executive Officer**

20 March 2018

## THE BOARD AND EXECUTIVE MANAGEMENT

### **Adel Abdul Wahab Al-Majed – Chairman**

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

### **Sheikh Abdullah Jaber Al-Ahmed Al-Sabah – Vice Chairman**

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

### **Executive Directors**

#### **Giles Cunningham – Chief Executive Officer**

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

#### **Chris Power – Chief Financial Officer**

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

### **Non-executive Directors**

#### **Michael Williams (Senior Independent Director)**

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

#### **Neil Holden (Independent)**

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

#### **David Williams (Independent)**

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

#### **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. Before joining BLME he was the Managing Director and Board member of International Bank of Qatar. Jabra began his career at Cairo Amman Bank where he was Head of Treasury before moving to Union Bank as Executive Manager responsible for Treasury and Financial Institutions. Jabra joined Jordan National Bank (Ahli Bank) in 1994 as Assistant General Manager followed by four years at Merrill Lynch (Jordan) as General Manager. From 2002 to 2012 he worked at National Bank of Kuwait holding several senior positions including General Manager, Jordan and Head of Private Banking. Jabra has played a key role in developing and growing market leading banks. He is also an independent Board member of Bank of Etihad.

#### **Calum Thomson (Independent)**

Calum Thomson joined the Board of BLME Holdings Plc in April 2017 as Chairman of the Audit Committee and a member of the Risk Committee, Nominations Committee and the Board Credit Committee. He has over 25 years of experience in the Financial Services industry and was at Deloitte LLP for the past 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, British Empire Trust plc, Baring Emerging Europe plc and Standard Life Private Equity plc and a Non-executive Director of Schroder Pension Management Ltd and Schroder Unit Trusts Ltd.

# GROUP STRATEGIC REPORT

## THE BUSINESS MODEL

The Bank of London and the Middle East plc (“BLME”) is one of the largest Islamic banks in Europe specialising in Wealth Management with complementary Real Estate, Lease Finance and Trade Finance offerings focussed on the UK and GCC markets. We are led by a strong management team, which brings together experienced international bankers, product specialists and leading experts in Islamic finance. We are fully in compliance with the principles of Sharia’a, and pride ourselves in providing Sharia’a compliant financing solutions to our clients be they individuals, Commercial or Wholesale.

The Bank is authorised by the Prudential Regulatory Authority (PRA) and regulated by the PRA and the Financial Conduct Authority (FCA), and possesses a full UK banking licence. The Bank operates in three strategic divisions:

### Wealth Management

Wealth Management includes the Group’s complementary businesses of Private Banking, Investment Solutions and Real Estate Finance.

The Private Banking business focuses on providing private banking services leveraging our Real Estate and Leasing capabilities. It provides deposit products, banking services and residential and investment property finance targeted towards GCC and Middle-East and North Africa (MENA) based High Net Worth Individuals and also offer business jet and superyacht finance.

Investment Solutions offers targeted Sharia’a compliant investments through in-house capabilities or third parties.

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

### Commercial Finance

The Commercial Finance division specialises in providing competitive financing solutions to the UK mid-market and particularly supports those companies that have links to the GCC region. The clients range from multinational corporations to family businesses generally earning a minimum operating profit of £1 million across a variety of business sectors. The facilities offered typically range in size from £1 million - £20 million and the credit approval process is centralised in the London office.

Commercial Finance, has particular expertise in the following sectors: transportation, healthcare and energy and can offer companies a comprehensive package of facilities. The business is relationship focussed so the same team remains with the transaction from origination to repayment. The Commercial Finance division is organised into three departments:

- Leasing solutions for the UK mid-market, including international facilities and wholesale finance through on balance sheet and joint venture investments.
- Corporate and Asset Finance for the GCC including vendor programmes.
- Trade Finance offering inventory finance, structured trade transactions and letters of credit.

### Treasury

The Treasury division manages the Bank’s capital, liquidity and funding, ensuring that the Bank operates within its market and liquidity risk appetites. To this end Treasury ensures funding sources are diversified and at cost effective rates. In alignment with the strategy objective to achieve wider and diversified funding, Treasury has launched a new savings product, the Notice Account, which provides shorter term savings opportunities.

## STRATEGY AND OBJECTIVES

The Group aims to become the UK's leading provider of Sharia'a compliant wealth management solutions for GCC nationals. We provide a bridge between the UK and the GCC, leveraging our established business areas such as Real Estate and Leasing where we have expertise and credibility.

In delivering the strategy, we have a number of aspirations:

- To build a strong, established and respected Wealth Management brand across the GCC.
- To become the UK partner of choice for GCC Islamic banks.
- To deliver sustainable profitability and stable returns.
- To provide excellent service to clients, demonstrated by long-term relationships and recommendations.
- To create a culture that drives a well-governed, innovative and client-centric Sharia'a Bank.

Over the course of 2017 we have launched new products including mortgages (outside of Mortgage Conduct of Business (MCOB) rules) and debit cards for our private banking clients, built a balanced and experienced wealth management team and upgraded our DIFC license from a representative office to a branch, which has now been approved in principle by the DFSA and will improve our distribution capabilities.

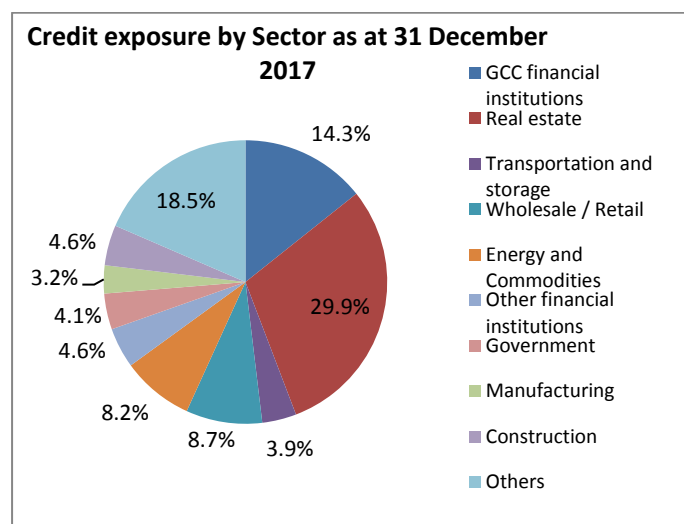
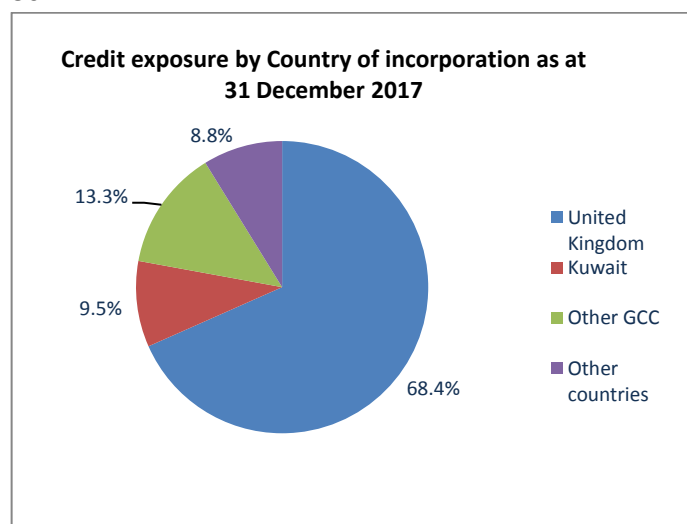
## FINANCIAL RESULTS

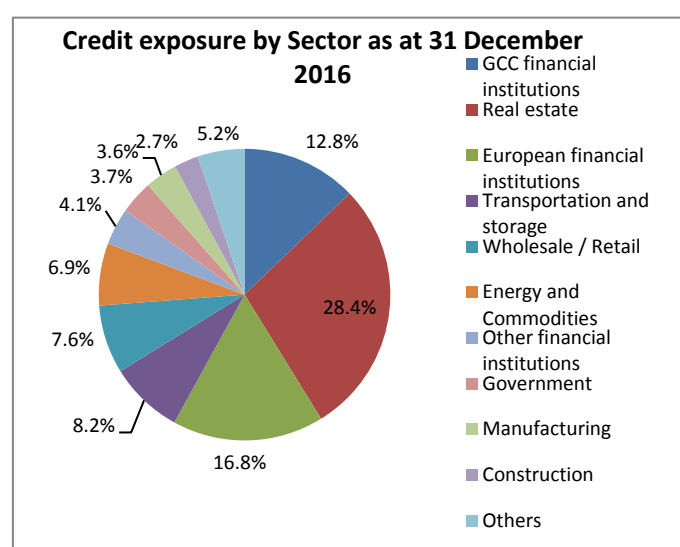
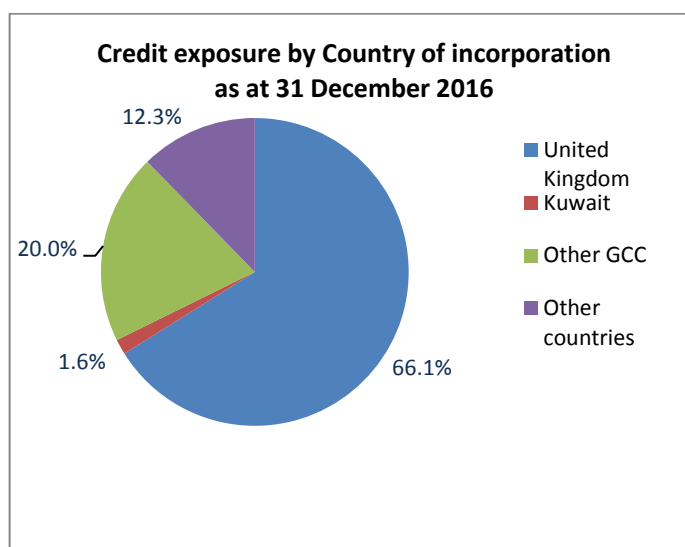
The financial statements for the year ended 31 December 2017 are shown on pages 42 to 51. The profit after tax for the year amounted to £5.7 million (2016: loss of £21.4 million). Below are the highlights of the financial performance and the position as at 31 December 2017.

Key performance indicators	2017	2016
Post-tax return on equity	2.8%	(8.7)%
Cost income ratio	93%	103%
Net fee income / total income	3.7%	4.6%
Non-performing Financing Assets to overall Financial Assets	5.5%	7.8%
Number of depositors	3,204	2,485

The efficiencies identified in late 2016 have been implemented and as a result our cost income ratio is on a downward trajectory.

Below graphs shows the credit exposure by country of incorporation and by sector. Further details can be found in Note 36.





## GROUP NON-FINANCIAL INFORMATION STATEMENT

BLME is committed building a bank that drives positive change not only for individuals but for society as a whole. We are committed to acting in a socially responsible manner and promoting this approach in the market in which we operate. We recognise our social, civic, economic and environmental responsibilities across all areas of our business and operations.

During 2017 we continued to develop a culture that inspires staff to deliver excellent client service in line with our strategy and risk appetite. This will continue in 2018 as we get closer to our clients and meet their needs with relevant products. The Bank continues to monitor its key risks, and as part of this we continue to reduce our concentration risk and are focussed on continuing to diversify our funding and financing streams.

### Social Responsibility

BLME expects a high and consistent standard of conduct from all of our employees. Respect and compliance with the law, regulations, BLME policies and Sharia'a principles are the highest priority for BLME. Our values position integrity, consistency and fairness at the heart of BLME's operations. It is central to BLME's culture that all stakeholders are valued, and treated with dignity and transparency. BLME approaches clients, business and product development with a strong attention to risk. Our corporate values have become part of our everyday working life and influence all aspects of our operations from customer service to recruitment.

### The Environment

BLME complies with relevant environmental laws and regulations. Our head office has a 'Very Good' BREEAM (Building Research Establishment Environmental Assessment Method) Rating.

BLME Corporate Social Responsibility includes our commitment to the environment. We implement operational efficiencies to ensure that our environmental impact is reduced or limited. For example; providing extensive recycling facilities in our offices and managing travel plans to maximise the number of clients and events as possible in one journey.

### Health and Wellbeing

BLME takes the health and wellbeing of our employees seriously. We encourage safe and healthy working conditions through our Health and Safety policy and through a range of benefits which include Private Medical Insurance, gym membership, a generous holiday allowance and training and development. Our new employee wellbeing programme is in the midst of being launched by the end of first quarter of 2018.

To support a safe working environment BLME has fire wardens and trained first aiders on site. We also have Disaster Recovery and Business Continuity plans. Our employee handbook and intranet also provide advice on Wellbeing and Health and Safety.

#### **Financial Crime and Anti-Corruption and Anti-Bribery**

Over the past two years BLME has heavily invested in building a robust financial crime risk management team with supporting policies and processes alongside regular financial crime training and communications to all staff.

All BLME staff receive annual training on anti-corruption and anti-bribery matters. BLME's three core financial crime policies; Anti-Bribery and Corruption Policy, Anti-Money Laundering, Counter Terrorism Financing and Sanctions policy. Additional policies further support our robust approach to financial crime which include our Charitable Donations Policy, Conflicts of Interest Policy and Employee Handbook.

#### **Human Rights**

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

#### **Whistleblowing**

BLME has a Whistleblowing Policy. A whistleblower is a person who raises a genuine concern related to suspected wrongdoing or dangers at work. We support staff who have genuine concerns related to suspected wrongdoing or danger affecting any of BLME's activities to report should 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 36.

Further information on the Group's strategy is provided in the CEO statement.

On behalf of the Board

Giles Cunningham  
**Chief Executive Officer**  
20 March 2018



## DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2017.

### Principal activities

BLME Holdings plc ("the Company" or "the Group") 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. The insertion of the Company as a holding company of the Bank was effected pursuant to a Scheme of Arrangement in 2013.

BLME is an independent, wholly Sharia'a compliant bank authorised by the UK's Prudential Regulation Authority (PRA) and regulated by the Financial Conduct Authority (FCA) and the PRA. The Bank provides a range of Sharia'a compliant banking services to businesses and individuals with a strong focus on the UK and the Middle East. BLME has three strategic business divisions – Commercial Finance, Wealth Management and Treasury - offering competitive financial products and services. 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 2017 are shown on pages 42 to 51. The consolidated Group profit for the year after taxation amounts to £5.7 million (2016: loss of £21.4 million). The result for the stand-alone Company for the year was a profit of £21.8 million (2016: loss of £152.9 million). The Directors do not recommend the payment of a dividend for the year ended 31 December 2017 (2016: £Nil).

### Directors and Directors' interests

There were some significant changes to the Board during 2017. The Directors who held office during the year, and their Committee memberships and functions as at 31 December 2017, were as follows:

<b>Name and Board/Committee Chairmanships</b> (as at 31 December 2017)	<b>Date of Appointment</b>	<b>Date of Resignation</b>	<b>Committee Memberships</b> (as at 31 December 2017)
Adel Abdul Wahab Al-Majed <i>Chairman of the Board</i>	26 April 2013		
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah <i>Vice Chairman of the Board</i>	26 April 2013		Audit Risk Remuneration
Giles Cunningham <i>Chief Executive Officer</i>	17 November 2016		Executive Credit
Chris Power <i>Chief Financial Officer</i>	26 September 2016		Executive
Michael Williams (Senior Independent Director) <i>Chairman of the Nominations Committee</i>	26 April 2013		Nominations Remuneration Risk Credit
Neil Holden (Independent) <i>Chairman of the Remuneration Committee</i>	26 April 2013		Nominations Remuneration Audit Risk Credit
Calum Thomson (Independent) <i>Chairman of the Audit Committee</i>	1 April 2017		Audit Risk Nominations Credit
Jabra Ghandour	25 March 2016		

David Williams (Independent) <i>Chairman of the Board Risk Committee</i>	15 October 2015		Nominations Remuneration Risk Credit
Zeyad Al-Mukhaizeem	7 February 2014	31 March 2017	
Frank Vermeulen (Independent)	26 April 2013	31 March 2017	
Abdullah Al-Mejhem (Independent)	1 April 2017	18 April 2017	

Michael Williams became Senior Independent Director and Chairman of the Nominations Committee on 27 February 2017.

Zeyad Al-Mukhaizeem stepped down from the Board on 31 March 2017 with Abdullah Al-Mejhem appointed to the Board as a Non-executive Director on 1 April 2017.

Frank Vermeulen stood down from the Board on 31 March 2017, with Calum Thomson appointed to the Board on 1 April 2017 taking over as Chairman of the Audit Committee.

Pursuant to the provisions of the Company's Articles of Association, any Director who has been appointed by the Board during the financial year, rather than at a general meeting of Shareholders, must stand for election by the Shareholders at the first Annual General Meeting (AGM) following their appointment. Following that AGM the Directors must stand for re-election by the Shareholders at least every three years. All of the current Directors were re-elected at the Company's AGM either in 2016 or in 2017 and accordingly no Directors are standing for re-election at the AGM in 2018.

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 2017 had the following beneficial interests in the ordinary shares of the Company at the end of the year.

Name	Class of share	Number of shares held at the end of the year
Adel Abdul Wahab Al-Majed	Ordinary 25p	1,000,000
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah	Ordinary 25p	80,000
Neil Holden	Ordinary 25p	30,000
Michael Williams	Ordinary 25p	30,000
David Williams	Ordinary 25p	30,000
Calum Thomson	Ordinary 25p	30,000
Jabra Ghandour	Ordinary 25p	500,000
Giles Cunningham	Ordinary 25p	813,120
Chris Power	Ordinary 25p	30,000

## Chairman's other significant commitments

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

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

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

## 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
- Capital risk
- Conduct risk

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

The result of the UK's referendum on EU membership remains an area of risk and potential opportunity for the Group. However, given the current state of the negotiations as we enter into 2018, management has assessed and stress-tested a number of scenarios that may result from a "Hard Brexit". This is being monitored on a regular basis and the Group is in a position to withstand any significant UK macroeconomic and political risk impact from the result of the Brexit negotiations.

## Political contributions

The Group made no political contributions during the year (2016: £nil).

## Going concern

The Directors have reviewed the business activities and financial position of the Group and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. In making this assessment the Directors have considered a wide range of information about the current and future condition of the Group including the strategic direction, activities and risks that affect the financial position.

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 ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

#### **Auditor**

The Board undertook an audit tender in 2017 in accordance with auditor tender rules and best practice, having engaged KPMG LLP as Auditors for almost 10 years. Following the tender process the Board proposed the appointment of Ernst & Young LLP as the Group's Auditor and were appointed by resolution on 19 May 2017 at the AGM.

A resolution concerning the re-appointment of the external Auditor and authorising the Directors to set their remuneration will be proposed at the Annual General Meeting.

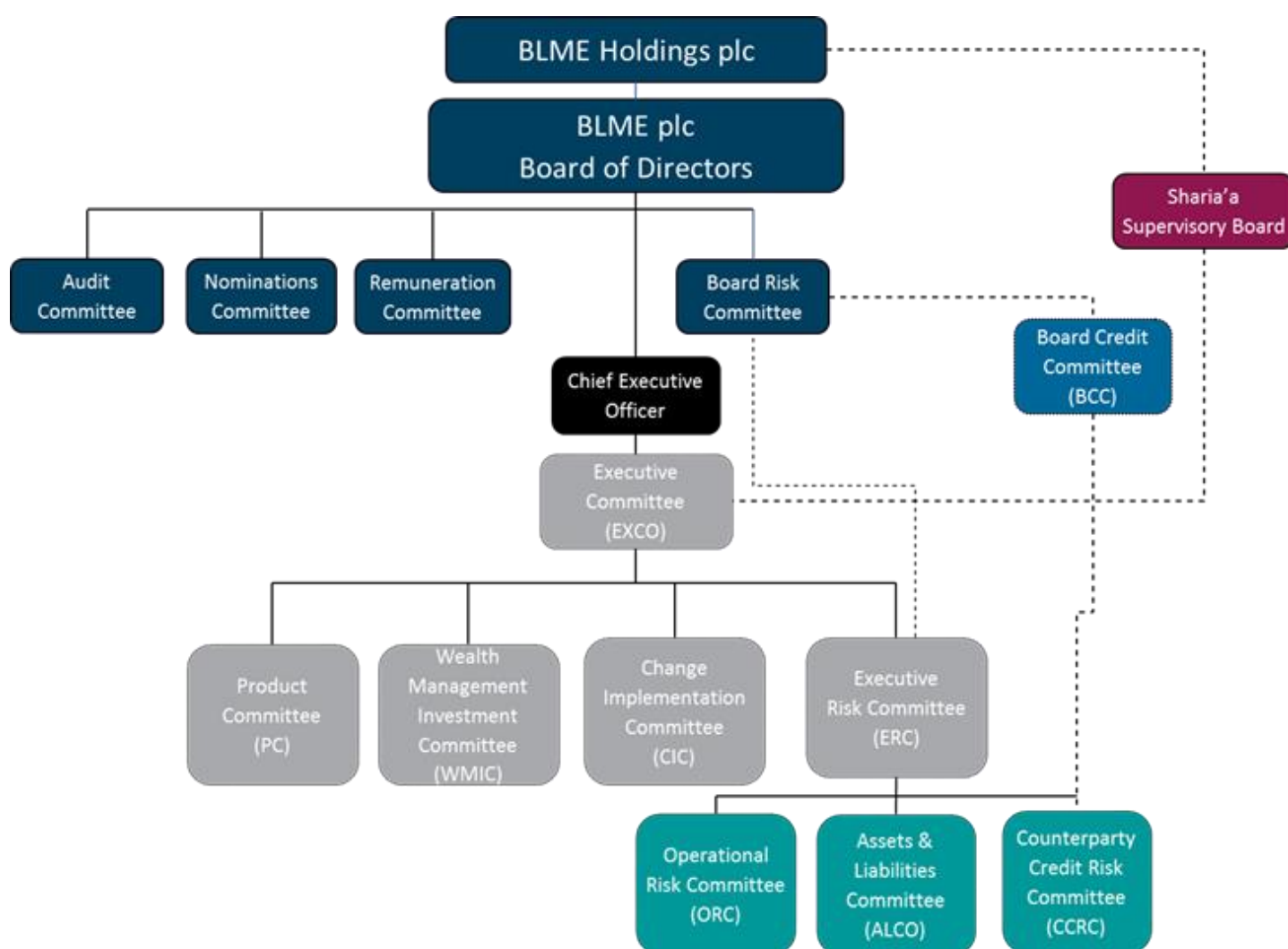
By order of the Board

Peter Bulkeley  
**Company Secretary**  
20 March 2018

## CORPORATE GOVERNANCE REPORT

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

### Governance structure



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

To reflect the change in the Wealth Management business during the year, Asset Management Investment Committee (AMIC) was restructured to Wealth Management Investment Committee (WMIC).

## **The Board of Directors**

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

As at 31 December 2017 the Board of Directors comprised two Executive Directors:

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

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

- Adel Abdul Wahab Al-Majed – Non-executive Chairman
- Sheikh Abdullah Jaber Al-Ahmed Al-Sabah – Vice Chairman of the Board
- Michael Williams - Senior Independent Director and Chairman of Nominations Committee
- Neil Holden– Chairman of Remuneration Committee (Independent)
- Calum Thomson – Chairman of Audit Committee (Independent)
- David Williams – Chairman of Risk Committee (Independent)
- Jabra Ghandour

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 Bank's expense where they judge it necessary to discharge their duties as Directors.

## **Board Meetings**

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

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

## **Board Committees**

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

## Board and Committee meetings attendance record 2017

	Board			Nominations Committee			Audit Committee			Risk Committee			Remuneration Committee		
	Regular attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Ad hoc attended	Meetings eligible to attend	Meetings attended	Ad hoc attended	Meetings eligible to attend
Executive Directors															
Giles Cunningham	6	1	7												
Christopher Power	6	1	7												
Non-executive Directors															
Adel Abdul Wahab Al-Majed	5	1	7												
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah	5	1	7				5	2	7	3	3	9	4	2	6
Michael Williams	6	1	7	4	0	4				3	4	7	2	2	5
Frank Vermeulen	2	1	3	1	0	1	2	1	3	0	1	2	1	0	1
Neil Holden	5	1	7	3	0	4	5	2	7	4	4	9	4	2	6
Zeyad Al-Mukhaizeem	2	1	3				2	0	3	1	1	2	1	0	1
David Williams	6	1	7	4	0	4				4	5	9	3	2	5
Jabra Ghandour	6	1	7												
Calum Thomson	4	0	4	3	0	3	3	1	4	3	4	7			
Abdullah Al-Mejhem	0	0	0										0	1	1

Of the seven board meetings held during the year, six were regular meetings and one was an ad hoc meeting. The ad hoc meeting covered a number of topics including the approval of the Business Plan, Strategy, Budget and Risk Appetite. All serving Directors attended the ad hoc meeting. The approval of the Annual Report and Financial Statements, approving the notice of AGM and approving the 2017 ICAAP, ILAAP and RRP were all covered in regular scheduled Board meetings. The Executive Directors regularly attend the Audit Committee and Risk Committee meetings as guests.

### Board Audit Committee

The Audit Committee is chaired by Calum Thomson and comprises Sheikh Abdullah Jaber Al-Ahmed Al-Sabah and Neil Holden. Calum Thomson took over as Chairman from Frank Vermeulen on 1 April 2017.

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 Bank, 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), provide non-audit services in addition to the provision of audit services. In the year ending 31 December 2017, non-audit services provided by EY comprised advice with regards to employment and overseas tax services. Further details regarding the fees paid to EY for these services are included in Note 12 on page 73.

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

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

More information regarding the Group's Audit Committee is included in the Audit Committee report on page 27.

### **Board Risk Committee**

The Board Risk Committee (BRC) is chaired by David Williams and comprises Sheikh Abdullah Jaber Al-Ahmed Al-Sabah, Neil Holden, Michael Williams and Calum Thomson.

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

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

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

### **Board Remuneration Committee**

The Remuneration Committee is chaired by Neil Holden and comprises Sheikh Abdullah Jaber Al-Ahmed Al-Sabah, Michael Williams and David Williams.

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

More information regarding the Group's Remuneration policy is included in the Remuneration report on page 29.



## **Board Nominations Committee**

The Nominations Committee is chaired by Michael Williams and comprises Neil Holden, David Williams and Calum Thomson.

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

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

## **Chairman and Chief Executive**

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

- a. The Non-executive Chairman, Adel Abdul Wahab Al-Majed, is responsible for the leadership of the Board, ensuring effectiveness in all aspects of its role, reviewing the Board's agenda and conducting Board meetings, and ensuring effective communication with Shareholders and the conduct of Shareholders meetings.
- b. Executive management is led by the Chief Executive Officer (CEO), Giles Cunningham, who has been delegated responsibility by the Board for the day-to-day management of the Bank within the control and authority framework set by the Board. The CEO is supported by Chief Financial Officer (CFO), Chris Power, in managing the business.
- c. The Company Secretary, Peter Bulkeley, is responsible for ensuring good information flows within the Board and its Committees and between senior management and Non-executive Directors, as well as facilitating inductions and assisting with professional development of Board members as required. The Company Secretary ensures that Board procedures are complied with, and advises the Board, through the Chairman, in all governance matters. The Board has the responsibility for appointing and removing the Company Secretary.

## **Board balance**

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

During the year ended 31 December 2017, two of the Directors were Executive Directors; on average 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 Bank
- relationships with other Directors
- whether the Non-executive Director is a Shareholder
- the nature of the Non-executive remuneration, including any participation in employee incentive arrangements

## **Information and professional development**

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

## **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 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 BLME 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 BLME Group is responsible for ensuring that the BLME Group conducts its business in accordance with the principles of the Sharia'a. It is the responsibility of the Sharia'a Supervisory Board to form an independent opinion, based on the review of the operations, agreements and transactions conducted by BLME. 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 BLME Group during the period 1 January 2017 to 31 December 2017 and have reviewed the BLME Annual Report and Financial Statements for the year ended 31 December 2017. We conducted our reviews to form an opinion as to whether BLME Group has complied with the principles of the Sharia'a and with specific fatwa rulings and guidelines issued by the Sharia'a Supervisory Board.

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

1. The operations, agreements and transactions entered into and conducted by BLME Group during the year 1 January 2017 to 31 December 2017 and which were reviewed by the Sharia'a Supervisory Board are in compliance with the principles of the Sharia'a.
2. The distribution of profits and the sharing of losses in terms of the investment accounts at BLME Group are in compliance with the principles of the Sharia'a.
3. All profit generated by BLME Group during the year 1 January 2017 to 31 December 2017 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 2017 to 31 December 2017 and will oversee BLME's dealings in the disposal of this income in a Sharia'a compliant manner.

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

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

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

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

Sheikh Dr. Abdulaziz Al-Qassar

**Chairman**

20 March 2018

# AUDIT COMMITTEE REPORT

## Statement from the Chairman of the Board Audit Committee

The Audit Committee met seven times during the year. In March 2017, the Committee reviewed the Annual Report and Financial Statements for the year ended 31 December 2016 and recommended its approval to the Board. In May, the Committee considered its terms of reference and reviewed the internal audit report on Financial Crime. It also received updates on Cyber Security and from the Compliance departments monitoring plan. In July and August, the Committee reviewed the Interim Report for the six months ended 30 June 2017 and recommended its approval to the Board. It reviewed the internal audit reports on the Commercial Finance, Wealth Management, Middle Office, Finance and Human Resources departments and discussed the management action plan. In October, the Committee received updates on the progress of internal audit plan for the year and action plan on the areas of Financial Crime and Cyber Risk. The external Auditor's plan for their audit of the year-end financial statements was received and discussed. In December, the Committee reviewed the internal audit report on Credit Risk and the Senior Manager and Certification Regime. It received an update on year-end planning and discussed the impact of new accounting standards including the IFRS 9 implementation plan. In March 2018, 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 2017 and recommended the approval of these to the Board

### Audit Committee Members

Calum Thomson – Chair  
Sheikh Abdullah Jaber Al Ahmed Al Sabah  
Neil Holden

### Audit Committee Guests

EY – (external auditor)  
PwC – (internal audit)  
David Williams – INED  
Chief Financial Officer

## 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 BLME's Operational Risk Register. The function presents regular reports showing management responses on delivering recommended changes.
- To meet the independent Auditor of the Company to review their proposed audit plan and the subsequent Audit Report and to assess the effectiveness of the audit process, the nature of the non-audit work and the levels of fees paid in respect of both audit and non-audit work.
- To make recommendations to the Board in relation to the appointment, re-appointment or removal of the 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 has benchmarked its terms of reference against regulations and best practice, for similar businesses, and found that no significant adjustments were required and has established its annual programme of activities to enable it to meet the requirements set out by regulation and in the terms of reference.
- The Committee discussed various issues facing the Group including the growing threat of cyber security risk and improvement of the stronger financial crime and compliance function of the Group.
- The Committee reviewed the level of impairments including collective and specific throughout the year and provided robust challenge and analysis.

- The Committee had a detailed review of the financial statements including the appropriateness of the accounting policies adopted for the recognition of income and the valuation of the Company's investment in its subsidiary.
- The Committee assessed the Internal Auditor's risk assessment, audit plan for the current and next year, and consistently reviewed the internal audit reports and recommendations on the audit of various areas of the Bank including Human Resources; Finance; Financial Crime; Cyber Security; Regulatory Reporting including Capital and Liquidity reporting; Compliance Risk Framework; Credit on boarding and monitoring; Middle Office including Anti Money Laundering (AML), Know your customer (KYC) and Senior Manager and Certification Regime (SM&CR). It evaluated the risk and control framework of these areas in light of the report and recommendation.
- The Committee reviewed the effectiveness of the outsourced internal audit function, which it deemed to be satisfactory, however felt it would be further enhanced if the management established its own internal audit function. As a result, the management have recruited a permanent member of staff to head up the internal audit function at the Bank and the Audit Committee Chair is currently overseeing the handover from a fully outsourced model to a co-sourced structure.
- The Committee has reviewed the transition of the previous incumbent external auditors KPMG to the new auditors EY.
- The Committee reviewed the Compliance Monitoring Plan and the implementation of new regulations including MIFID II; Senior Manager and Certification Regime; Payment Services Directive II; CRD IV and Basel III.
- During the year, the Committee reviewed and discussed the IFRS 9 implementation plan and progress; the new impairment methodology; and the PRA transitional arrangements. The Audit Committee Chair met EY to discuss the assumptions and management judgements made in relation to IFRS 9 impairment model developments.

### **External Audit Process**

The Committee makes recommendations to the Board on the appointment of the external auditors and has unrestricted access to BLME's Auditors. The Committee welcomed the new auditors Ernst & Young LLP (EY) during the year who took over from previous auditors (KPMG). 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
- obtaining written confirmation from the Auditors that, in their professional judgement, they are independent.

The Audit Committee meets at least twice a year with the Auditor without Management. The Auditor provides a planning report in advance of the annual audit, a results report on their review of the Interim Report and a results report on the annual audit of the Annual Report and Financial Statements. The Audit Committee has an opportunity to question and challenge the 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 2017 audit concluded that the audit process with the new auditors 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**

20 March 2018

## REMUNERATION REPORT

### Statement from the Chairman of the Board Remuneration Committee

The Committee met six times during the year. The composition of the Committee has changed in 2017 with Michael Williams and David Williams joining the Committee following the retirement of Frank Vermeulen and Zeyad Al-Mukhaizeem from the Board on 31 March 2017.

Financial performance in 2017 was much improved compared to the previous year and is commented upon in more detail in the Chairman's and Chief Executive Officer's statements on pages 7 to 9. In that context, the Bank has improved the underlying cost income ratio and invested in the new strategy, in particular in growing our Wealth Management products and services.

#### Remuneration Committee Members

Neil Holden – Chair  
Sheikh Abdullah Jaber Al Ahmed Al Sabah  
Michael Williams – INED  
David Williams – INED

#### Remuneration Committee Guests

Mercer (advisor)  
Tracey Carlton – Head of HR  
Calum Thomson - INED

### Role of the Remuneration Committee

The Remuneration Committee's main functions are to:

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

### Remuneration policy

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

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

### 2017 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 and approval of Executive Directors, Material Risk Takers and other higher-paid staff remuneration;
- Review and approval of the remuneration of the Chairman of the Board;

- Approval of a Policy for Risk Adjustment of the Annual Bonus Pool;
- Approval of the 2017 bonus pool payable in 2018 including the discretionary bonuses for senior staff with mandatory deferral applied above a threshold of £25,000;
- Approval for the use of a new cash deferral methodology from 2017 onwards that will protect the Company from future cost pressure as staff participants will not be eligible for matching awards or benefit from any future share price growth other than through share option schemes or existing holdings;
- Review and approval of share option awards for executives, senior and key staff to reinforce value growth for our shareholders over a longer vesting profile of 50% vesting after 3 years, 25% vesting after 4 years and 25% vesting after 5 years;
- Review of pensions arrangements for senior staff affected by recent changes in pensions taxation legislation.

## 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.

A discretionary bonus forms part of the Group's remuneration package. For senior executives and staff designated as Material Risk Takers a portion of the annual discretionary bonus is deferred over a three year period. The bonus deferral mechanism in March 2018 will not be using the historical Deferred Annual Bonus Scheme (DABS) which had future pay-outs linked to the share price performance of the parent company. The DABS scheme also provided staff with the ability to benefit from a matching award of up to 100% of the deferred award, subject to performance targets, and was subject to forfeiture on leaving employment unless classified as a good leaver. Instead a new cash deferral methodology has been introduced with vesting spread evenly over a three year period with no matching award or linkage to the share price and subject to forfeiture relating to malus, gross misconduct or leaving to join a direct competitor. Removing the matching award and the linkage to the share price reduces and stabilises the cost to the Bank of the deferral and acknowledges that the Senior Management team and key staff are already aligned with long-term shareholder interest through the recent issue of share options using the ASOP and USOP schemes (see below).

Whilst the headline financial performance of the Group represented a highly satisfactory turnaround from 2016, the Committee in addition carefully considered the underlying sustainable level of profitability in 2017, and the pressing need for the shareholders to begin to share in the Group's turnaround. In addition to the financial performance of the Group progressed well in achieving non-financial strategic goals, and this also was taken into account in setting the level of annual bonuses. In balancing these considerations the Committee consulted with all the Non-executive Directors including shareholder NEDS before deciding to approve a discretionary bonus but was also very mindful of the need to reduce the distributable reserves deficit.

The Group has Shareholder approval to make awards up to an aggregate maximum of 10% of the parent Company's issued share capital over a 10 year period from the date of the Nasdaq Dubai listing in October 2013. In order to align and retain the Senior Management team and key staff across the Bank with the recently articulated strategy, the Remuneration Committee approved the award of approximately 4.4% of issued share capital as options under the Bank's ASOP and USOP schemes to senior management and key staff (2016: 3.6%). Such awards were made subject to vesting over a 5 year period dependent on the Committee's assessment of the underlying performance of the Group and will also be subject to the Committee's discretionary assessment as to whether performance has been achieved within the risk appetite of the firm, based on feedback from the Chief Risk Officer, the Chief Compliance Officer and the Board Risk Committee.

Awards made in 2017 across all equity-settled share schemes totalled the equivalent of 4.9% of the issued share capital (2016: 5.2%) and the total number of equity-settled options in issue as at 31 December 2017, less options issued prior to the Nasdaq Dubai listing and less shares already held by the EBT, represented 9.2% of the issued share capital (31 December 2016: 5.3%).

Neil Holden

**Chairman, Board Remuneration Committee**

20 March 2018

*Additional information on the structure of our share-based payment schemes and all awards made under these schemes is provided in the Share-based payments note on pages 74 to 78.*



## **STATEMENT OF DIRECTORS' RESPONSIBILITIES**

### **In respect of the annual report and financial statements**

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

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

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

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

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

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

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

# INDEPENDENT AUDITOR'S REPORT

To the members of BLME Holdings plc

## Opinion

In our opinion:

- BLME Holdings plc's (the "Company", the "Group") consolidated financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU");
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

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

Group	Parent Company
Consolidated income statement for the year ended 31 December 2017	Statement of financial position as at 31 December 2017
Consolidated statement of comprehensive income for the year ended 31 December 2017	Statement of cash flows for the year ended 31 December 2017
Consolidated statement of financial position as at 31 December 2017	Statement of changes in equity for the year ended 31 December 2017
Consolidated statement of cash flows for the year ended 31 December 2017	Related notes 1 to 36 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year ended 31 December 2017	
Related notes 1 to 36 to the financial statements, including a summary of significant accounting policies	

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

## Basis for opinion

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

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

## 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.

## Conclusions relating to going concern

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

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

## Overview of our audit approach

Key audit matters	<ul style="list-style-type: none"><li>• Group - Improper revenue recognition</li><li>• Group - Adequacy and appropriateness of provisions made in relation to credit facilities</li><li>• Parent Company - Adequacy and appropriateness of the provision made in relation to the investment in Bank of London and the Middle East plc</li></ul>
Audit scope	<ul style="list-style-type: none"><li>• We performed an audit of the complete financial information of the Group and Company</li><li>• Our Group audit scope included all operating subsidiaries of BLME Holdings plc all of which are audited by the engagement team</li></ul>
Materiality	<ul style="list-style-type: none"><li>• Overall Group materiality of £2.2m which represents 1% of net assets.</li></ul>

## Performing a first year audit

In preparation for our first year audit of the 31 December 2017 financial statements, we undertook procedures to establish our independence of the Group. This involved ceasing commercial relationships and ensuring that all staff who work on the audit were independent of the Group. We used the time prior to commencing any audit work to gain an understanding of the business issues and meet with key management and non-executive directors. We reviewed the predecessor auditor's working papers while identifying and assessing the risks, judgements and potential audit and accounting issues documented by the predecessor auditors. We used the understanding the audit team had formed to establish our audit base and assist in the formalisation of our audit strategy for the 2017 audit. This involved gaining an understanding of the key processes and controls over financial reporting.

## 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
<p><b>Improper revenue recognition (Group)</b></p> <p>Income from financing and investing activities is £41.7million (2016 £55.0 million).</p> <p>Income from fees and commissions is £1.9 million (2016 £2.7 million).</p> <p><i>Refer to the Accounting policies (page 57); and Note 5 of the Consolidated Financial Statements (page 70)</i></p> <p>The key risks of improper recognition of income arises from:</p> <p>(i) Income recorded from financing and investing activities might not be complete and accurate, and</p> <p>(ii) Fees and commissions can require judgment as to the amount and timing of recognition.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> <li>• Understanding processes and controls related to revenue recognition and testing the design and operating effectiveness of these controls with the assistance, where required, of EY IT audit professionals.</li> <li>• Performing analytical procedures to identify trends and corroborating movements not in line with our expectations.</li> <li>• Recalculating, on a sample basis, the income recognised across different product classes to ensure it has been calculated in accordance with the underlying transaction documentation.</li> <li>• Agreeing, on a sample basis, transactions to supporting transaction documentation and cash receipts for fees and commissions.</li> <li>• Performing year end cut-off testing to ensure that revenue was recognised in the correct period.</li> <li>• Checking to supporting evidence any adjustments to the accounting records that we have identified that have characteristics that could indicate unusual or inappropriate adjustments.</li> <li>• Assessing the appropriateness of the revenue recognition accounting policies adopted in accordance with IAS 18.</li> </ul>	<p>As a result of the procedures performed, we did not identify any evidence of material misstatement in the recognition of revenue.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Adequacy and appropriateness of provisions made in relation to credit facilities (Group)</b></p> <p><b>Financing arrangements</b></p> <p><b>2017: £567,820k</b> (<i>specific provision £9,558k, collective provision £1,674k</i>)</p> <p><b>2016: £473,304k</b> (<i>specific provision £13,511k, collective provision £1,827k</i>)</p> <p><b>Finance lease receivables 2017: £170,546k</b> (<i>specific provision £3,190k, collective provision £1,492k</i>)</p> <p><b>2016: £232,701k</b> (<i>specific provision £4,674k, collective provision £2,318k</i>)</p> <p><i>Refer to the Accounting policies (page 58); and Note 14 of the Consolidated Financial Statements (page 78)</i></p> <p>Impairment allowances represent management's best estimate of the losses incurred within the loan portfolios at the balance sheet date. They are calculated on (i) a collective basis for losses incurred but not yet recognised in the performing loan portfolios with a similar credit nature, and (ii) on an individual basis for loans where a loss event has occurred. The calculation of both collective and individual impairment allowances is inherently judgemental.</p> <p>Given the subjective nature of the calculation of credit impairment provisions there is heightened risk that the timing and extent of this could be subject to error or to management bias.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>Assessing, with the assistance of IT audit professionals, the design effectiveness and testing the operating effectiveness of controls over the credit arrears monitoring and impairment processes for identifying credit events.</li> </ul> <p><b>Specific provision</b></p> <ul style="list-style-type: none"> <li>Reviewing financing arrangement annual credit review files, watch list, monitoring reports and, where relevant, collateral valuation documentation along with publically available information to identify any potential indicators of impairment. Testing a sample of credit exposures from the performing financing portfolio to determine whether any indicators of impairment exist.</li> <li>Analysing the files in the Asset Recovery Unit to assess that all non performing credit exposures are appropriately provided for.</li> <li>Challenging the decisions made by management to ensure that the provision booked against each impaired exposure, has been booked in accordance with IAS 39 and related assumptions are supported by corroborative evidence.</li> <li>With the assistance, where required, of EY valuation specialists, reviewing and challenging the third party valuation reports used by management in their assessment of credit exposures.</li> <li>Checking that exposures falling into arrears were monitored effectively and where appropriate had been included in the watchlist and provided for.</li> </ul> <p><b>Collective provision</b></p> <ul style="list-style-type: none"> <li>Using EY risk modelling specialists to assess the design of the collective impairment provision model.</li> <li>Checking that the inputs to the model agreed to the underlying data that reconciles to the general ledger.</li> <li>Challenging the internal ratings applied to facilities within the collective impairment provision model and</li> </ul>	<p>As a result of the procedures performed, we are satisfied that management's judgements are reasonable and that there is no evidence of material misstatement in the provision for impaired credit facilities.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
	<p>obtaining documentation that supported their classification within a specific risk category and subsequently reconciling the risk rating per the supporting documentation to the model.</p> <ul style="list-style-type: none"> <li>• Performing a sensitivity analysis to corroborate that the Collective Impairment Provision is not materially understated based on the current Probability of Default (“PD”) and Loss Given Default (“LGD”) data.</li> <li>• Reviewing and challenging a sample of annual credit reviews of performing financing arrangements to ensure they were carried out effectively and any deteriorations in the quality of credit were captured through an update to the risk ratings input to the collective provision model.</li> <li>• Preparing a benchmark analysis comparing the PD rates used in the model to third party market data.</li> <li>• For a sample of new credit facilities advanced during the period, obtaining a copy of the underlying collateral valuation and ensuring that this was effectively captured in the LGD calculation.</li> </ul>	

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Adequacy and appropriateness of the provision made in relation to the investment in Bank of London and the Middle East plc (Parent Company)</b></p> <p><b>Investment in subsidiary £111,011k, 2016: £89,196k, following a release of £21,815k in the provision for impairment</b></p> <p><i>Refer to the Accounting policies (page 65); and Note 19 of the Consolidated Financial Statements (page 84)</i></p> <p>The Company holds a significant investment in Bank of London and the Middle East plc. We have determined this to be a key audit matter due to the quantum of the investment as at 31 December 2017, and the involvement of significant judgement by management in the valuation of the investment, and consequent risk of misstatement.</p>	<p>Our approach focused on:</p> <ul style="list-style-type: none"> <li>• Confirming our understanding of the impairment assessment process and evaluating the design effectiveness of key controls over the process.</li> <li>• Reviewing and challenging management's impairment assessment and the estimation of the recoverable amount.</li> <li>• Comparing the underlying calculation with the budget approved by the Board and re-performing the value in use calculation independently.</li> <li>• With the assistance of EY valuation specialists, critically assessing the assumptions used by management such as risk-free discount rate, weighted average growth rate and terminal value used with reference to our understanding of the business and comparison to other similar companies and broader market considerations.</li> <li>• Performing sensitivity analysis on the cash flow forecasts and key assumptions to the model to understand the impact that reasonably possible changes to key assumptions would have on the overall carrying value of the investment at the balance sheet date.</li> </ul>	<p>Based on the work performed we conclude that the recoverable amount of the investment in Bank of London and the Middle East plc included in the Statement of financial position as at 31 December 2017 is appropriate</p>

## An overview of the scope of our audit

### Tailoring the scope

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

### Our application of materiality

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

### Materiality

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

We determined materiality for the Group to be £2.2m, which is 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 following a series of significant losses in recent years.

We determined materiality for the Parent Company to be £894k, which is 1% of net assets. We determined our materiality based on equity rather than on profits or revenues because the Company'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, view capital restoration as a key consideration following a series of significant losses in recent years.

### **Performance materiality**

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that an appropriate performance materiality was 75% of our planning materiality, namely £1.7m.

### **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, which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

### **Other information**

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

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

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

We have nothing to report in this regard.

### **Opinions on other matters prescribed by the Companies Act 2006**

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.



## **Matters on which we are required to report by exception**

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

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

- adequate accounting records have not been kept by the 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 32, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

## **Auditor's responsibilities for the audit of the financial statements**

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are Companies Act 2006, Financial Services and Markets Act 2000, Financial Services Act 2012, Capital Requirements Regulation, and relevant Prudential Regulation Authority and Financial Conduct Authority regulations. .
- We understood how the Group complies with these legal and regulatory frameworks by making enquiries of management, internal audit, and those responsible for legal and compliance matters. We also reviewed correspondence between the Group and UK regulatory bodies, reviewed minutes of the Board, the Executive Committee, the Audit Committee and the Board Risk Committee; and gained an understanding of the Bank's approach to governance demonstrated by the Board's approval of the Bank's risk management framework and governance framework and the internal controls processes.

- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur, by considering the controls that the Bank has established to address risks identified by the Bank, or that otherwise seek to prevent, deter, or detect fraud. We also considered performance incentives and their potential to influence management to manage earnings.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations identified in the paragraphs above. Our procedures included inquiries of management, internal audit, and those responsible for legal and compliance matters; as well as focused testing as referred to in the Key Audit Matters section above. In addition we performed procedures to identify any significant items inappropriately held in suspense and also any significant inappropriate adjustments made to the accounting records.
- As the audit of banks requires specialised audit skills, the senior statutory auditor considered the experience and expertise of the audit team to ensure that the team had the appropriate competence and capabilities, and included the use of specialists where appropriate.

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

### **Other matters we are required to address**

- We were appointed as auditors by the Group at the annual general meeting on 19 May 2017 and our engagement letter was signed on 14 August 2017.
- 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

**Kenneth Eglinton**  
**Senior Statutory Auditor**  
**For and on behalf of EY LLP, Statutory Auditor**  
Chartered Accountants  
London  
20 March 2018

### **Notes:**

1. The maintenance and integrity of the Bank of London and the Middle East plc web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# CONSOLIDATED INCOME STATEMENT

For the year 1 January 2017 to 31 December 2017

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Income</b>			
Income from financing and investing activities	5	41,708	54,995
Returns to financial institutions and customers	6	(16,284)	(19,530)
Net margin		<u>25,424</u>	<u>35,465</u>
Fee and commission income		1,909	2,687
Fee and commission expense		<u>(494)</u>	<u>(520)</u>
Net fee income		1,415	2,167
Net fair value losses on investments	7	(2,330)	(3,117)
Net fair value (losses) / gains on investment properties		-	(40)
Operating lease income		6,443	8,703
Other operating income	8	6,897	3,682
<b>Total operating income</b>		<u><b>37,849</b></u>	<u><b>46,860</b></u>
<b>Expenses</b>			
Personnel expenses	10	(15,647)	(15,465)
Operating lease depreciation	23	(4,858)	(6,366)
Other depreciation and amortisation	22, 24	(1,517)	(1,522)
Other operating expenses	12	(13,324)	(24,783)
Change in third party interest in consolidated funds		-	(45)
<b>Total operating expenses</b>		<u><b>(35,346)</b></u>	<u><b>(48,181)</b></u>
<b>Operating profit/(loss) before impairment charges</b>		<b>2,503</b>	<b>(1,321)</b>
Net impairment credit/ (charge) on financial assets	14	3,305	(15,843)
Loss on disposal of group company		-	(1,720)
<b>Net operating profit/ (loss) before tax</b>		<u><b>5,808</b></u>	<u><b>(18,884)</b></u>
Tax expense	15	(75)	(2,499)
<b>Profit/ (loss) for the year</b>		<u><u><b>5,733</b></u></u>	<u><u><b>(21,383)</b></u></u>
<b>Attributable to:</b>			
Owners of the parent		5,284	(21,383)
Non controlling interest		449	-
		<u><u><b>5,733</b></u></u>	<u><u><b>(21,383)</b></u></u>
<b>Earnings per share</b>		<b>Pence</b>	<b>Pence</b>
Basic earnings per share	16	<u>2.73</u>	<u>(11.07)</u>
Diluted earnings per share	16	<u>2.71</u>	<u>(11.07)</u>

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

The notes on pages 52 to 116 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year 1 January 2017 to 31 December 2017

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Income</b>			
Profit / (loss) for the year		<u>5,733</u>	<u>(21,383)</u>
<b>Other comprehensive income</b>			
<b>Items that may be reclassified subsequently to profit or loss if specific conditions are met:</b>			
Foreign currency translation differences for foreign operations		(46)	25
Foreign currency translation differences for fair value reserve		-	94
Fair value reserve recycled to the income statement		506	-
Cashflow hedging reserve recycled to the income statement		-	1,971
Unrealised (loss) / gain in fair value of available-for-sale financial assets taken to equity		(452)	231
Re-classification of fair value of hedging instruments		-	(1,193)
Income tax on other comprehensive income	15	<u>(105)</u>	<u>(589)</u>
<b>Other comprehensive (expense) / income for the year net of income tax</b>		<u><b>(97)</b></u>	<u><b>539</b></u>
<b>Total comprehensive profit/ (loss) for the year attributable to equity holders of the Parent company</b>		<u><b>5,636</b></u>	<u><b>(20,844)</b></u>
<b>Attributable to:</b>			
Owners of the parent		5,187	(20,844)
Non Controlling Interest		<u>449</u>	<u>-</u>
		<u><b>5,636</b></u>	<u><b>(20,844)</b></u>

The notes on pages 52 to 116 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016*</b> <b>£000</b>
<b>Assets</b>			
Cash and balances with banks		96,780	71,152
Due from financial institutions	18	28,544	107,182
Due from customers	18	9,027	-
Investment securities	19	114,930	112,161
Financing arrangements	20	567,820	473,304
Finance lease receivables	21	170,546	232,701
Operating lease assets	23	34,922	24,361
Property and equipment	22	987	1,523
Intangible assets	24	837	1,693
Other assets	25	3,141	8,276
<b>Total assets</b>		<b>1,027,534</b>	<b>1,032,353</b>
<b>Liabilities</b>			
Due to financial institutions	26	514,392	586,964
Due to customers	27	277,341	213,804
Profit rate swaps	9	636	1,305
Third party interest in consolidated funds	33	-	433
Other liabilities	28	12,032	12,739
Current tax liability		251	-
<b>Total liabilities</b>		<b>804,652</b>	<b>815,245</b>
<b>Equity</b>			
Share capital	31	48,933	48,933
Merger reserve	32	-	-
Other reserve		15,226	15,226
Capital redemption reserve		50	50
Fair value reserve		(382)	(331)
Non Controlling Interest		280	-
Share-based payment reserve		1,911	1,604
Foreign currency translation reserve		(30)	16
Retained earnings		156,894	151,610
<b>Total equity attributable to equity holders of the Parent company</b>		<b>222,882</b>	<b>217,108</b>
<b>Total liabilities and equity</b>		<b>1,027,534</b>	<b>1,032,353</b>

\*The Merger reserve and Retained earnings balances as at 31 December 2016 have been restated. Refer to Note 32 for details.

These financial statements were approved by the Board of Directors on 20 March 2018 and were signed on its behalf by:

Giles Cunningham  
Chief Executive Officer

Chris Power  
Chief Financial Officer

The notes on pages 52 to 116 are an integral part of these consolidated financial statements.

# COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

	<i>Note</i>	<b>2017</b> <b>£000</b>	<b>2016</b> <b>£000</b>
<b>Assets</b>			
Investment in subsidiary	19	111,318	89,196
<b>Total assets</b>		<b>111,318</b>	<b>89,196</b>
<b>Liabilities</b>			
Other liabilities		1	1
<b>Total liabilities</b>		<b>1</b>	<b>1</b>
<b>Equity</b>			
Share capital	31	48,933	48,933
Merger reserve	32	-	-
Share-based payment reserve		1,911	1,604
Retained earnings		60,473	38,658
<b>Total equity attributable to equity holders of the Parent Company</b>		<b>111,317</b>	<b>89,195</b>
<b>Total liabilities and equity</b>		<b>111,318</b>	<b>89,196</b>

The company profit for the year ended 31 December 2017 was £21.8 million (2016: loss of £152.9 million). 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 20 March 2018 and were signed on its behalf by:

Giles Cunningham  
Chief Executive Officer

Chris Power  
Chief Financial Officer

Company Registration Number: 08503102

The notes on pages 52 to 116 are an integral part of these consolidated financial statements.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 1 January 2016 to 31 December 2017

	2017	2016
	£000	£000
<b>Cash flows from operating activities</b>		
Profit/ (loss) for the year before tax	5,808	(18,884)
Adjusted for:		
Exchange differences	(1,745)	711
Fair value losses / (gains) on investment properties	-	40
Fair value losses on investments	2,302	202
Adjustments to cash flow hedge reserve	-	2,305
Provision for impairment	(3,305)	15,843
Depreciation and amortisation	6,375	7,888
Share-based payment awards	307	171
Mark to market movement in profit rate swaps	114	(250)
Loss on disposal of group company	-	1,720
	<b>9,856</b>	<b>9,746</b>
<b>Net decrease / (increase) in operating assets:</b>		
Due from financial institutions	77,138	(77,443)
Due from customers	(9,027)	-
Financing arrangements	(87,201)	126,909
Finance lease receivables	65,377	44,190
Operating lease assets	(14,947)	6,407
Other assets	4,897	12,865
	<b>36,237</b>	<b>112,928</b>
<b>Net (decrease) / increase in operating liabilities:</b>		
Due to financial institutions	(67,650)	(131,306)
Due to customers	63,682	(108,712)
Third party interest in consolidated funds	(436)	(9,247)
Other liabilities	(2,539)	6,390
Non Controlling Interest	(170)	-
	<b>(7,113)</b>	<b>(242,875)</b>
Corporation tax received / (paid)	-	1,003
<b>Net cash outflow from operating activities</b>	<b>38,980</b>	<b>(119,198)</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(8)	8
Purchase of intangible assets	(118)	(372)
Sale of investment properties	-	26,750
Purchase of investments	(77,720)	(56,808)
Sale of investments	62,408	167,408
Cash outflow upon deconsolidation of subsidiary	-	(1,705)
<b>Net cash outflow from investing activities</b>	<b>(15,438)</b>	<b>135,281</b>
Subscriptions to consolidated funds	-	4,680
Redemptions from consolidated funds	-	(43,639)
<b>Net cash outflow from financing activities</b>	<b>-</b>	<b>(38,959)</b>
<b>Net change in cash and cash equivalents</b>	<b>23,542</b>	<b>(22,876)</b>
Cash and cash equivalents at the beginning of the year	71,152	88,732
Exchange differences in respect of cash and cash equivalents	2,086	5,296
<b>Cash and cash equivalents at the end of the year</b>	<b>96,780</b>	<b>71,152</b>

The notes on pages 52 to 116 are an integral part of these consolidated financial statements.

## COMPANY STATEMENT OF CASH FLOWS

For the year 1 January 2017 to 31 December 2017

	2017 £000	2016 £000
<b>Cash flows from operating activities</b>		
Profit / (loss) for the year before tax	21,815	(152,857)
Adjusted for:		
Impairment (reversal)/loss on subsidiary	(21,815)	152,857
	<u>-</u>	<u>-</u>
<b>Net increase in operating liabilities</b>		
Other liabilities	-	-
	<u>-</u>	<u>-</u>
<b>Cash flows from financing activities</b>		
Redemption of preference shares held by BLME	-	-
Dividend paid in respect of redeemable preference shares	-	-
<b>Net cash (outflow) / inflow from financing activities</b>	<u>-</u>	<u>-</u>
<b>Net change in cash and cash equivalents</b>	-	-
Cash and cash equivalents at the beginning of the period	-	-
<b>Cash and cash equivalents at the end of the period</b>	<u>-</u>	<u>-</u>

The notes on pages 52 to 116 are an integral part of these consolidated financial statements.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Merger* reserve	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 2016	48,933	-	15,226	50	(331)	1,604	151,610	16	217,108	192	217,300
<b>Profit for the year</b>	-	-	-	-	-	-	5,284	-	<b>5,284</b>	449	5,733
<b>Other comprehensive (expense) / income</b>											
Foreign currency translation	-	-	-	-	-	-	-	(46)	(46)	-	(46)
Change in fair value of AFS financial assets	-	-	-	-	(452)	-	-	-	(452)	-	(452)
Fair value reserve recycled to Income Statement	-	-	-	-	506	-	-	-	506	-	506
Tax on change in fair value of AFS financial assets	-	-	-	-	(105)	-	-	-	(105)	-	(105)
<b>Total other comprehensive (expense) / income</b>	-	-	-	-	<b>(51)</b>	-	-	<b>(46)</b>	<b>(97)</b>	-	<b>(97)</b>
<b>Total comprehensive (expense)/ income for the year</b>	-	-	-	-	<b>(51)</b>	-	<b>5,284</b>	<b>(46)</b>	<b>5,187</b>	<b>449</b>	<b>5,636</b>
<b>Contributions by and distributions to owners</b>											
Dividend	-	-	-	-	-	-	-	-	-	(361)	(361)
Equity-settled Share-based payment awards	-	-	-	-	-	307	-	-	307	-	307
<b>Total transactions with owners</b>	-	-	-	-	-	<b>307</b>	-	-	<b>307</b>	<b>(361)</b>	<b>(54)</b>
<b>Balance at 31 December 2017</b>	<b>48,933</b>	-	<b>15,226</b>	<b>50</b>	<b>(382)</b>	<b>1,911</b>	<b>156,894</b>	<b>(30)</b>	<b>222,602</b>	<b>280</b>	<b>222,882</b>

**AFS – Available for Sale**

**Fair value reserve** includes the cumulative net change in fair value of AFS investments until the investment is either derecognised or becomes impaired. The change in fair value of AFS financial assets includes a £0.5 million adjustment relating to fair value hedging.

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

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

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

**Non-Controlling Interest** relates to the minority shareholders in MKL Construction Equipment Finance Limited. See Note 34 for explanation of the brought forward balance.

\*The **Merger reserve, Retained earnings and Non Controlling Interest** comparative for prior year and the opening balance as at 1 January 2017 has been restated. Please see note 32 and 34 for more details.

The notes on pages 52 to 116 are an integral part of these consolidated financial statements.

## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

For the year ended 31 December 2016	Share capital	Merger* reserve	Other reserve	Capital redemption reserve	Fair value reserve	Cash flow hedging reserve	Share-based payment reserve	Retained * earnings	Foreign currency translation reserve	Non Controlling Interest	Total Equity	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Balance at 31 December 2015	48,933	16,000	15,226	50	537	(1,382)	1,484	156,928	(9)	237,767	-	237,767
Loss for the period	-	-	-	-	-	-	-	(21,383)	-	(21,383)	-	(21,383)
Other comprehensive income / (expense)												
Foreign currency translation	-	-	-	-	94	-	-	-	25	119	-	119
Cashflow hedging reserve recycled to income statement	-	-	-	-	-	1,971	-	-	-	1,971	-	1,971
De-Recognition of tax asset on cash flow hedge reserve	-	-	-	-	-	(589)	-	-	-	(589)	-	(589)
Change in fair value of AFS financial assets	-	-	-	-	231	-	-	-	-	231	-	231
Reclassification of the fair value hedging instruments	-	-	-	-	(1,193)	-	-	-	-	(1,193)	-	(1,193)
Tax on change in fair value of AFS financial assets	-	-	-	-	-	-	-	-	-	-	-	-
Total other comprehensive income/(expense)	-	-	-	-	(868)	1,382	-	-	25	539	-	539
Total comprehensive income/(expense) for the period	-	-	-	-	(868)	1,382	-	(21,383)	25	(20,844)	-	(20,844)
Contributions by and distributions to owners												
Equity-settled share-based payment awards	-	-	-	-	-	-	171	-	-	171	-	171
Transfer to Retained Earnings	-	(16,000)	-	-	-	-	(51)	16,051	-	-	-	-
Other movements	-	-	-	-	-	-	-	14	-	14	-	14
Total transactions with owners	-	(16,000)	-	-	-	-	120	16,065	-	185	-	185
Balance at 31 December 2016	48,933	-	15,226	50	(331)	-	1,604	151,610	16	217,108	-	217,108

\*The **Merger reserve**, **Retained earnings** and **Non-controlling interest** comparative balance for prior year and the opening balance as at 1 January 2017 has been restated. Please see note 32 and 34 for more details.

The notes on pages 52 to 116 are an integral part of these consolidated financial statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Share capital	Share- based payment reserve	Retained earnings	Total
	£000	£000	£000	£000
Balance at 31 December 2016	<b>48,933</b>	<b>1,604</b>	<b>38,658</b>	<b>89,195</b>
<b>Profit/(Loss) for the year</b>	-	-	21,815	21,815
<b>Other comprehensive income / (expense)</b>	-	-	-	-
<b>Total comprehensive income for the period</b>	-	-	<b>21,815</b>	<b>21,815</b>
<b>Contributions by and distributions to owners</b>				
Equity-settled share-based payment awards	-	307	-	307
<b>Total transactions with owners</b>	-	<b>307</b>	-	<b>307</b>
<b>Balance at 31 December 2017</b>	<b>48,933</b>	<b>1,911</b>	<b>60,473</b>	<b>111,317</b>

### Share-based payment reserve

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

The notes on pages 52 to 116 are an integral part of these consolidated financial statements.

## COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

	Share capital	Merger reserve	Share- based payment reserve	Retained earnings	Total
	£000	£000	£000	£000	£000
Balance at 31 December 2015	<b>48,933</b>	<b>16,000</b>	<b>1,484</b>	<b>175,515</b>	<b>241,932</b>
Loss for the year	-	-	-	(152,857)	(152,857)
Other comprehensive income / (expense)	-	-	-	-	-
<b>Total comprehensive expense for the period</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(152,857)</b>	<b>(152,857)</b>
<b>Contributions by and distributions to owners</b>					
Settlement of share-based payment awards by BLME	-	-	(51)	-	(51)
Equity-settled share-based payment awards	-	-	171	-	171
Recycle of merger reserve to retained earnings after impairment of subsidiary	-	(16,000)	-	16,000	-
<b>Total transactions with owners</b>	<b>-</b>	<b>(16,000)</b>	<b>120</b>	<b>16,000</b>	<b>120</b>
<b>Balance at 31 December 2016</b>	<b>48,933</b>	<b>-</b>	<b>1,604</b>	<b>38,658</b>	<b>89,195</b>

The notes on pages 52 to 116 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, 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, which is an independent wholesale bank involved in investment, commercial finance, private client banking and wealth management. The consolidated financial statements of the Group are presented as at and for the year ended 31 December 2017 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.

## 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 International Financial Reporting Standards (“IFRS”) as adopted by the EU and effective for the Group’s reporting for the year ended 31 December 2017.

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

The Merger reserve and Retained earnings comparative for 2016 and opening balance as at 1 January 2017 have been restated due to a prior period error. The details about the error is given in Note 32.

### 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 in the next year are discussed in Note 3 and Note 36.

### c. Going concern

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

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

#### **d. Adoption of new and amended accounting standards in 2017**

The following new amendments or interpretations are required to be applied for an annual period beginning on 1 January 2017 however none had a significant impact to the Group:

- IAS 7 Statement of Cashflows – Amendments as a result of Disclosure Initiative
- IAS 12 Income Taxes - Amendments regarding the recognition of Deferred Tax Assets for Unrealised Losses
- IFRS 12 Disclosure of Interest in Other Entities – Amendments resulting from Annual Improvements 2014-2016 Cycle

#### **e. New standards and interpretations not yet adopted**

A number of new standards, amendments to standards and interpretations that are effective for annual periods beginning after 1 January 2018 have not been applied in preparing these consolidated financial statements. Those that may be relevant to the Group are set out below. The Group does not plan to adopt any of these standards early, where adopted by the EU and early adoption is permitted.

##### **i. IFRS 9 Financial Instruments**

IFRS 9 will replace the existing standard on the recognition and measurement of financial instruments (IAS 39) and is effective for annual periods beginning on or after 1 January 2018. The Group plans to adopt IFRS 9 on 1 January 2018.

##### ***Classification and Measurement***

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.

An assessment by Management has confirmed:

- The 'Financing Arrangements', 'Due from financial institutions' and 'Due from customers' that are classified as loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9.
- Investment Securities that are classified as held to maturity or loans and receivables under IAS 39 are expected to be measured at amortised cost under IFRS 9
- Investment Securities that are classified as available for sale under IAS 39 are expected to be measured at Fair Value through other comprehensive Income (FVOCI) under IFRS 9
- Financial assets held for trading are expected to continue to be measured at fair value through profit and loss (FVTPL)

IFRS 9 largely retains the existing requirements of IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated at FVTPL are recognised in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in other comprehensive income (OCI); and
- the remaining amount of change in the fair value is presented in profit or loss.

The Group has not designated any financial liabilities at FVTPL and the Group has no current intention to do so; consequently management does not expect this to have a material impact on the Group's consolidated financial statements when transitioning to IFRS 9.

### ***Impairment***

IFRS 9 replaces the 'incurred loss model' under IAS 39 with a forward-looking expected credit loss ("ECL") model. This will require significant judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. It will also apply to finance lease receivables, trade receivables and off-balance sheet commitments.

Under IFRS 9, the Group expects to group its loss allowances into Stage 1, Stage 2 and Stage 3, based on the applied impairment methodology as described below:

- Stage 1: 12-month ECLs. These are ECLs that result from possible default events within the 12-months after the reporting date; and
- Stage 2: Lifetime ECLs. When an instrument shows significant increase in credit risk, these are ECLs that result from all possible default events over the expected life of a financial instrument; and
- Stage 3: Lifetime ECLs. These are the impaired instruments and lifetime ECLs will be recognised

Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date.

An assessment by Management has confirmed that provision for impairment is predicted to decrease by £0.1m under the new IFRS 9 model if applied to the portfolio held as at 31 December 2017. The Management believes that these losses will become more volatile for assets in the scope of the IFRS 9 impairment model, since all financial assets will be assessed for at least 12-month ECL and the population of financial assets to which lifetime ECL applies is likely to be larger than the population for which there is objective evidence of impairment in accordance with IAS 39 as applied in our current impairment assessment.

### ***Transition and disclosure***

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below:

- the Group plans to adopt the option of allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 will be recognised in retained earnings as at 1 January 2018;
- new hedge accounting requirements should generally be applied prospectively however the Group may elect to apply the expected change in accounting for forward points retrospectively. The Group has not made a decision in relation to this election.
- the following assessments have to be made on the basis of facts and circumstances that exist at the date of initial application:
  - the determination of the business model within which a financial asset is held;
  - the designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL (if any); and
  - the designation of certain debt securities and equity investments not held for trading as at FVOCI.

## **ii. IFRS 15 Revenue from Contracts with Customers**

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

The Group will adopt this standard from its mandatory effective date of 1 January 2018. Management is performing a detailed assessment of the impact resulting from the application of IFRS 15 and expects to make appropriate disclosures in 2018, however does not expect the impact to be material.

## **iii. IFRS 16 Leases**

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

- Lessee accounting model: there will be a single accounting model with no lease classification test. All leases will be on-balance sheet and will result in the recognition of a right of use of asset representing the lessee's right to use the underlying asset together with a lease liability representing the lessee's obligation to make payments.
- Lessor accounting model: the lease classification test will be based on existing IAS 17 criteria.

The Group has started an initial assessment of the potential impact on its consolidated financial statements. So far, the most significant impact identified is that the Group will recognise new assets and liabilities for its operating leases in relation to office premises. In addition, the nature of expenses related to those leases will now change as IFRS 16 replaces straight-line operating lease expense with a depreciation charge for right-of-use assets and financing expense on lease liabilities. Furthermore, the Group will need to consider the impact of its leases in relation to company cars and any leased computer/office equipment although there are optional exemptions for short-term leases and leases of low value items. An element of the full impact analysis will consider which transition approach to apply (retrospective or modified retrospective with optional practical expedients).

IFRS 16 replaces existing leases guidance including IAS 17, IFRIC 4, SIC-15 and SIC-27. The Group does not plan to adopt this standard early but will adopt from 1 January 2019.

**The following are not yet adopted and are deemed not material to the Group and will be adopted from the effective date:**

- iv. IAS 28 Investments in Associates and Joint Ventures, effective 1 January 2018
- v. IAS 40 Investment Property, effective 1 January 2018
- vi. Annual Improvements to IFRSs 2014-2016 Cycle – various standards, effective 1 January 2018

## **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 33).



## **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 33).

## **iii. Employee Benefit Trust (“EBT”)**

An EBT for the purpose of the Group’s employee 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 AFS investment securities, 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.

## **j. Foreign currency**

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

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

## **k. Revenue recognition**

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

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

The Group has an available-for-sale Sukuk portfolio. Any fair value gain or loss is accounted for in the statement of comprehensive income.

### **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 it is probable that the economic benefit will flow to the Group. This will normally be at the point when the activity to which the fees and commission relate has been completed.

### **iii. Financial assets and financial liabilities**

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

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

### **iv. Due from financial institutions and customers and financing arrangements**

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

### **v. Investment securities**

#### **• Financial instruments at fair value through profit or loss**

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

#### **• Available-for-sale**

Available-for-sale ("AFS") assets are either debt or equity non-derivative financial assets that are designated as available-for-sale. The assets are intended to be held for an indefinite period of time, but may be sold in response to liquidity requirements or changes in profit rates, exchange rates or equity prices. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses

arising from changes in the fair value of AFS financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly within a separate component of equity, until the financial assets are derecognised at which time the cumulative gain or loss previously recognised within equity is transferred to the income statement. For debt instruments, income is determined using the effective profit share rate and recognised in the income statement. Dividends on equity instruments are recognised in the income statement when the Group's right to receive payment is established.

- **Held to maturity**

Held to maturity assets 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.

#### **vi. 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.

#### **vii. 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.

#### **viii. Impairment of financial assets and forbearance**

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

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

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

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

In assessing collective impairment, the Group uses historical information on the timing of recoveries, the amount of loss incurred and an estimated emergence period. The emergence period is assessed using historical information as a proxy together with an assessment of current factors that may affect our customers. The emergence period used also considers the maturity profiles of each financial asset within the collective impairment portfolio. Management also estimates a probability of default and loss given default across the business divisions using external ratings companies and data. Note 3a provides further information on the areas of estimation uncertainty inherent in calculating a collective impairment charge.

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

- **Forbearance**

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the 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 103 to 104 in Note 36.

- **Assets carried at amortised cost**

If there is objective evidence that an impairment loss on exposures and receivables has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective profit rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the income statement. If a facility balance has a variable profit rate, the discount rate for measuring any impairment loss is the effective profit rate as at 31 December 2017.

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

- **Available-for-sale assets**

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

In the case of AFS debt instruments, impairment is assessed against the impairment indicators discussed in detail on page 58. If there is objective evidence that an impairment loss has occurred, the cumulative loss, measured as the difference between the asset’s amortised cost and current fair value, less any impairment loss on the debt instrument previously recognised in the income statement, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement. There were no reversals in 2017 (2016: one).

#### **ix. 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.

#### **x. Determining fair value**

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

#### **xi. 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.

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

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

- **Hedge accounting**

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

#### **Fair value hedge**

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

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

- **Hedge effectiveness testing**

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

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

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

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

#### **I. Collateral and netting**

The Group enters into master agreements with counterparties whenever possible and obtains collateral in respect of customer advances where it is considered appropriate. Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise and settle an asset and a liability simultaneously. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

## **m. 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 the an item of property and equipment. Assets leased out under operating leases are depreciated over the shorter of the lease term and their useful lives.

#### **Useful Lives:**

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

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

## **n. Intangible assets**

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

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

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

## **o. Impairment of property and equipment, intangible assets and assets leased out under operating leases**

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

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

## **p. Operating leases**

### **i. Lessor**

Assets leased to customers under agreements, which do not transfer substantially all the risks and rewards of ownership, are classified as operating lease assets on the balance sheet. Depreciation is taken on the depreciable

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

## **ii. Lessee**

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

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.

## **q. Finance leases**

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

## **r. 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.

## **s. Share-based payments**

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

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

Vesting conditions, other than market performance conditions, are not factored into the initial estimate of the fair value at the grant date. They are taken into account by adjusting the number of equity instruments included in the measurement of the transaction, so that the amount recognised for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. On a cumulative basis,



no expense is recognised for equity instruments that do not vest because of a failure to satisfy non-market performance or service conditions.

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

#### **t. Own shares**

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

#### **u. 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.

#### **v. Income tax**

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

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

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

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

#### **w. Cash and cash equivalents**

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

#### **x. Other receivables**

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

#### **y. 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, and other assets.

## **z. 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.

## **aa. Investment in subsidiary undertaking**

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

## **bb. 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**

## **a. Allowance for credit losses**

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

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

The Group considers its leasing, real estate, trade finance and corporate & structured finance portfolios to be individually significant.

## **b. Determining fair values**

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

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

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

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

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

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

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

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

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

## **c. Effective profit rate adjustments**

IAS 39 requires financial instruments to be recognised at the effective profit rate of the asset, which is considered to be the rate that exactly discounts estimated future cash flows through the expected life of the instrument. As the timing of certain cash flows is uncertain, judgement has been applied in estimating all contractual cash flows (profit rate income and fees).

#### **d. 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.

#### **e. Impairment of subsidiary**

The past poor financial performance of the Bank provided an indicator of impairment in 2016; consequently management tested the Company's investment in subsidiary for impairment in 2017. Under IAS 36, an investment is impaired if the cost of investment is greater than the recoverable amount. The recoverable amount has been calculated based on the Bank's value in use, determined by discounting future cash flows based on five-year budgets, adjusted for non-cash items such as share-based payments and depreciation. A pre-tax discount rate of 14.9% (2016: 12%) and a terminal growth rate of 1.5% (2016: 2.2%) from 2022 were used in the calculation. The discount rate has been estimated using a five-year risk-free rate plus adjustments for variations in the amounts and timings of cash flows and uncertainty inherent in the asset. The terminal growth rate is based on a weighted average of a strong, moderate and weak growth rate environment. For sensitivity analysis, refer to note 19.

#### **f. 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.

### **4. SEGMENTAL INFORMATION**

The Group has three operating segments as described in group strategic report on page 8, which are based on the Group's strategic business divisions. The strategic business divisions offer different products and services and are managed separately based on the Group's management and internal reporting structure.

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

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

**For the year ended 31 December 2017**

	<b>Treasury Division £000</b>	<b>Commercial Finance £000</b>	<b>Wealth Management £000</b>	<b>Unallocated items £000</b>	<b>Total £000</b>
Net margin from financing and investing activities	459	12,828	12,137	-	25,424
Operating lease income	857	5,586	-	-	6,443
Net fee income	37	1,057	321	-	1,415
Net fair value losses on investments	(2,330)	-	-	-	(2,330)
Other operating income	1,745	5,135	17	-	6,897
<b>Total operating income</b>	<b>768</b>	<b>24,606</b>	<b>12,475</b>	<b>-</b>	<b>37,849</b>
Directly attributable segment expenses	(1,832)	(4,687)	(2,295)	-	(8,814)
Operating lease depreciation	-	(4,858)	-	-	(4,858)
Net impairment credit/(charge) on financial assets and operating	11	3,466	(172)	-	3,305
<b>Net segment contribution</b>	<b>(1,053)</b>	<b>18,527</b>	<b>10,008</b>	<b>-</b>	<b>27,482</b>
Common costs not directly attributable to segments					(21,674)
<b>Net operating profit before tax</b>					<b>5,808</b>
<b>Reportable segment assets</b>	<b>240,701</b>	<b>533,024</b>	<b>249,771</b>	<b>4,038</b>	<b>1,027,534</b>

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 2016**

	<b>Treasury Division £000</b>	<b>Commercial Finance* £000</b>	<b>Wealth Management* £000</b>	<b>Unallocated items £000</b>	<b>Total £000</b>
Net margin from financing and investing activities	682	32,140	2,643	-	35,465
Operating lease income	881	7,822	-	-	8,703
Net fee income	381	1,766	20	-	2,167
Net fair value losses on investments	(3,361)	-	244	-	(3,117)
Net fair value gains on investment properties	-	-	(40)	-	(40)
Other operating income	977	1,133	1,572	-	3,682
<b>Total operating income</b>	<b>(440)</b>	<b>42,861</b>	<b>4,439</b>	<b>-</b>	<b>46,860</b>
Directly attributable segment expenses	(2,144)	(9,594)	(4,937)	-	(16,675)
Operating lease depreciation	-	(6,366)	-	-	(6,366)
Net impairment credit/ (charge) on financial assets and operating leases	608	(15,868)	(583)	-	(15,843)
Change in third party interest in consolidated funds	-	(295)	250	-	(45)
Loss on disposal of group company	-	(1,720)	-	-	(1,720)
<b>Net segment contribution</b>	<b>(1,976)</b>	<b>9,018</b>	<b>(831)</b>	<b>-</b>	<b>6,211</b>
Common costs not directly attributable to segments					(25,095)
<b>Net operating loss before tax</b>					<b>(18,884)</b>
<b>Reportable segment assets</b>	<b>290,779</b>	<b>710,824</b>	<b>26,219</b>	<b>4,531</b>	<b>1,032,353</b>

\*During the year ended 31 December 2017, the Real Estate business moved from the Commercial Finance division to the Wealth Management division and therefore the comparatives have been re-presented to reflect the move.

**Entity wide disclosures**

**Geographical analysis of non-current assets**

	<b>31 December 2017 £000</b>	<b>31 December 2016 £000</b>
United Arab Emirates	32	155
Luxembourg	32	253
United Kingdom	38,865	32,546
USA	958	2,850
Others	-	49
<b>Total</b>	<b>39,887</b>	<b>35,853</b>

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

## 5. INCOME FROM FINANCING AND INVESTING ACTIVITIES

	2017 £000	2016 £000
<b>Income from:</b>		
Due from financial institutions:		
Murabaha income	386	195
Wakala income	330	207
Finance lease receivables:		
Finance lease income	4,750	7,350
Hire Purchase income	4,762	7,953
Istisna and Ijara income	184	140
Financing arrangements:		
Mudaraba income	-	22
Murabaha income	27,578	35,110
Musharaka income	19	46
Wakala income	285	-
Investment securities:		
Sukuk income	3,414	3,972
	<b>41,708</b>	<b>54,995</b>

## 6. RETURNS TO FINANCIAL INSTITUTIONS AND CUSTOMERS

	2017 £000	2016 £000
Customer deposits	5,288	6,501
Murabaha	9,604	11,431
Wakala	1,392	1,598
	<b>16,284</b>	<b>19,530</b>

## 7. NET FAIR VALUE LOSSES ON INVESTMENTS

	2017 £000	2016 £000
Net realised losses on investments	(29)	(610)
Net unrealised losses on investments	(1,880)	(202)
Realised gain/(loss) on hedge	(421)	(2,305)
	<b>(2,330)</b>	<b>(3,117)</b>

## 8. OTHER OPERATING INCOME

	2017	2016
	£000	£000
Gain on foreign exchange transactions	1,745	756
Gain on leased asset sales	1,805	1,135
Rental income from investment properties	-	1,540
Other	3,347	251
	<b>6,897</b>	<b>3,682</b>

In the other income line above, £3.3m relates to a receipt from an insurance claim in respect of an earlier year.

## 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 Bank to mitigate the market risk associated with re-pricing its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. PRs may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. If they do not qualify as hedges, they are classified FVTPL and the Mark to Market movement is recognised in the profit and loss. The Group had one PRS as at 31 December 2017, which is not used for hedging purposes and is fair valued through profit and loss. These are described under the relevant headings below:

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

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

### Group

	2017	2017	2017	2017
	FVTPL	FVTPL	Fair value	Fair value
			hedges	hedges
	\$000	£000	\$000	£000
Profit rate swaps - USD	10,000	-	75,000	-
Profit rate swaps - GBP	-	-	-	20,000
	<b>10,000</b>	<b>-</b>	<b>75,000</b>	<b>20,000</b>

### Group

	2016	2016	2016	2016
	FVTPL	FVTPL	Fair value	Fair value
			hedges	hedges
	\$000	£000	\$000	£000
Profit rate swaps - USD	10,000	-	75,000	-
Profit rate swaps - GBP	-	-	-	20,000
	<b>10,000</b>	<b>-</b>	<b>75,000</b>	<b>20,000</b>



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

### Fair value hedges

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

### Fair value of PRSs designated as fair value hedges:

Group	2017 Fair value assets £000	2017 Fair value liabilities £000	2016 Fair value assets £000	2016 Fair value liabilities £000
Profit rate swaps	-	638	-	1,254

### Movement in the fair value of PRSs used for fair value hedging:

Group	2017 £000	2016 £000
Net profit rate swap liability as at 1 January	(1,254)	(1,100)
Gains / (losses):		
Exchange translation	30	(79)
On hedging instruments through the income statement	80	141
On effective hedges	506	(216)
<b>Net profit rate swap liability as at 31 December</b>	<b>(638)</b>	<b>(1,254)</b>
Unhedged Profit Rate Swap Asset/(Liability) recognised as Fair Value through Profit and Loss:	2	(51)
	<b>(636)</b>	<b>(1,305)</b>

The gains and losses on ineffective portions of fair value hedges are recognised immediately in "Other operating income / expense". During the year to 31 December 2017 a loss of £0.1 million (2016: £0.1 million) was recognised due to hedge ineffectiveness.

## 10. PERSONNEL EXPENSES

	2017 £000	2016 £000
Wages and salaries	12,040	11,138
Social security costs	1,695	1,194
Defined contribution pension scheme costs	1,061	1,082
Recruitment costs	398	951
Other staff costs	453	1,100
	<b>15,647</b>	<b>15,465</b>

Sharia's Supervisory Board fees recognised under personnel expenses has been reclassified to other operating expense in the comparative to reflect the appropriate nature of the expense and to be consistent with the treatment in 2017.

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

	<b>2017</b>	<b>2016</b>
	<b>Number</b>	<b>Number</b>
Period end	117	123
Average for the period - management	10	8
Average for the period - non-management	109	118

## 11. DIRECTORS' EMOLUMENTS

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Directors' emoluments	1,962	1,123
Pension contributions	65	10
	<b>2,027</b>	<b>1,133</b>

The aggregate emoluments of the highest paid Director was £0.8 million (2016: £0.3 million), and pension contributions of £0.06 million (2016: £0.01) were made on his behalf. During 2016, compensation for loss of office amounting to £0.1 million was expensed in relation to a Director who resigned during that year. During the year, one Director exercised share options and this is disclosed in more detail in note 35. (2016: none).

## 12. OTHER OPERATING EXPENSES

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Advertising and market development	90	236
Board and SSB related expenses	408	671
Communications and IT costs	1,783	1,852
Consultancy	1,673	2,627
Legal and professional fees	3,994	8,731
Other operating charges	3,635	7,170
Rent and other occupancy costs	1,741	3,496
	<b>13,324</b>	<b>24,783</b>

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

	2017 £000	2016 £000
Auditor's remuneration		
Audit of financial statements pursuant to the legislation		
- Ernst & Young LLP (Current Auditors)	500	-
- KPMG (Previous Auditors)	-	479
Tax Advisory and Compliance Services		
- KPMG (Previous Auditors)	-	49
Other advisory and assurance services		
- Ernst & Young LLP (Current Auditors)	27	15
- KPMG (Previous Auditors)	-	48
	<b>527</b>	<b>591</b>

EY's current year audit fee of £0.5 million, includes a one-off fee of £0.06 million for the audit of IFRS 9 implementation.

### 13. SHARE-BASED PAYMENTS

During the year £0.5 million (2016: £0.1 million) was charged to the income statement in respect of share-based payment transactions arising under the following employee share schemes in accordance with the Group's reward structures:

	2017 £000	2016 £000
<b>Equity settled schemes</b>		
Approved Share Option Plan ("ASOP")	25	22
Unapproved Share Option Plan ("USOP")	287	136
Executive Share Option Scheme ("ESOP")	-	3
Deferred Incentive Plan Scheme ("DIPS")	(5)	10
	<b>307</b>	<b>171</b>
<b>Cash settled schemes</b>		
Deferred Annual Bonus Scheme ("DABS")	199	(105)
	<b>506</b>	<b>66</b>

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 BLME Group.

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

### Calculation of fair values

The fair values of equity-settled share options, measured at the date of grant of the option, are calculated using a Black-Scholes model. The following tables list the weighted average inputs to the model at the measurement dates for the options granted during 2017 and 2016.

Options issued in 2017 and 2016	ASOP	USOP	ASOP	USOP
	2017	2017	2016	2016
Fair value (cents) *	5.23	5.55	11.98	10.84
Share price (cents) *	40.15	40.66	51.20	48.29
Exercise price (cents) *	50.58	50.25	51.20	50.19
Expected volatility (% p.a.)	19.03	19.01	20.00	20.19
Expected option life (years)	6.80	6.79	6.50	6.78
Expected dividends (% p.a.)	Nil	Nil	Nil	Nil
Risk free interest rate (%)	0.72	0.72	1.23	0.99

\* The values per share disclosed in the above table are expressed in US Dollars because options were issued to employees with US Dollar strike prices given that the shares are listed on Nasdaq Dubai and traded in US Dollars. This is based on ordinary shares which have a sterling nominal value of 25 pence each. The Black-Scholes fair value of the options has been translated into sterling using the exchange rate ruling at the date of grant, for the purpose of amortising the share-based payment expense.

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

## Equity-settled schemes

### Approved share options ("ASOPs")

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

ASOPs	Number of options	Weighted average exercise price (pence)	Number of options	Weighted average exercise price (pence)
	2017	2017	2016	2016
Outstanding at 1 January	1,627,892	66.1	1,222,865	106.0
Granted in the year	1,832,676	39.2	1,032,867	36.0
Forfeited in the year	(597,224)	64.7	(627,840)	92.6
<b>Outstanding at 31 December</b>	<b>2,863,344</b>	<b>49.5</b>	<b>1,627,892</b>	<b>66.1</b>
<b>Exercisable at 31 December</b>	<b>339,493</b>		<b>286,113</b>	

The weighted average remaining contractual life of the above ASOPs outstanding at the balance sheet date was 8.5 years (2016: 7.9 years). The weighted average exercise price is 49.5pence (2016: 66.1 pence).

1.6 million of the ASOPs granted in 2017 were issued with a longer vesting profile with 50% vesting after 3 years, 25% vesting after 4 years and 25% vesting after 5 years. (2016: None)

During 2010 options were issued in parallel to the then existing approved options that had been granted during 2008 and 2009. These new "parallel" options were granted to staff over the same number of shares as their existing approved options but with an exercise price equivalent to 125 pence per 25p ordinary share as against an exercise price of 162.5 pence per share for their original approved options. The old and new options operate in parallel,

meaning that staff will be able to choose which to exercise. When one option is exercised, the other option will lapse. Therefore, although participating staff now had two approved options, they will only be able to exercise one of them.

<b>Parallel ASOPs</b>	<b>Number of options 2017</b>	<b>Number of options 2016</b>
Outstanding at 1 January	52,298	73,832
Granted in the year	-	-
Forfeited in the year	(12,306)	(21,534)
<b>Outstanding at 31 December</b>	<b>39,992</b>	<b>52,298</b>
<b>Exercisable at 31 December</b>	<b>39,992</b>	<b>52,298</b>

The weighted average remaining contractual life of the above parallel options outstanding at the balance sheet date was 2.2 years (2016: 3.2 years). The weighted average exercise price is 125 pence (2016: 125 pence). All of these options were exercisable at the balance sheet date (2016: all). The issue of these approved parallel options in 2010 has been accounted for under IFRS 2 as a modification with the incremental fair value being amortised to the income statement over the remaining vesting period.

#### Unapproved share options ("USOPs")

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

<b>USOPs</b>	<b>Number of options 2017</b>	<b>Weighted average exercise price (pence) 2017</b>	<b>Number of options 2016</b>	<b>Weighted average exercise price (pence) 2016</b>
Outstanding at 1 January	11,092,251	44.3	4,473,522	57.6
Granted in the year	7,847,324	39.4	9,230,133	39.6
Forfeited in the year	(1,287,091)	48.6	(2,611,404)	50.2
Exercised in the year	(333,333)	Nil	-	-
<b>Outstanding at 31 December</b>	<b>17,319,151</b>	<b>42.7</b>	<b>11,092,251</b>	<b>44.3</b>
<b>Exercisable at 31 December</b>	<b>795,504</b>		<b>355,536</b>	

The weighted average remaining contractual life of the above USOPs outstanding at the balance sheet date was 8.9 years (2016: 9.5 years). The weighted average exercise price is 42.7 pence (2016: 44.3 pence).

7.5 million of the USOPs granted in 2017 were issued with a longer vesting profile with 50% vesting after 3 years, 25% vesting after 4 years and 25% vesting after 5 years. (2016: 6.9 million).

#### Executive share option scheme ("ESOPs")

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

periods. The expected option life is dependent on the behaviour of option holders and is incorporated into the model on the basis of best estimate.

<b>ESOPs</b>	<b>Number of options</b>	<b>Number of options</b>
	<b>2017</b>	<b>2016</b>
Outstanding at 1 January	1,832,427	2,288,409
Granted in the year	-	-
Forfeited in the year	(1,077,236)	(455,982)
<b>Outstanding at 31 December</b>	<b>755,191</b>	<b>1,832,427</b>
<b>Exercisable at 31 December</b>	<b>755,191</b>	<b>1,832,427</b>

The weighted average remaining contractual life of the executive share options outstanding at the balance sheet date was 2.0 years (2016: 2.9 years). The weighted average exercise price is 162.5 pence (2016: 162.5 pence).

#### **Deferred Incentive Plan Scheme (“DIPs”)**

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

<b>DIPs</b>	<b>Number of options</b>	<b>Number of options</b>
	<b>2017</b>	<b>2016</b>
Outstanding at 1 January	601,549	941,306
Granted in the year	-	-
Forfeited in the year	(271,802)	(339,757)
<b>Outstanding at 31 December</b>	<b>329,747</b>	<b>601,549</b>
<b>Exercisable at 31 December</b>	<b>-</b>	<b>-</b>

The weighted average remaining contractual life of the above DIPs options outstanding at the balance sheet date was 7.2 years (2016: 8.2 years). The weighted average exercise price was 45.0 pence (2016: 45.0 pence).

#### **Cash-settled schemes**

##### **Deferred annual bonus scheme (“DABs”)**

DABs are 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 entitle the employee to receive a matching award at no cost providing certain conditions, including a performance condition, are met. Performance conditions are set and monitored by the Remuneration Committee. DABS take the form of nil cost options but can be settled in cash at the discretion of the Company.

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

<b>DABs</b>	<b>Number of nil cost options</b>	<b>Number of nil cost options*</b>
	<b>2017</b>	<b>2016</b>
Outstanding at 1 January	1,236,592	1,115,194
Awarded and deferred	-	1,559,160
Awarded under matched award	321,529	-
Forfeited in the year	-	(931,075)
Exercised in the year	-	(9,230)
Settled in the year	(42,600)	(497,457)
<b>Outstanding at 31 December</b>	<b>1,515,521</b>	<b>1,236,592</b>
<b>Exercisable at 31 December</b>	<b>181,511</b>	<b>104,923</b>

The weighted average remaining contractual life of the above nil cost options outstanding at the balance sheet date was 7.7 years (2016: 8.5years). The weighted average exercise price was nil (2016: nil).

\*prior period figures of “awarded and deferred” and “total outstanding” at 31 December have been re-presented using weighted average price.

#### 14. IMPAIRMENTS OF FINANCIAL ASSETS

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

<b>Group</b>	<b>Specific</b>	<b>Collective</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>Total</b>
<b>Impairments of financial assets:</b>			<b>£000</b>
Balance at 1 January 2017	19,018	4,145	23,163
Exchange translation and other movements	(549)	-	(549)
<b>Income statement:</b>			
Gross impairment charge for the year	8,247	-	8,247
Amount recovered during the year	(10,573)	(979)	(11,552)
<b>Net impairment (credit)/charge for the year</b>	<b>(2,326)</b>	<b>(979)</b>	<b>(3,305)</b>
Amounts written off during the year	(3,322)	-	(3,322)
<b>Balance as at 31 December 2017</b>	<b>12,821</b>	<b>3,166</b>	<b>15,987</b>
Being impairments against:			
Financing arrangements	9,558	1,674	11,232
Finance lease receivables	3,190	1,492	4,682
Other Assets (Inventory)	73	-	73
	<b>12,821</b>	<b>3,166</b>	<b>15,987</b>

<b>Group</b>			<b>2016</b>
	<b>Specific</b>	<b>Collective</b>	<b>Total</b>
<b>Impairments of financial assets:</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Balance at 1 January 2016	35,741	3,346	39,087
Exchange translation and other movements	1,369	-	1,369
<b>Income statement:</b>			
Gross impairment charge for the year	17,421	799	18,220
Amount recovered during the year	(2,377)	-	(2,377)
<b>Net impairment charge for the year</b>	<b>15,044</b>	<b>799</b>	<b>15,843</b>
Amounts written off during the year	(33,136)	-	(33,136)
<b>Balance as at 31 December 2016</b>	<b>19,018</b>	<b>4,145</b>	<b>23,163</b>
Being impairments against:			
Financing arrangements	13,511	1,827	15,338
Finance lease receivables	4,674	2,318	6,992
Operating lease assets	833	-	833
	<b>19,018</b>	<b>4,145</b>	<b>23,163</b>

There were no collective and specific impairments against Cash and balances with banks, Due from financial institutions and customers, Investment securities or Other assets. (2016: Nil)

Refer to Note 2k (viii) and Note 3a for the factors considered in deriving the collective impairment charge for the year. (2016: Nil)

## 15. TAXATION

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
UK Corporation Tax		
- current tax for the year	180	40
- adjustments in respect of prior years	(105)	
	75	40
Overseas tax for the year	-	22
Deferred tax for the year	-	2,437
<b>Tax charge in income statement</b>	<b>75</b>	<b>2,499</b>

The tax charge for the year is lower (2016: higher) than the standard rate of corporation tax which is explained as follows:



<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>Reconciliation of effective tax rate</b>		
Profit/ (Loss) for the year before tax	5,809	(18,884)
Profit/ (Loss) for the year multiplied by standard rate of corporation tax in the UK of 19.25% (2016: 20%)	1,118	(3,777)
De-recognition of deferred tax asset	-	3,062
Deferred tax on cash flow hedge de-recognised	-	625
Movement in unrecognised deferred tax	(668)	2,623
Expenses not deductible for tax purposes	(156)	282
Tax exempt income	(114)	(50)
Others	-	86
Prior year adjustment	(105)	(352)
<b>Tax charge in income statement</b>	<b>75</b>	<b>2,499</b>

The headline rate of UK corporation tax reduced from 20% to 19% on 1 April 2017, and following the enactment of the 2016 Finance Act on 15 September 2016, this will reduce further to 17% from 1 April 2020. As these changes were enacted before the balance sheet date, relevant deferred tax balances have been calculated with reference to these rates.

#### **Tax recognised in other comprehensive income**

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Cash flow hedging reserve	-	589
Fair value reserve	105	-
	<b>105</b>	<b>589</b>

#### **Deferred tax**

As at 31 December 2017, the Group has not recognised a deferred tax asset on the total trading losses carried forward of £24.5m (2016: £26.7m), accelerated depreciation of £15.2m (2016: £17.2m) and other short term timing differences of £4.1m (2016: £4.1m).

Deferred tax assets in relation to tax losses should only be recognised when it is probable that sufficient taxable profits will be available against which the unused tax losses can be utilised. Judgement has been applied in estimating the future profitability of the business and when considering whether these will be generated in a timely manner. During 2016, management derecognised the deferred tax asset, which had primarily arisen as a result of tax losses carried forward from prior years. In prior year, the management deemed it appropriate to de-recognise this asset on the basis of prior year losses and after an assessment of the timeliness of generating sufficient taxable profits against which the carried forward tax losses could be utilised. Management considered the recognition for the current year and made a judgement of not to recognise any deferred tax asset.

## 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.

	2017	2016
<b>Earnings per share</b>	<b>pence</b>	<b>pence</b>
Basic	2.73	(11.07)
Diluted	2.71	(11.07)
<b>Profit attributable to ordinary shareholders</b>	<b>£000</b>	<b>£000</b>
Profit/ (Loss) attributable to shareholders (basic)	5,284	(21,383)
Profit/ (Loss) attributable to shareholders (diluted)	5,284	(21,383)
<b>Weighted average number of ordinary shares</b>	<b>Number</b>	<b>Number</b>
Number of ordinary shares of 25p in issue	195,733,691	195,733,691
Share held by the BLME Holdings EBT	(2,258,915)	(2,592,248)
Weighted average number of shares (basic) at 31 December	<u>193,474,776</u>	<u>193,141,443</u>
Effect of dilutive share options in issue	<u>1,515,521</u>	<u>8,908,352</u>
Weighted average number of shares (diluted) at 31 December	<u>194,990,297</u>	<u>202,049,795</u>

## 17. CHANGES IN LIABILITIES FROM FINANCING ACTIVITIES

Group	1 January 2017	Cashflows	FX Movement	Changes in Fair Value	Other	31 December 2017
	£000	£000	£000	£000	£000	£000
Due to Financial Institutions	(586,964)	67,650	4,922	-	-	(514,392)
Due to Customers	(213,804)	(63,682)	145	-	-	(277,341)
Profit Rate Swaps	(1,305)		29	589	51	(636)
<b>Total</b>	<b>(802,073)</b>	<b>3,968</b>	<b>5,096</b>	<b>589</b>	<b>51</b>	<b>(792,369)</b>

Group	1 January 2016	Cashflows	FX Movement	Changes in Fair Value	Other	31 December 2016
	£000	£000	£000	£000	£000	£000
Due to Financial Institutions	(669,849)	131,306	(48,421)	-	-	(586,964)
Due to Customers	(321,473)	108,712	(1,043)	-	-	(213,804)
Profit Rate Swaps	(1,104)		(79)	(90)	(32)	(1,305)
<b>Total</b>	<b>(992,426)</b>	<b>240,018</b>	<b>(49,543)</b>	<b>(90)</b>	<b>(32)</b>	<b>(802,073)</b>

## 18. DUE FROM FINANCIAL INSTITUTIONS AND CUSTOMERS

### Due from financial institutions

	0 - 3 months	4 - 12 months	1 - 5 years	2017
	£000	£000	£000	£000
Murabaha	14,787	10,057	-	24,844
Wakala	3,700	-	-	3,700
	<b>18,487</b>	<b>10,057</b>	<b>-</b>	<b>28,544</b>
Provision for impairment				-
				<b>28,544</b>

### Due from financial institutions

	0 - 3 months	4 - 12 months	1 - 5 years	2016
	£000	£000	£000	£000
Murabaha	52,640	-	10,012	62,652
Wakala	44,530	-	-	44,530
	<b>97,170</b>	<b>-</b>	<b>10,012</b>	<b>107,182</b>
Provision for impairment				-
				<b>107,182</b>

**Due from Customers**

	<b>0 - 3 months</b>	<b>4 - 12 months</b>	<b>1 - 5 years</b>	<b>2017</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Wakala	9,027	-	-	9,027
	<u>9,027</u>	<u>-</u>	<u>-</u>	<u>9,027</u>
Provision for impairment				-
				<u>9,027</u>

**Due from Customers**

	<b>0 - 3 months</b>	<b>4 - 12 months</b>	<b>1 - 5 years</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Wakala	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Provision for impairment				-
				<u>-</u>

**19. INVESTMENT SECURITIES**

<b>Group</b>	<b>Listed £000</b>	<b>Unlisted £000</b>	<b>2017 Total £000</b>
<b>Available-for-sale</b>			
Equity	-	973	973
Sukuk	104,882	-	104,882
<b>Held to maturity</b>			
Sukuk	9,075	-	9,075
	<u>113,957</u>	<u>973</u>	<u>114,930</u>

<b>Group</b>	<b>Listed £000</b>	<b>Unlisted £000</b>	<b>2016 Total £000</b>
<b>Available-for-sale</b>			
Equity	-	3,170	3,170
Sukuk	90,171	820	90,991
<b>Held to maturity</b>			
Sukuk	-	18,000	18,000
	<u>90,171</u>	<u>21,990</u>	<u>112,161</u>

<b>Company</b>	<b>Listed £000</b>	<b>Unlisted £000</b>	<b>2017 Total £000</b>
<b>Investment in subsidiary</b>			
Bank of London and The Middle East plc	-	111,318	111,318

<b>Company</b>	<b>Listed £000</b>	<b>Unlisted £000</b>	<b>2016 Total £000</b>
<b>Investment in subsidiary</b>			
Bank of London and The Middle East plc	-	89,196	89,196

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.

<b>Company</b>	<b>2017 £000</b>	<b>2016 £000</b>
<b>Investment in subsidiary</b>		
Opening balance	89,196	241,933
Settlement of share-based payment awards by BLME	-	(51)
Equity-settled share-based payment awards	307	171
Impairment reversal/ (loss)	21,815	(152,857)
<b>Closing balance at 31 December</b>	<b>111,318</b>	<b>89,196</b>

In the previous year (2016) due to poor financial performance of the Bank an indicator of impairment was identified; consequently management tested the Company's investment in subsidiary for provision for an impairment for both 2016 and 2017. A provision for an impairment charge of £152.9 million was recognised in 2016 in the income statement of the Parent Company. A reversal of £21.8 million of this impairment charge has been recognised in 2017 in the income statement of the Parent Company. Under IAS 36, an investment is impaired if the cost of investment is greater than the recoverable amount. The recoverable amount of £111.3 million (2016: £89.2 million) has been calculated based on the Bank's value in use, determined by discounting future cash flows based on five-year budgets, adjusted for non-cash items such as share-based payments and depreciation. A pre-tax discount rate of 14.9% (2016: 12.0%) and a terminal growth rate of 1.5% (2016: 2.2%) from 2022 were used in the calculation. The discount rate has been estimated using a five-year risk-free rate plus adjustments for variations in the amounts and timings of cash flows and uncertainty inherent in the asset. The terminal growth rate is based on a weighted average of a strong, moderate and weak growth rate environment.

Management has performed sensitivity analysis which shows that a movement of 1% in discount rate in either direction results in a change in valuation of £0.9 million and positive movement in growth percentage of 1% changes the valuation by £5.3 million where as a downward growth movement of 1% would result in a change in valuation of £4.4 million.

## 20. FINANCING ARRANGEMENTS

Group	Less than 1 year £000	1 - 5 years £000	Over 5 years £000	2017 Total £000
Murabaha	498,075	74,070	-	572,145
Mudaraba	3,425	-	-	3,425
Sukuk	945	2,537	-	3,482
	<b>502,445</b>	<b>76,607</b>	<b>-</b>	<b>579,052</b>
Provision for impairment				(11,232)
				<b>567,820</b>
Collective Impairment				(1,674)
Specific Impairment				(9,558)
				<b>(11,232)</b>

Group	Less than 1 year £000	1 - 5 years £000	Over 5 years £000	2016 Total £000
Murabaha	417,319	59,895	-	477,214
Mudaraba	-	3,798	-	3,798
Musharaka	1,133	-	-	1,133
Sukuk	-	6,497	-	6,497
	<b>418,452</b>	<b>70,190</b>	<b>-</b>	<b>488,642</b>
Provision for impairment				(15,338)
				<b>473,304</b>
Collective Impairment				(1,827)
Specific Impairment				(13,511)
				<b>(15,338)</b>

## 21. FINANCE LEASE RECEIVABLES

Group	2017 £000	2016 £000
<b>Gross investment in finance lease receivables</b>		
Within one year	32,256	56,136
One to five years	43,338	49,953
Over five years	6,547	9,281
	<u>82,141</u>	<u>115,370</u>
<b>Hire purchase</b>		
Within one year	54,124	64,133
One to five years	52,277	80,403
Over five years	-	37
	<u>106,401</u>	<u>144,573</u>
Unearned future income on finance leases	(7,868)	(10,745)
Unearned future income on hire purchase	(5,446)	(9,505)
Collective Impairment	(1,492)	(2,318)
Specific Impairment	(3,190)	(4,674)
<b>Net investment in finance leases and hire purchase</b>	<u><b>170,546</b></u>	<u><b>232,701</b></u>
<b>The net investment in finance leases comprises:</b>		
Within one year	24,444	46,610
One to five years	39,209	44,393
Over five years	6,273	8,769
	<u><b>69,926</b></u>	<u><b>99,772</b></u>
<b>The net investment in hire purchase comprises:</b>		
Within one year	50,577	56,630
One to five years	50,043	76,262
Over five years	-	37
	<u><b>100,620</b></u>	<u><b>132,929</b></u>

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

## 22. PROPERTY AND EQUIPMENT

	Computer Equipment £000	Office Equipment £000	Fixtures & Fittings £000	Total £000
<b>Cost</b>				
At 1 January 2017	534	69	2,185	2,788
Additions	7	-	-	7
Disposals	-	-	-	-
<b>At 31 December 2017</b>	<b>541</b>	<b>69</b>	<b>2,185</b>	<b>2,795</b>
At 1 January 2016	509	79	2,855	3,443
Additions	25	20	99	144
Disposals	-	(30)	(769)	(799)
<b>At 31 December 2016</b>	<b>534</b>	<b>69</b>	<b>2,185</b>	<b>2,788</b>
<b>Depreciation</b>				
At 1 January 2017	478	55	732	1,265
Charge for the year	37	6	500	543
Disposals	-	-	-	-
<b>At 31 December 2017</b>	<b>515</b>	<b>61</b>	<b>1,232</b>	<b>1,808</b>
At 1 January 2016	434	53	845	1,332
Charge for the year	44	7	529	580
Disposals	-	(5)	(642)	(647)
<b>At 31 December 2016</b>	<b>478</b>	<b>55</b>	<b>732</b>	<b>1,265</b>
<b>Net Book Value</b>				
At 1 January 2017	56	14	1,453	1,523
<b>At 31 December 2017</b>	<b>26</b>	<b>8</b>	<b>953</b>	<b>987</b>
<b>At 31 December 2016</b>	<b>56</b>	<b>14</b>	<b>1,453</b>	<b>1,523</b>



## 23. OPERATING LEASE ASSETS

Group	At 31	Additions	Disposals	Depreciation	Translation	At 31
	December				differences	
	2016				2017	
	£000	£000	£000	£000	£000	£000
Gross carrying amount	45,325	27,830	(23,969)	-	(1,388)	47,798
Less depreciation	(20,131)	-	10,938	(4,858)	1,175	(12,876)
	<b>25,194</b>	<b>27,830</b>	<b>(13,031)</b>	<b>(4,858)</b>	<b>(213)</b>	<b>34,922</b>

Group	At 31	Additions	Disposals	Depreciation	Translation	At 31
	December				differences	
	2015				2016	
	£000	£000	£000	£000	£000	£000
Gross carrying amount	81,299	501	(43,883)	-	7,408	45,325
Less depreciation	(41,522)	-	33,401	(6,366)	(5,644)	(20,131)
	<b>39,777</b>	<b>501</b>	<b>(10,482)</b>	<b>(6,366)</b>	<b>1,764</b>	<b>25,194</b>
Provision for impairment						(833)
						<b>24,361</b>

### Rental receipts under operating leases

Future rentals are as follows:

	2017	2016
	£000	£000
Less than one year	3,294	4,981
Between one and five years	13,815	6,177
More than five years	1,971	32
	<b>19,080</b>	<b>11,190</b>

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

## 24. INTANGIBLE ASSETS

<b>Group</b>	<b>2017</b>	<b>2016</b>
<b>Cost</b>	<b>£000</b>	<b>£000</b>
Opening balance	5,528	5,166
Additions	117	373
Disposals	-	(11)
<b>Closing balance</b>	<b>5,645</b>	<b>5,528</b>
<b>Amortisation and impairment losses</b>		
Opening balance	3,835	2,904
Charge for the year	973	942
Disposals	-	(11)
<b>Closing balance</b>	<b>4,808</b>	<b>3,835</b>
<b>Net Book Value</b>	<b>837</b>	<b>1,693</b>

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

## 25. OTHER ASSETS

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
VAT recoverable	1,105	-
Accrued income	145	99
Collateral deposits*	487	482
Prepayments	723	1,124
Other receivables and assets**	681	6,571
	<b>3,141</b>	<b>8,276</b>

\* The Group has pledged cash collateral deposits of £0.5 million (2016: £0.5 million) as security against rental payments on its premises.

\*\*Other receivables and asset line above include foreign exchange forward deal balance of £Nil (2016:£3.8 million).

## 26. DUE TO FINANCIAL INSTITUTIONS

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Reverse Murabaha	391,186	511,239
Wakala	123,206	75,725
	<b>514,392</b>	<b>586,964</b>

## 27. DUE TO CUSTOMERS

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Customer deposits	270,645	206,110
Security deposits	6,696	7,694
	<b>277,341</b>	<b>213,804</b>

## 28. OTHER LIABILITIES

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Trade payables	176	257
VAT payable	-	1,284
Deferred income	48	48
Social security and income tax	354	352
Accruals	8,210	7,532
Other creditors*	3,244	3,266
	<b>12,032</b>	<b>12,739</b>

\*Other creditors line above include foreign exchange forward deal balance of £0.9 million (2016:£Nil).

## 29. COMMITMENTS UNDER OPERATING LEASES

<b>Cannon Place</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Future minimum rentals are as follows:		
Lease expiring in more than five years	12,130	13,085
	<b>12,130</b>	<b>13,085</b>

There is a commitment at year-end under a non-cancellable operating lease for the Bank's main office premises at Cannon Place, 78 Cannon Street, London EC4N 6HL for a fifteen year period (with a ten year break clause) from 11 September 2015 to 10 September 2030, at an annual rental of £0.95 million with an initial rent free period.

During the year £0.8 million was recognised as an expense in the income statement in respect of this operating lease (2016: £0.8 million).

<b>Manchester Square</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Future minimum rentals are as follows:		
Lease expiring between one and five years	215	679
Lease expiring in more than five years	-	-
	<b>215</b>	<b>679</b>

There is a commitment at the year-end under a non-cancellable operating lease for the Bank's Wealth Management Division's former premises at 12 Manchester Square, London W1U 3PP for a twenty year period (with a ten year break clause) from 23 June 2008 to 22 June 2028, at an annual rental of £0.5 million with an initial rent free period (2016: £0.5 million).

The Manchester Square premise during 2017 was not in use due to employees relocating from Manchester Square to the Bank's primary office Cannon place in 2016. In 2016, the bank had exercised an exit from lease in line with break clause dated June 2018 and recognised an onerous lease provision of £1.2m in the income statement comprising the contractual rent and reliable estimate of the future maintenance costs. The remaining commitment of the lease is £0.2m (2016: £0.6m) which has been fully provided in the onerous lease provision.

<b>Dubai office</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Future minimum rentals are as follows:		
Lease expiring in less than five years	<u>117</u>	<u>276</u>
	<b>117</b>	<b>276</b>

There is a commitment at the year-end under a non-cancellable operating lease for the Bank's representative office in Dubai for a three year period from 15 November 2015 to 14 November 2018, at an annual rental of AED 0.7 million, which was equivalent to £0.1 million at the balance sheet date (2016: AED 0.7 million / £0.1 million), with an initial rent free period.

During the year £0.1 million was recognised as an expense in the income statement in respect of this operating lease (2016: £0.1 million).

In addition to above, the Group has two more non-cancellable operating lease agreements in relation to two other UK office premises. The future minimum lease rental for these two premises is £0.019 million (2016: £0.025 million). During the year an expense of £0.037 million (2016: £0.037 million) was recognised in the income statement in respect of these operating leases.

### 30. CONTINGENT LIABILITIES

There are no contingent liabilities as at 31 December 2017 to be disclosed.

### 31. SHARE CAPITAL

<b>Group</b>	<b>Number of shares</b>	<b>Share capital £000</b>
<b>Allotted, called up and fully paid 25p per ordinary share</b>		
<b>At 31 December 2016</b>	<u>195,733,691</u>	<u>48,933</u>
<b>At 31 December 2017</b>	<b>195,733,691</b>	<b>48,933</b>

### 32. MERGER RESERVE

<b>Group</b>	<b>2017</b>	<b>2016*</b>
	<b>£000</b>	<b>£000</b>
Opening balance at 1 January	-	16,000
Recycled to retained earnings after impairment of subsidiary	-	(16,000)
<b>Closing balance at 31 December</b>	<u>-</u>	<u>-</u>
<b>Company</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Opening balance at 1 January	-	16,000
Recycled to retained earnings after impairment of subsidiary	-	(16,000)
<b>Closing balance at 31 December</b>	<u>-</u>	<u>-</u>

A corporate reorganisation of BLME was implemented on 2 October 2013 by means of a Court-approved scheme of arrangement under sections 895 to 899 of the UK Companies Act.

A merger reserve of £191 million was created in the books of the Company upon the BLME Scheme of Arrangement becoming effective on 2 October 2013. This merger reserve represented the excess of the net asset value of BLME on

2 October 2013 of £239.9 million over the nominal value of the ordinary shares issued to the former shareholders of BLME of £48.9 million.

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

\*In the financial statements for the year ended 31 December 2016, an impairment of £152.9 million of the Company's investment in BLME was recognised. £16 million of this impairment was set against the remaining balance of the merger reserve in the Company's Statement of Financial Position. This extinguished the merger reserve, which should therefore have been eliminated from the Group Statement of Financial Position, but was not so eliminated. This has now been corrected as a prior period restatement and has now simplified the balance sheet presentation.

### 33. SUBSIDIARIES AND OTHER ENTITIES

Principal Subsidiaries	Country of incorporation and principal operations	BLME interest in equity capital	Issued equity capital	Principal business activity	Ultimate parent undertaking	Immediate parent undertaking	Registered office
<b>Directly held:</b>							
Bank of London and The Middle East plc	United Kingdom	100%	£48,933,422	Holding Company	BLME Holdings plc	BLME Holdings plc	78 Cannon Street, London EC4N 6HL
<b>Indirectly held:</b>							
BLME Asset Management Limited	United Kingdom	100%	£2	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
BLME Holdco Limited	United Kingdom	100%	£102	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
BLME Holdings EBT	Jersey	100%	£100	Employee benefit trust	BLME Holdings plc	BLME plc	n/a
BLME Limited	United Kingdom	100%	£2	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
BLME Umbrella Fund Management Sarl	Luxembourg	100%	US\$ 25,000	Holding Company	BLME Holdings plc	BLME plc	n/a
Global Liquidity Solutions Limited	United Kingdom	100%	£1	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
MKL Construction Equipment Finance Limited	United Kingdom	60%	£1,000	Leasing	BLME Holdings plc	BLME plc	Padgets Lane, Redditch, B98 0RT
Renaissance Property Finance Limited	United Kingdom	100%	£2	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
Renaissance Trade Finance Limited	United Kingdom	100%	£2	Dormant	BLME Holdings plc	BLME plc	78 Cannon Street, London EC4N 6HL
Aspenway Limited	Jersey	100%	£11,300,000	Investment Holding Company	BLME Holdings plc	BLME plc	26 New Street, St Helier, Jersey JE2 3RA

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.

#### **Deconsolidation of Renaissance Asset Finance Limited in 2016**

With effect from 30 June 2015, the Group consolidated Renaissance Asset Finance Limited ("RAF") into the Group results; management determined that it had control of the entity due to an option to purchase 100% of RAF's issued share capital becoming exercisable on 30 June 2015. Under IFRS 10, this resulted in the Group deeming to have power over, and control of, RAF. For the first three months of 2016, BLME continued to consolidate RAF into the Group results. The option to purchase the business lapsed at the beginning of April 2016. Accordingly, under IFRS 10 control of the entity was lost and it was considered appropriate to deconsolidate RAF. Consequently, a loss of £1.7 million has been recognised in "loss on disposal of group company" in the income statement.

**At 31 March**

**2016**

**£000**

Derecognition of outstanding consideration	2,192
Derecognition of the carrying amount of net assets	(3,912)
<b>Loss on disposal of group company</b>	<b><u>(1,720)</u></b>

#### **Asset Management seed capital investment**

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

<b>Compartment</b>	<b>Share Class</b>	<b>Holdings as at 31 December 2017</b>	<b>Holdings as at 31 December 2016</b>
<b>BLME Light Industrial Building Fund</b>	A	Nil	176.487

BLME Sharia'a Umbrella Fund SICAV-SIF was dissolved on 9 August 2017 following the redemption of all outstanding shares in the Light Industrial Building Fund, the last remaining compartment of the fund.

The business activities of BLME Umbrella Fund Management S.a.r.l., the General Partner of the BLME Sharia'a Umbrella Fund SICAV-SIF, ceased on 31<sup>st</sup> October 2017. This Company is expected to be dissolved during 2018.

There are two active structured entities ("SE") (2016: two) that do not qualify as subsidiaries under UK law but which are consolidated under IFRS 10 as the substance of the relationship is that the entities are deemed to be controlled by the Group. These entities are deemed to be controlled by the Group because the relationships between the Group and the SEs are governed by participation agreements which allow the Group to exercise power over the SEs in addition to being exposed to, and having rights over, the variable returns from its involvement with the SEs. Furthermore, the Group has the ability to use its power to affect its returns from its involvement in the SEs.

The two entities are as follows:

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

During the period the participation agreement with Kalakane Transatlantic Investors II, Inc. (USA) has expired and the group no longer expect any further business activity with this SE.

Lease assets owned by the SEs are reported as Group operating lease assets amounting to £0.7 million (2016: £2.4 million).

The BLME Holdings Employee Benefit Trust ('EBT') holds a stock of own shares acquired at a cumulative cost of £3.7 million (31 December 2016: £4.2 million) which has been deducted from retained earnings in the Condensed Consolidated Statement of Changes in Equity. The EBT did not purchase any of its own shares during the year ended 31 December 2017 (31 December 2016: Nil). No stamp duty costs were incurred by the Group on behalf of the BLME Holdings EBT (Year ended 31 December 2016: 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 £ 1,026 million and £805 million respectively (2016: £1,029 million and £812 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 (2016: none).

Except for a letter of support provided to MKL Construction Equipment Finance Limited, the Group did not provide financial support to any of its consolidated or unconsolidated structured entities during 2017 (2016: nil) and does not have any current intentions to provide such support (2016: none).

### **34. NON-CONTROLLING INTEREST**

The group holds a 60% shareholding in MKL Construction Equipment Finance Limited, and consolidates it as a subsidiary under IFRS 10. The non-controlling interest represents the minority shareholders of 40%. Due to amounts being insignificant in the prior periods it has been disclosed for the first time in the current year.

### **35. RELATED PARTIES**

During the year the Group entered into transactions, other than those included in Notes 11 and 26 on an arm's length basis with related counterparties as detailed below.

	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Boubyan Bank K.S.C.P		
Wakala placement	826,850	490,532
Wakala deposit taking	168,176	304,049
Foreign exchange transactions	-	249
The Public Institution for Social Security		
Reverse Murabaha	238,155	505,294

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

Included within:	2017 £000	2016 £000
Cash and balances with banks		
Nostros	2,720	1,941
Due from financial institutions		
Wakala placement	-	-
Due to financial institutions		
Wakala deposit taking	31,893	-

As at 31 December 2017, Boubyan Bank K.S.C.P held an economic interest of 26.39% of the Parent Company's shares (2016: 26.39%). A Non-executive Director who joined the Board on 6 December 2012, and was appointed Chairman on 31 March 2014, is the current Chief Executive Officer and Vice-Chairman of Boubyan Bank K.S.C.P.

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

Included within:	2017 £000	2016 £000
Reverse Murabaha	381,185	522,812

As at 31 December 2017, The Public Institution for Social Security held 7.67% (2016: 7.67%) of the Bank's shares. The Bank's Vice Chairman holds the position of Deputy Director General for Investment and Operations of The Public Institution for Social Security.

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

	2017 £000	2016 £000
Key management emoluments *	1,429	827
Bank contributions to pension plans	65	10
	<b>1,494</b>	<b>837</b>

\* Key management emoluments includes share-based payments of £0.15 million (2016: £0.09 million).

During the year, the Company received notification of the following Directors' purchase of Company shares on the following dates.

No.	Director's Name	Date	No. of Shares	Value	% Cumulative holding of issued share capital
1.	Michael Williams	29 June 2017	30,000	US\$12,000	0.015%
2.	Calum Thomson	29 June 2017	30,000	US\$12,000	0.015%
3.	David Williams	29 June 2017	30,000	US\$12,000	0.015%
4.	Jabra Ghandour	29 June 2017	30,000	US\$12,000	0.015%
		5 September 2017	136,667	US\$54,667	0.255%
5.	Giles Cunningham	27 August 2017	675,917	US\$270,367	
		28 August 2017	74,083	US\$29,633	
		5 September 2017	63,120	US\$25,248	0.415%
6.	Christopher Power	27 August 2017	30,000	US\$11,990	0.015%
7.	Adel Al-Majed	7 September 2017	771,412	US\$308,564	
		17 September 2017	228,588	US\$308,564	0.511%



In addition to above purchase, Jabra Ghandour exercised options over 333,333 ordinary shares in the Company plc on 29 June 2017 at nil cost per share. He was granted these options in November 2015 when he was Head of Wealth Management.

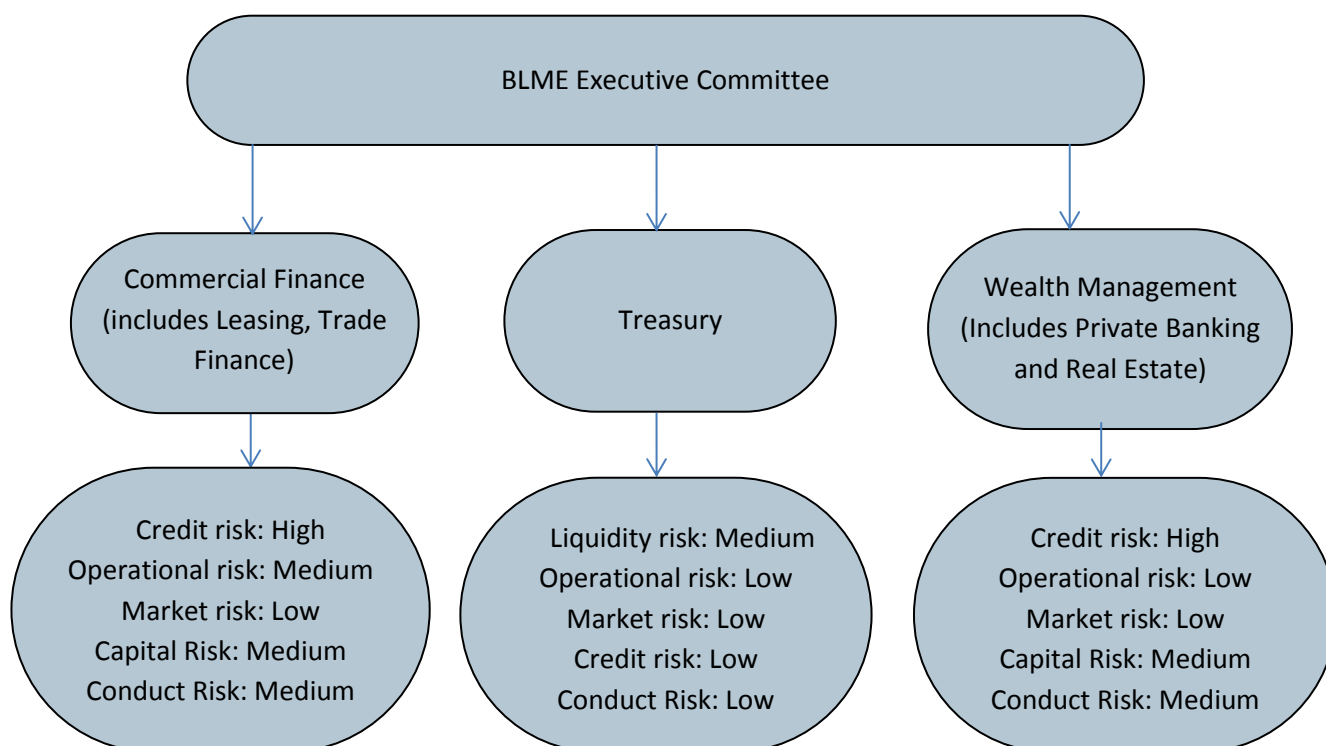
On 17 October 2016 the Group's Dubai Representative Office entered into a consultancy agreement with Jabra Ghandour (Director) to provide services to help build the Group's Wealth Management brand and revenues. The agreement was made in the ordinary course of business and on an arms' length basis and can be terminated by either party giving to the other party not less than one month's notice in writing. The Bank recognised an expense of £0.24 million (31 December 2016: £0.03 million) in the income statement line "Other operating expenses" in relation to this agreement and this amount has been included in the Director's Emolument figures disclosed in Note 11. The amount outstanding as at 31 December 2017 is £0.045m (31 December 2016: £Nil).

### 36. FINANCIAL RISK MANAGEMENT

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

- credit risk
- liquidity risk
- market risk
- operational risk (includes cyber risk)
- capital risk
- conduct risk

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



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

Following a review of the Bank's business strategy last year, the following objectives have been identified:

- Continue to reduce exposure to capital intensive and less profitable business lines;
- Expansion of its presence in the Gulf Cooperation Council (GCC) states and the Middle East;
- Reduced wholesale funding concentration. This has been achieved by attracting more deposits through BLME's Premier Deposit Account (PDA) and will continue into 2018.

As referred to in the Chairman and CEO statements, the Group has undergone significant changes in 2017 which included a refinement of the Group's risk management framework and Board Risk Appetite.

### **Risk management framework**

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

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

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

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

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

- Risk identification – ensure there is a clear definition of each risk entered into by the Bank with an identified Risk Owner;
- Risk assessment – agree and implement appropriate, effective risk measurement and reporting standards for each identified risk. Set metrics together with reporting monitoring controls, processes and standards;
- Risk mitigation – establish 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 & monitoring – separate control functions independent of business lines are responsible for monitoring the operation of the controls and adherence to risk direction and limits;
- Manage and challenge – review and challenge all aspects of the Bank's risk profile;
- Ensuring all products are Sharia'a compliant;
- To identify and evaluate the roles of three lines of defence.

The Bank's RMF requires the following principles to be adhered to:

- All risks assessed as being principal risks to be covered by a Risk Appetite Statement, Policy and operating process to mitigate the risk;

- The Board retains overall responsibility for approving business strategy, understanding principal risks and ensuring that the risks are adequately controlled and monitored;
- The Board Risk Committee provides oversight and assurance of the RMF, with independent reporting lines for the Chief Risk Officer to enable this; and
- Adoption of a “4 eyes” maker / checker control system throughout the Bank, with independent review / approval of key risk decisions in a three lines of defence model.

## **Board Risk Appetite**

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

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

The Board has set risk appetite within the context of projected financial earnings and balance sheet over the short and medium term. The risk appetite has been 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 control 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

### **a. Credit risk**

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

#### **i. Management of credit risk**

The Group manages credit risk by the use of Portfolio Limits and Commercial Guidelines (“CGs”) 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.

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

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

- Providing advice, guidance and specialist skills to all business areas throughout the Group in the management of credit risk

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

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

## ii. Exposure

The tables below present the Group's exposure to credit risk on balance sheet financial instruments as at 31 December 2017, before taking account of any collateral held or other credit enhancements. The amounts at the current reporting date reflect the continued de-risking of the Group's lending portfolio. This has resulted in a decrease in the overall gross exposures as a consequence of the Bank exiting non-core business such as Islamic Capital Markets and US Leasing, and higher risk products which includes ABL Finance.

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Cash and balances with banks	96,780	71,152
Due from financial institutions		
Murabaha	24,844	62,652
Wakala	3,700	44,530
Investment securities	114,930	112,161
Due from Customer	9,027	-
Financing arrangements	567,820	473,304
Finance lease receivables	170,546	232,701
Other assets (Foreign exchange forward deals)	-	3,888
<b>Total credit exposure</b>	<b>987,647</b>	<b>1,000,388</b>

The Group had 12 off balance sheet letters of guarantee outstanding at 31 December 2017 (2016: 40) with a total exposure of £18 million (2016: £24.8 million). These letters of guarantee mainly relate to short dated Trade Finance and ABL Finance facilities with a maturity of less than six months.

### iii. Exposure by country of incorporation of the borrower

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

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
<b>GCC countries</b>		
Bahrain	8,464	7,747
Kuwait	94,017	16,112
Qatar	14,008	42,779
Saudi Arabia	92,570	119,577
United Arab Emirates	16,064	28,157
<b>EEA countries</b>		
France	-	8,094
Ireland	-	3,295
Luxembourg	-	202
United Kingdom	674,891	663,666
<b>Other countries</b>		
British Virgin Islands	-	1,118
Cayman Islands	6,097	16,954
Djibouti	-	1,133
Guernsey	15,491	12,927
Switzerland	866	-
Jordan	1,369	-
Isle of Man	16,234	15,540
Jersey	11,891	15,080
South Korea	-	1,240
USA	35,685	46,767
<b>Total credit exposure</b>	<b>987,647</b>	<b>1,000,388</b>

#### iv. Exposure by economic sector

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

Group	2017 £000	2016 £000
Financial services		
GCC financial institutions	141,042	126,774
UK financial institutions	126,235	161,240
European financial institutions	-	8,296
Other financial institutions	46,244	40,559
Mining and quarrying	4,147	5,413
Manufacturing	31,101	36,104
Real estate	295,181	290,194
Transportation and storage	38,447	81,711
Government	40,788	37,047
Wholesale / Retail	84,700	76,475
Oil and Gas	-	14,232
Commodities	66,886	54,974
Energy	14,072	-
Construction	45,151	26,935
Telecoms	-	-
Others	53,653	40,434
<b>Total credit exposure</b>	<b>987,647</b>	<b>1,000,388</b>

#### v. Credit risk quality

The Group's credit quality and direct investments are managed by CCRC and the Assets and Liabilities Committee (ALCO) respectively, under the oversight of the Executive Committee and, in the case of CCRC, under the oversight of BCC. Credit quality is assessed using techniques that include information from the major External Credit Assessment Institutions (ECAI) as well as internal ratings for customers who are not externally rated. The latter are mapped to the ratings of the ECAI. Of the total portfolio 24% (31 December 2016: 27%) was directly rated by at least one of the ECAI, with 76% (31 December 2016: 73%) using internal ratings.

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

## Group

At 31 December 2017	Neither Past Due Nor Impaired							
	ECAI Rating		BLME Internal Rating		Ungraded	Past due but not impaired	Individually Impaired	Total
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade				
	£000	£000	£000	£000	£000	£000	£000	£000
Cash and balances with banks	96,780	-	-	-	-	-	-	96,780
Due from financial institutions	14,787	-	3,700	10,057	-	-	-	28,544
Due from customers	-	-	9,027	-	-	-	-	9,027
<b>Investment securities</b>								
<b>Available for sale</b>								
Government debt securities	31,712	-	-	-	-	-	-	31,712
Other Investment securities	73,170	-	-	973	-	-	-	74,143
<b>Investment Hold to Maturity (HTM)</b>								
Government debt securities	3,718	5,357	-	-	-	-	-	9,075
Other Investment securities	-	-	-	-	-	-	-	-
Financing arrangements	4,762	-	301,908	184,127	12,141	40,256	24,626	567,820
Finance lease receivables	10,157	-	63,856	75,975	4,461	479	15,618	170,546
Other assets (Foreign exchange forward deals)	-	-	-	-	-	-	-	-
<b>Total credit exposure</b>	<b>235,086</b>	<b>5,357</b>	<b>378,491</b>	<b>271,132</b>	<b>16,602</b>	<b>40,735</b>	<b>40,244</b>	<b>987,647</b>

## Group

At 31 December 2016	Neither Past Due Nor Impaired							
	ECAI Rating		BLME Internal Rating		Ungraded	Past due but not impaired	Individually Impaired	Total
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade				
	£000	£000	£000	£000	£000	£000	£000	£000
Cash and balances with banks	71,152	-	-	-	-	-	-	71,152
Due from financial institutions	89,075	-	8,095	10,012	-	-	-	107,182
Due from customers	-	-	-	-	-	-	-	-
<b>Investment securities</b>								
<b>Available for sale</b>								
Government debt securities	21,095	-	-	-	-	-	-	21,095
Other Investment securities	69,896	-	-	611	2,559	-	-	73,066
<b>Investment Hold to Maturity (HTM)</b>								
Government debt securities	5,825	-	-	-	-	-	-	5,825
Other Investment securities	-	-	12,175	-	-	-	-	12,175
Financing arrangements	-	-	177,005	225,972	3,160	23,758	43,409	473,304
Finance lease receivables	13,498	-	46,513	153,181	1,103	6,596	11,810	232,701
Other assets (Foreign exchange forward deals)	274	-	2,054	506	1,054	-	-	3,888
<b>Total credit exposure</b>	<b>270,815</b>	<b>-</b>	<b>245,842</b>	<b>390,282</b>	<b>7,876</b>	<b>30,354</b>	<b>55,219</b>	<b>1,000,388</b>

There were no collective and specific impairments against cash and balances with banks, due from financial institutions and customers or investment securities or other assets. (2016: Nil)

## Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	2017	2016	2017	2016
	£000	£000	£000	£000
Neither past due nor impaired	512,496	421,475	157,639	221,287
Past due but not impaired	40,256	23,758	479	6,596
Gross exposure associated with impairment provision	24,626	43,409	15,618	11,810
Less: allowance for impairments	(9,558)	(15,338)	(3,190)	(6,992)
<b>Total</b>	<b>567,820</b>	<b>473,304</b>	<b>170,546</b>	<b>232,701</b>
<b>Past due but not impaired</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Past due up to 30 days	-	23,758	367	5,031
Past due 30 to 60 days	374	-	33	403
Past due 60 to 90 days	34,659	-	33	608
Past due over 90 days	5,222	-	46	554
<b>Total</b>	<b>40,255</b>	<b>23,758</b>	<b>479</b>	<b>6,596</b>

The past due but not impaired balances as at 31 December 2017 include £39.2 million (2016: £21.4 million) relating to two transactions (2016: four) where collateral value exceeds the facility balance. 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".

Subsequent to 31 December 2017 £34.6 million out of £40.2 million of Financing arrangements past due but not impaired became current.

## Forbearance

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

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

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

A concession refers to either of the following actions:

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



Evidence of a concession includes:

- A difference in favour of the debtor between the modified and the previous terms of the contract.
- Cases where a modified contract includes more favourable terms than other debtors with a similar risk profile could have obtained from the Bank.

The revised terms may include a reduction of current contractual profit rate or other fees, amending the terms of exposure covenants, extending the maturity and/or changing the timing of profit rate payments. All exposures are subject to the forbearance policy. The Bank's forbearance register is maintained by the Credit department and is subject to monthly oversight by the Bank's CCRC. The Audit Committee also reviews reports on forbearance activities.

Agreement to forbearance does not necessarily result in an impairment of that facility. All impairments will be individually assessed by the Credit Risk department and CCRC on a case-by-case basis.

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

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

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

Based on the credit exposures existing as at 31 December 2017 there had been sixteen instances (2016: thirteen ):

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

The carrying value as at 31 December 2017 of exposures relating to forborne counterparties with no specific impairment charge was £37.2 million, which represents 4% of the Group's total assets (2016: £60.1 million and 6%).

- **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 borrower and collateral.

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

<b>Assets obtained by taking possession of collateral</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Murabaha	8,125	-
Real estate	-	3,596
<b>Total</b>	<b>8,125</b>	<b>3,596</b>

The Murabaha collateral relates to a yacht that has been arrested by the receiver as at 31 December 2017. The real estate collateral balance reported above relates to a property that was under the appointment of an LPA receiver at 31 December 2016. In February 2017, the Bank concluded an exit having realised the collateral at a value that did not require further impairment charges.

<b>Group</b>	<b>2017</b>	<b>2017</b>	<b>2016</b>	<b>2016</b>
	<b>On balance</b>	<b>Collateral</b>	<b>On balance</b>	<b>Collateral</b>
	<b>sheet</b>		<b>sheet</b>	
	<b>exposure</b>		<b>exposure</b>	
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Cash and balances with banks	96,780	-	71,152	-
Due from financial institutions	28,544	-	107,182	-
Due from customers	9,027	-	-	-
Investment securities	114,930		112,161	
Financing arrangements	567,820	405,535	473,304	367,092
Finance lease receivables	170,546	131,339	232,701	226,514
Other assets (Foreign exchange forward deals)	-	-	3,888	-
<b>Total credit exposure</b>	<b>987,647</b>	<b>536,874</b>	<b>1,000,388</b>	<b>593,606</b>

As at 31 December 2017, collateral represented 54% (2016: 60%) of the Group's total credit exposure.

<b>Group analysis of collateral</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Plant and equipment	146,433	245,291
Property	246,173	234,222
Raw materials/ finished stock	144,268	114,093
<b>Total credit exposure</b>	<b>536,874</b>	<b>593,606</b>

In addition, the Group holds financial guarantees of £107.6 million (2016: £60.9 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 2017, 94% (2016: 94%) of the Group's property lending exposure had a financing-to-value ratio equal to or less than 70%.

**vii. Offsetting financial assets and liabilities**

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

**Financial asset and liabilities subject to offsetting, netting arrangements:**

<b>2017</b>	<b>Offsetting recognised on the Statement of Financial Position</b>		
	<b>Gross Amount of financial instrument before offsetting</b>	<b>Amounts subject to an enforceable master netting agreement</b>	<b>Net Amount presented in statement of financial position</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Profit Rate Swap (Asset)	132	(132)	-
Profit Rate Swap (Liabilities)	768	(132)	636
Foreign exchange forward deals (Asset)	88	(88)	-
Foreign exchange forward deals (Liabilities)	1,070	(88)	982
<b>2016</b>			
Profit Rate Swap (Asset)	-	-	-
Profit Rate Swap (Liabilities)	1,305	-	1,305
Foreign exchange forward deals (Asset)	4,889	(1,001)	3,888
Foreign exchange forward deals (Liabilities)	1,001	(1,001)	-

### 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			2017	2017	2016	2016
		Fair value hierarchy	Carrying value	Fair value	Carrying value	Fair value
	Note		£000	£000	£000	£000
Cash and balances with banks		1	96,780	*	71,152	*
Due from financial institutions	i	2	28,544	28,498	107,182	106,973
Due from customers	i	2	9,027	9,016	-	-
Investment securities	ii, iii	See next table**	114,930	114,930	112,161	112,161
Financing arrangements	iii	3	567,820	561,199	473,304	468,836
Finance lease receivables	iii	3	170,546	170,262	232,701	222,956
Other assets (Foreign exchange forward deals)	iv	2	-	-	3,888	3,888
Due to financial institutions	iii	3	514,392	511,278	586,964	581,181
Profit rate swaps liability	ii	2	636	636	1,305	1,305
Due to customers	iii	3	277,341	275,261	213,804	212,357
Other liabilities (Foreign exchange forward deals)	iv	2	982	982	-	-

\* 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 held to maturity (HTM) security.

### Notes

- i. These assets represent short term liquidity; the majority of these assets have an average residual life of 2 weeks and a maximum individual residual maturity of 6 weeks. The assets are placed with banks with an average credit rating of A. On this basis, carrying value reflects fair value.
- ii. Fair value represents independent external valuation or last trade.
- iii. 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 the 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.

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

Group	2017 Level 1 £000	2017 Level 2 £000	2017 Level 3 £000	2017 Total £000
Investment securities	104,882	-	973	105,855
Profit rate swaps liability	-	636	-	636
Foreign exchange forward deals (liabilities)	-	982	-	982

Group	2016 Level 1 £000	2016 Level 2 £000	2016 Level 3 £000	2016 Total £000
Investment securities	90,171	820	3,170	94,161
Profit rate swaps liability	-	1,305	-	1,305
Foreign exchange forward deals (Assets)	-	3,888	-	3,888

During the year, there were no transfers between Level 1 and Level 2 fair value measurements (2016: none) and no transfers into or out of Level 3 fair value measurements (2016: none). Transfers between levels would occur at the date of the event or change in circumstances that caused the transfer.

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

There have been no changes to the methodologies used in valuing the level 2 and 3 assets (2016: none).

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

Group	2017 £000	2016 £000
Investment securities		
Balance at 1 January	3,170	3,803
Total gains / (losses) recognised in:		
- profit or loss*	(1,770)	(487)
- other comprehensive income**	(427)	34
Purchases	-	-
Sales	-	(180)
Balance at 31 December	<u>973</u>	<u>3,170</u>

\* This amount is included in "net fair value losses on investment securities" in the income statement

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

The reconciliation for investment securities is included in Note 19.

For the fair values of available-for-sale equity securities, reasonable possible changes at the reporting date to one of the significant unobservable inputs, holding the other inputs constant, would have the following effects:

Group	31 December 2017			
	Income statement		Other comprehensive income	
	Increase	Decrease	Increase	Decrease
	£000	£000	£000	£000
Valuation adjustment +30%	-	-	292	-
Valuation adjustment -30%	-	(7)	-	(285)

Group	31 December 2016			
	Income statement		Other comprehensive income	
	Increase	Decrease	Increase	Decrease
	£000	£000	£000	£000
Valuation adjustment +30%	-	-	951	-
Valuation adjustment -30%	-	(239)	-	(712)

#### ix. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2017.

Group	2017 Fair value through profit and loss	2017 Available- for-sale	2017 Financial assets at amortised cost	2017 Total
Assets	£000	£000	£000	£000
Cash and balances with banks	-	-	96,780	96,780
Due from financial institutions	-	-	28,544	28,544
Due from customers	-	-	9,027	9,027
Investment securities:				
Sukuk	-	104,882	9,075	113,957
Equity	-	973	-	973
Financing arrangements	-	-	567,820	567,820
Finance lease receivables	-	-	170,546	170,546
<b>Total financial assets</b>	<b>-</b>	<b>105,855</b>	<b>881,792</b>	<b>987,647</b>

<b>Group</b>	<b>2017 Fair value through profit and loss £000</b>	<b>2017 Other Profit Rate Swaps £000</b>	<b>2017 Financial liabilities at amortised cost £000</b>	<b>2017 Total £000</b>
<b>Liabilities</b>				
Due to financial institutions	-	-	514,392	514,392
Due to customers	-	-	277,341	277,341
Profit rate swaps	636	-	-	636
Other liabilities (Foreign exchange forward deals)	982	-	-	982
<b>Total financial liabilities</b>	<b>1,618</b>	<b>-</b>	<b>791,733</b>	<b>793,351</b>

<b>Group</b>	<b>2016 Fair value through profit and loss £000</b>	<b>2016 Available- for-sale £000</b>	<b>2016 Financial assets at amortised cost £000</b>	<b>2016 Total £000</b>
<b>Assets</b>				
Cash and balances with banks	-	-	71,152	71,152
Due from financial institutions	-	-	107,182	107,182
Investment securities:				
Sukuk	-	90,991	18,000	108,991
Equity	-	3,170	-	3,170
Financing arrangements	-	-	473,304	473,304
Finance lease receivables	-	-	232,701	232,701
Other assets (Foreign exchange forward deals)	3,888	-	-	3,888
<b>Total financial assets</b>	<b>3,888</b>	<b>94,161</b>	<b>902,339</b>	<b>1,000,388</b>

<b>Group</b>	<b>2016 Fair value through profit and loss £000</b>	<b>2016 Other Profit Rate Swaps £000</b>	<b>2016 Financial liabilities at amortised cost £000</b>	<b>2016 Total £000</b>
<b>Liabilities</b>				
Due to financial institutions	-	-	586,964	586,964
Due to customers	-	-	213,804	213,804
Profit rate swaps	1,254	51	-	1,305
<b>Total financial liabilities</b>	<b>1,254</b>	<b>51</b>	<b>800,768</b>	<b>802,073</b>

## b. Liquidity risk

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

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

Over and above regulatory liquidity, ALCO establishes its own liquidity performance measures and PRA guidelines. These include a series of early warning triggers and management data on liability stability (i.e. the likelihood of deposits being withdrawn), liability diversification and reserve liquidity. As at 31 December 2017, the Group held £765 million (2016: £777 million) of term deposits and held £0.9 million (2016: £2.0m) of secondary market assets.

### Residual contractual maturities of financial assets

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2017 Total £000
Cash and balances with banks	96,780	-	-	-	-	96,780
Due from financial institutions	18,489	-	10,090	-	-	28,579
Due from customers	9,042	-	-	-	-	9,042
Investment securities	1,966	745	19,506	93,924	5,498	121,639
Financing arrangements	327,360	131,351	37,034	83,455	-	579,200
Finance lease receivables	12,941	16,151	52,524	95,615	6,547	183,778
Other assets (Foreign exchange forward deals)	-	-	-	-	-	-
	<b>466,578</b>	<b>148,247</b>	<b>119,154</b>	<b>272,994</b>	<b>12,045</b>	<b>1,019,018</b>

Group	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	2016 Total £000
Cash and balances with banks	71,152	-	-	-	-	71,152
Due from financial institutions	68,845	28,388	-	10,090	-	107,323
Investment securities	3,341	496	1,560	109,006	6,455	120,858
Financing arrangements	303,061	63,355	70,650	81,028	-	518,094
Finance lease receivables	3,755	22,134	87,387	130,356	9,318	252,950
Other assets (Foreign exchange forward deals)	2,818	1,070	-	-	-	3,888
	<b>452,972</b>	<b>115,443</b>	<b>159,597</b>	<b>330,480</b>	<b>15,773</b>	<b>1,074,265</b>

The tables above show the contractual, undiscounted cash flows of the Group's financial assets. The Group is the senior lender in all of its lending exposures.



None of the Group's assets have been pledged as collateral apart from cash collateral deposits of £0.5 million (2016: £0.5m) as security against rental payments on the Group's premises. Consequently, all of the Group's assets are unencumbered.

#### Residual contractual maturities of financial liabilities

<b>Group</b>	<b>Less than 1 month £000</b>	<b>1-3 months £000</b>	<b>3 - 12 months £000</b>	<b>1-5 years £000</b>	<b>5+ years £</b>	<b>2017 Total £000</b>
Due to financial institutions	138,025	143,186	236,654	-	-	517,865
Due to customers	31,712	10,662	130,261	114,816	1,808	289,259
Profit rate swaps	-	-	-	636	-	636
Other liabilities (Foreign exchange forward deals)	752	259	(29)	-	-	982
	<b>170,489</b>	<b>154,107</b>	<b>366,886</b>	<b>115,452</b>	<b>1,808</b>	<b>808,742</b>

<b>Group</b>	<b>Less than 1 month £000</b>	<b>1-3 months £000</b>	<b>3 - 12 months £000</b>	<b>1-5 years £000</b>	<b>5+ years £</b>	<b>2016 Total £000</b>
Due to financial institutions	-	153,820	292,767	154,808	-	601,395
Due to customers	21,751	10,736	100,339	100,384	1,256	234,466
Profit rate swaps	-	-	-	1,305	-	1,305
Other liabilities (Foreign exchange forward deals)	-	-	-	-	-	-
	<b>21,751</b>	<b>164,556</b>	<b>393,106</b>	<b>256,497</b>	<b>1,256</b>	<b>837,166</b>

The tables above show the contractual, undiscounted cash flows of the Group's financial liabilities apart from profit rate swaps which are showed using discounted cash flows.

Whilst BLME has sufficient assets in the short dated time buckets to cover its short dated liabilities as they become due, it also holds a significant Liquid Asset Buffer (LAB) (in line with the PRA rules) of £91.1 million as at 31 December 2017 (2016: £89.7 million). These LAB holdings have been greater than the regulatory liquidity requirement throughout the year (unaudited).

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

<b>Group</b>	<b>2017</b>	<b>2016</b>
	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	96,780	71,152
Highly liquid securities (including LAB)	104,882	90,171
<b>Total</b>	<b>201,662</b>	<b>161,323</b>

As at 31 December 2017, there are no limitations on the use of the liquidity reserve held by the Group (2016: 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 BLME's stress testing program in accordance with BLME's Stress Testing and Scenario Analysis Policy.

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

#### **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 2016, the Group's net profit rate sensitivity to profit and loss on its fixed and variable rate assets, and its capital and reserves, as measured by the discounted value of a one basis point change in market rates, was £7,951 (2016: £24,853). 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:

	<b>At 31 December 2017</b>		<b>At 31 December 2016</b>	
	<b>Increase of 100 bp £000</b>	<b>Decrease of 100 bp £000</b>	<b>Increase of 100 bp £000</b>	<b>Decrease of 100 bp £000</b>
Increase in profit & loss	4,153	-	4,575	-
Decrease in profit & loss	-	3,761	-	5,228
Increase in equity	3,983	-	3,160	-
Decrease in equity	-	3,579	-	3,739

#### **ii. Foreign exchange risk**

Foreign exchange risk is the risk that the value in a non-Sterling asset or liability position will fluctuate due to changes in currency rates. The Bank does not take significant foreign exchange positions and the majority of risk relates to

earnings on US Dollar assets and US Dollar liabilities whose maturities are broadly matched. The Board has established position and stop loss limits to ensure that positions and revaluation results are subject to independent daily monitoring and reporting to senior management.

	<b>At 31 December 2017</b>	<b>At 31 December 2016</b>
	<b>£000</b>	<b>£000</b>
Resultant foreign exchange revaluation gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	30	68
	<b>Year to 31 December 2017</b>	<b>Year to 31 December 2016</b>
	<b>£000</b>	<b>£000</b>
Net foreign exchange gain / (loss) for the period	1,746	756

### **iii. Equity price risk**

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

### **d. Operational risk**

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

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

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

Basel III requires capital to be retained for operational risk, which the Group has calculated to be £7.0 million using the Basic Indicator Approach (2016: £6.9 million) (unaudited).

### **e. Capital adequacy**

The Company is not subject to regulatory capital requirements therefore the Bank's regulatory position has been set out below. At 31 December 2017 and throughout the year the Bank complied with the capital requirements that were in force as set out by the Prudential Regulation Authority ("the PRA") (unaudited). The PRA adopted the Basel III requirements with effect from 1 January 2014.

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

	2017	2016
<b>Audited</b>	<b>£000</b>	<b>£000</b>
<b>Tier 1 Capital - CET1</b>		
Ordinary share capital	48,933	48,933
Share premium	180,623	180,623
Retained (losses) / earnings	(10,566)	(14,033)
<b>Total Tier 1 capital</b>	<b>218,990</b>	<b>215,523</b>
<b>Unaudited</b>		
<b>Deductions from Tier 1 capital</b>		
Intangible assets	(837)	(1,708)
Others	1,640	847
<b>Total Tier 1 capital after deductions</b>	<b>219,793</b>	<b>214,662</b>
<b>Tier 2 capital</b>	<b>3,915</b>	<b>4,398</b>
<b>Total Tier 2 capital</b>	<b>3,915</b>	<b>4,398</b>
<b>Total Tier 1 and Tier 2 capital</b>	<b>223,708</b>	<b>219,060</b>
<b>Deductions from Tier 1 and Tier 2 capital:</b>		
Investment in BLME Sharia'a Umbrella Fund SICAV SIF	-	-
Investment in DMJ II LLC	-	-
Investment in group companies	-	-
<b>Total regulatory capital</b>	<b>223,708</b>	<b>219,060</b>

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

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

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

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

	2017 £000 (unaudited)	2016 £000 (unaudited)
<b>Pillar 1 capital requirements</b>		
Credit risk	75,456	76,759
Market risk - foreign currency PRR	110	596
Counterparty risk capital component	13	74
Operational risk	7,018	6,993
<b>Total Pillar 1 capital requirement</b>	<b>82,597</b>	<b>84,422</b>
<b>Total regulatory capital in place</b>	<b>223,708</b>	<b>219,060</b>

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

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

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

BLME will continue to prudently employ capital and maintain appropriate capital adequacy, liquidity and leverage ratios. BLME reported to the PRA ratios above the minimum requirement throughout 2017. The capital planning process continues to incorporate these measures.

## Company information

### **BLME Holdings plc and Bank of London and The Middle East plc**

#### **Registered Office**

Cannon Place  
78 Cannon Street  
London  
EC4N 6HL

Tel: +44 (0) 20 7618 0000

Fax: +44 (0) 20 7618 0001

Email: [info@blme.com](mailto:info@blme.com)

Website: [www.blme.com](http://www.blme.com)

### **Bank of London and The Middle East plc**

#### **Corporate Banking Regional office**

Lowry House  
17 Marble Street  
Manchester  
M2 3AW

Tel: +44 (0) 16 1661 4575

Email: [info@blme.com](mailto:info@blme.com)

Website: [www.blme.com](http://www.blme.com)

### **Bank of London and The Middle East plc**

#### **Dubai Representative office**

Office No 2904, Level 29  
Tower 2, Al Fattan Currency House,  
Dubai International Financial Centre,  
P.O. Box 506557  
Dubai, UAE

Tel: + 971 (0) 4 365 0700

Fax: + 971 (0) 4 365 0799

Email: [info@blme.com](mailto:info@blme.com)

Website: [www.blme.com](http://www.blme.com)

#### **Auditors:**

Ernst & Young LLP  
Chartered Accountants  
25 Churchill Place  
London  
E14 5EY  
Website: [www.ey.com](http://www.ey.com)