BLME Holdings plc

Interim Report

For the six months ended 30 June 2019

Registered number 08503102

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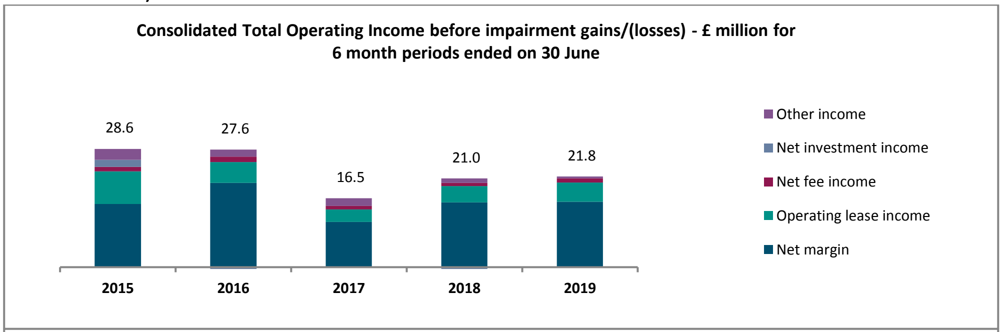
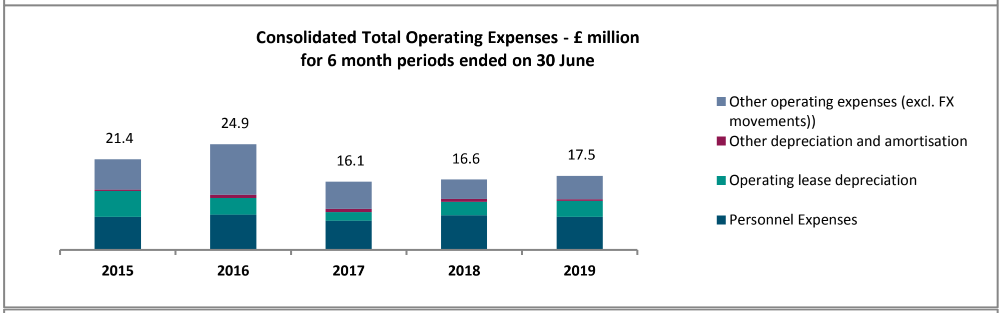
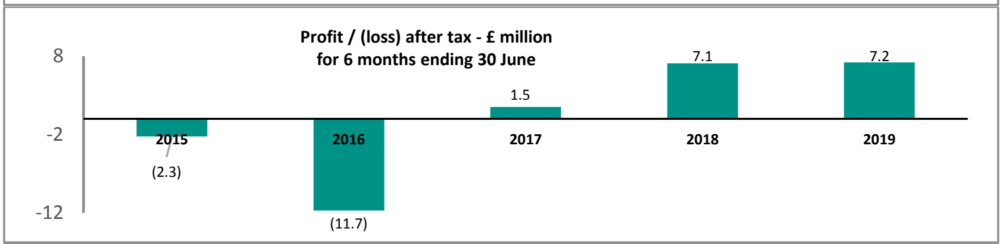
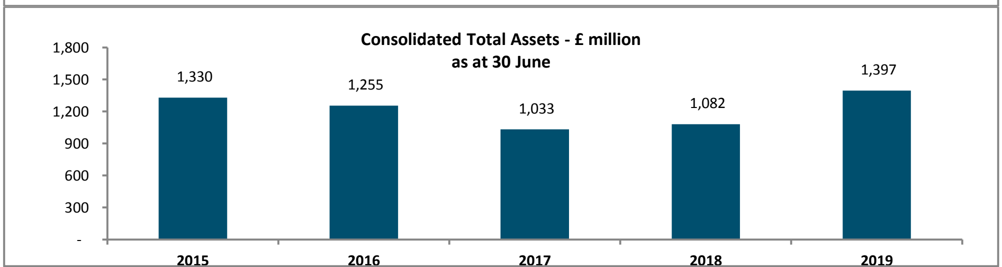
GROUP HIGHLIGHTS FOR BLME HOLDINGS PLC FOR THE SIX MONTHS TO 30 JUNE 2019 (unaudited)

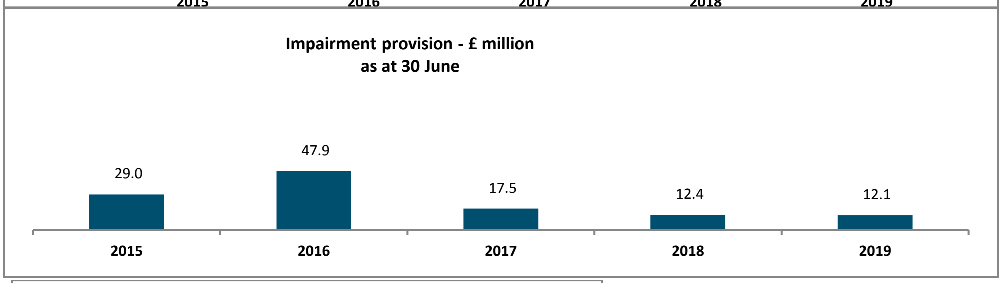
The Group’s profit after tax for the six months ended 30 June 2019 was £7.2 million (six months to 30 June 2018: £7.1 million)

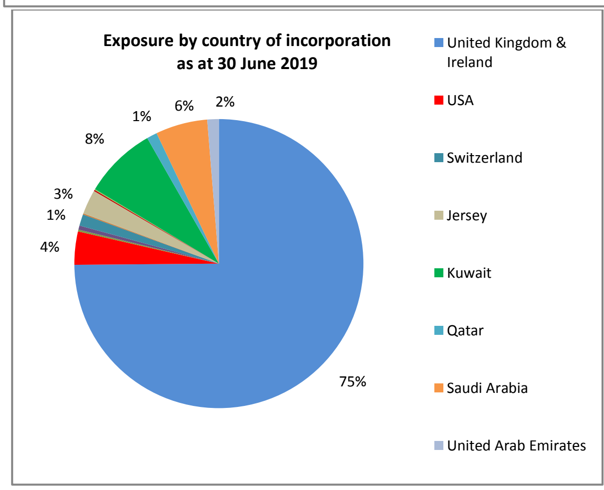


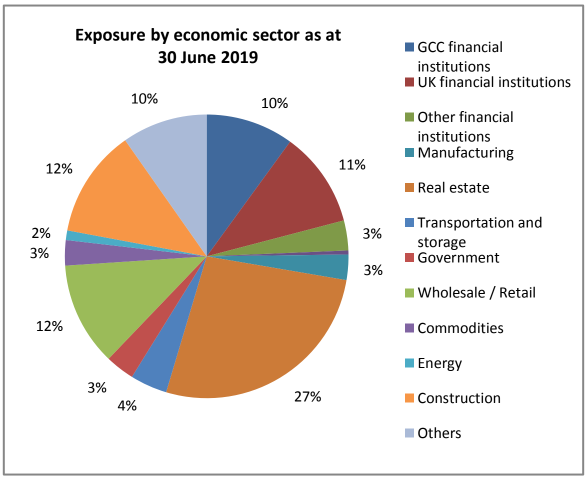












CHIEF EXECUTIVE OFFICER'S STATEMENT

Financial performance

BLME reports a half year profit of £7.2m after tax, consistent with the £7.1m profit for the same period in 2018. Credit impairment gains for the 6 months to 30 June 2019 were £2.5m compared with £3.6m in the 6 months to 30 June 2018. Total assets grew by 9% to £1.4 billion with increased financing activities supported by diversified, consumer deposit-led funding. Our cost:income ratio has fallen for a consecutive year from 78% to 76% (excluding the effect of operating lease depreciation). These results demonstrates our commitment to growing a sustainable, profitable Bank.

Customer led approach

Our clients are our priority and we maintain a focus on providing excellent customer service. We are proud to have received the 'Best Fixed Term Account Provider' award from MoneyFacts for the second year running.

This year, for the first time BLME surveyed our savings customers and found that an impressive 79% of our customers would recommend a BLME savings account. We will continue to invest in products and improvements to ensure that we keep pace with customer expectations and the high level of service they deserve.

Our commitment to customer service is reflected by the 35% increase in customer deposits during the first half of 2019 and reduced funding concentration risk by 14% compared to the end of 2018.

The future

The political and economic climate including Brexit will bring challenges but I am confident that we have built a bank that can respond with agility and find the opportunities that these challenges will also bring. As we enter the second half of the year we will build on our foundations, improved operating model and a healthy new business pipeline to deliver sustainable and profitable results.

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

Giles Cunningham

21 August 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES

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

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

On behalf of the Board:

Giles Cunningham
Chief Executive Officer
21 August 2019

INDEPENDENT REVIEW REPORT TO BLME HOLDINGS PLC

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 which comprises condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated statement of financial position, condensed consolidated statement of cash flows, condensed consolidated statement of changes in equity and the related explanatory notes 1 to 21. We have read the other information contained in the half yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' Responsibilities

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

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

Our Responsibility

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

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union.

For and on behalf of Ernst & Young LLP
London
21 August 2019

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2019 (unaudited)

	Note	6 months to 30 June 2019 £000	6 months to 30 June 2018 £000
Income			
Income from financing and investing activities		27,753	23,654
Returns to financial institutions and customers	*6*	(11,906)	(7,979)
Net margin		**15,847**	**15,675**
Fee and commission income		1,136	1,002
Fee and commission expense		(159)	(200)
Net fee and commission income		**977**	**802**
Net investment loss		(94)	(480)
Credit impairment gains	*8*	2,504	3,564
Operating lease income		4,656	3,938
Other operating income		458	1,064
Net operating income		**24,348**	**24,563**
Expenses			
Personnel expenses	*7*	(7,807)	(8,168)
Operating lease depreciation	*14*	(3,724)	(3,145)
Other depreciation and amortisation		(360)	(657)
Other operating expenses		(5,560)	(5,279)
Total operating expenses		**(17,451)**	**(17,249)**
Profit before tax		**6,897**	**7,314**
Tax credit / (expense)	*9*	256	(254)
Profit for the period		**7,153**	**7,060**
Attributable to:			
Equity holders of the parent		6,756	6,907
Non-controlling interests		397	153
		7,153	**7,060**
Earnings per share		**Pence**	**Pence**
Equity shareholders of the parent for the period:			
Basic earnings per share	*10*	3.69	3.57
Diluted earnings per share	*10*	3.36	3.54

The notes on pages 13 to 47 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2019 (unaudited)

	6 months to 30 June 2019 £000	6 months to 30 June 2018 £000
Profit for the period	**7,153**	**7,060**
Items that may be reclassified to profit or loss:		
Foreign currency translation differences for foreign operations	2	32
Net gains/(losses) on financial assets measured at FVOCI	890	(168)
Income tax on other comprehensive income	1	(4)
Other comprehensive income / (expense) for the period net of income tax	**893**	**(140)**
Total comprehensive income for the period	**8,046**	**6,920**
Attributable to:		
Equity holders of the parent	7,649	6,767
Non-controlling interests	397	153
Total comprehensive income for the period	**8,046**	**6,920**

The notes on pages 13 to 47 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2019 (unaudited)

	Note	30 June 2019 £000	31 December 2018 £000
Assets			
Cash and balances with banks		84,369	104,339
Due from financial institutions		34,653	8,045
Due from customers		10,888	14,612
Investment securities	*11*	95,292	103,872
Financing arrangements	*12*	752,100	737,522
Finance lease receivables	*13*	357,082	256,198
Operating lease assets	*14*	43,239	43,378
Profit rate swaps		-	73
Property and equipment		4,700	488
Intangible assets		329	266
Other assets	*15*	9,957	6,641
Deferred tax asset		3,998	3,514
Total assets		**1,396,607**	**1,278,948**
Liabilities			
Due to financial institutions		646,618	672,240
Due to customers		483,082	357,353
Profit rate swaps		1,628	469
Other liabilities	*16*	20,538	12,710
Current tax liability		285	482
Total liabilities		**1,152,151**	**1,043,254**
Equity			
Share capital		48,933	48,933
Other reserve		15,226	15,226
Capital redemption reserve		50	50
Fair value reserve		176	(715)
Non-controlling interests		6,429	5,221
Share-based payment reserve		2,340	2,207
Foreign currency translation reserve		45	43
Retained earnings		171,257	164,729
Total equity		**244,456**	**235,694**
Total liabilities and equity		**1,396,607**	**1,278,948**

These condensed consolidated financial statements were approved by the Board of Directors on 21 August 2019 and were signed on its behalf by:

Giles Cunningham

Chief Executive Officer

Christopher Power

Chief Financial Officer

The notes on pages 13 to 47 are an integral part of these condensed consolidated financial statements

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019 (unaudited)

	6 months to 30 June 2019	6 months to 30 June 2018
Cash flows from operating activities	**£000**	**£000**
Profit before tax	6,897	7,314
Adjusted for:		
Exchange differences	158	(534)
Fair value (gain) / loss on investment securities	(97)	427
Credit impairment gains	(2,504)	(3,564)
Depreciation and amortisation	4,084	3,802
Share-based payment awards	125	165
Amortisation of held-to-maturity securities	20	21
IFRS 16 - depreciation and finance charges	500	-
Mark-to-market movement in profit rate swaps	868	275
	10,051	**7,906**
Net increase in operating assets:		
Due from financial institutions	(27,396)	(504)
Due from customers	3,716	(6)
Financing arrangements	(12,122)	(79,939)
Finance lease receivables	(99,123)	(51,760)
Operating lease assets	(3,586)	(6,265)
Other assets	(4,509)	(8,329)
	(143,020)	**(146,803)**
Net increase in operating liabilities:		
Due to financial institutions	(28,176)	(5,171)
Due to customers	125,434	48,484
Other liabilities	4,377	(563)
	101,635	**42,750**
Corporation tax paid	(417)	-
Net cash outflow from operating activities	**(31,751)**	**(96,147)**
Cashflow from investing activities		
Purchase of intangible assets	(179)	(88)
Purchase of investments	(42,584)	(5,095)
Sale of investments	52,229	23,648
Net cash inflow from investing activities	**9,466**	**18,465**
Cash flows from financing activities		
Dividend paid by a subsidiary to a Non-controlling interest	(188)	(279)
Partial sale of indirectly held investment	1,000	4,000
Net cash inflow from financing activities	**812**	**3,721**
Net change in cash and cash equivalents	**(21,473)**	**(73,961)**
Cash and cash equivalents at the beginning of the period	104,339	96,780
Exchange differences in respect of cash and cash equivalents	1,503	(667)
Cash and cash equivalents at the end of the period	**84,369**	**22,152**

The notes on pages 13 to 47 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 (unaudited)

	Share capital	Other reserve	Capital redemption reserve	Fair value reserve	Share-based payment reserve	Retained earnings	Foreign currency translation reserve	Total	Non-Controlling Interests	Total Equity
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Balance at 31 December 2018	48,933	15,226	50	(715)	2,207	164,729	43	230,473	5,221	235,694
Changes on intial application of IFRS 16	-	-	-	-	-	(238)	-	(238)	(1)	(239)
Restated balance at 1 January 2019	**48,933**	**15,226**	**50**	**(715)**	**2,207**	**164,491**	**43**	**230,235**	**5,220**	**235,455**
Profit for the period	-	-	-	-	-	6,756	-	6,756	397	7,153
Other comprehensive income										
Foreign currency translation	-	-	-	-	-	-	2	2	-	2
Net change in fair value of equity/debt instrument at FVOCI	-	-	-	890	-	-	-	890	-	890
Tax on other comprehensive income	-	-	-	1	-	-	-	1	-	1
Total other comprehensive income	**-**	**-**	**-**	**891**	**-**	**-**	**2**	**893**	**-**	**893**
Total comprehensive income for the period	**-**	**-**	**-**	**891**	**-**	**6,756**	**2**	**7,649**	**397**	**8,046**
Contributions by and distributions to owners										
Dividend paid by a subsidiary to a Non-controlling interest	-	-	-	-	-	-	-	-	(188)	(188)
Partial sale of indirectly held investment	-	-	-	-	-	-	-	-	1,000	1,000
Sale of equity instument at FVOCI	-	-	-	-	-	13	-	13	-	13
Equity-settled Share-based payment awards	-	-	-	-	125	-	-	125	-	125
Tax on items transferred directly to equity	-	-	-	-	8	(3)	-	5	-	5
Total transactions with owners	**-**	**-**	**-**	**-**	**133**	**10**	**-**	**143**	**812**	**955**
Balance at 30 June 2019	**48,933**	**15,226**	**50**	**176**	**2,340**	**171,257**	**45**	**238,027**	**6,429**	**244,456**

Fair value reserve includes the cumulative net change in fair value of FVOCI investments until the investment either is derecognised or becomes impaired.
Share-based payment reserve represents the amortised portion of the fair value of equity instruments issued under the Group'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 the 50,000 preference shares of £1 each and the repurchase of the one A ordinary share of £1.
Non-Controlling Interests relates to the minority shareholders in MKL Construction Equipment Finance Limited, Aspenway Limited and AQ1 Limited.
Sale of investment to non-controlling interest comprises the sale proceeds of the part investment in AQ1 Limited which was sold down during the period.

The notes on pages 13 to 47 are an integral part of these condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

FVOCI – Fair value through other comprehensive income
Treasury shares - £3,569,622 was paid to repurchase 10,357,374 ordinary shares. Transaction costs capitalised include £89,169 for brokerage commission and £17,850 paid to HMRC for stamp duty.
Fair value reserve includes the cumulative net change in fair value of FVOCI instruments until the investment is either derecognised or becomes impaired.
Share-based payment reserve represents the amortised portion of the fair value of equity instruments issued under the BLME and the Company's share incentive schemes and accounted for as equity-settled share-based payments.
The transfer to retained earnings of £27k represents the recycling of credits previously recognised within the Share Based Payment Reserve in relation to DABS options which have lapsed and/or forfeited.
Foreign currency translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.
The **Capital redemption reserve** arose on 26 June 2014 following the redemption of 50,000 preference shares of £1 each and the repurchase of one A ordinary share of £1.
Non-Controlling Interest relates to the minority shareholders in MKL Construction Equipment Finance Limited and Aspenway Limited.

The notes on pages 13 to 47 are an integral part of these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. REPORTING ENTITY

BLME Holdings plc ("the Company") is a Company domiciled in the United Kingdom. The address of the Company's registered office is Cannon Place, 78 Cannon Street, London, EC4N 6HL. The Company's principal activity is to act as a holding Company for Bank of London and The Middle East plc ("the Bank" or "BLME"). The condensed consolidated financial statements of the Group for the six months ended 30 June 2019 comprise BLME Holdings plc and its subsidiaries (together referenced as "the Group").

2. ACCOUNTING POLICIES AND BASIS OF PREPARATION

These interim financial statements have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' as adopted by the EU. These interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2018. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The Group is adopting the same accounting policies as applied in the preparation of the Group's published financial statements for the year ended 31 December 2018 except for those explained in section 2.1 below for the updated and new IFRSs that are applicable in the current reporting period. All amounts have been rounded to the nearest thousand except when otherwise indicated.

2.1 Changes in accounting policies and disclosures due to adoption of new and amended accounting standards

The following new standards, amendments or interpretations are required to be applied as per the effective date however none are material to the Group with the exception of IFRS 16 Leases:

- IFRIC Interpretation 23, 'Uncertainty over Income Tax Treatment', effective 1 January 2021
- Amendments to IFRS 9, 'Prepayment Features with Negative Compensation', effective 1 January 2019
- Amendments to IFRS 10 and IAS 28, 'Sale or Contribution of Assets between an Investor and its Associate or Joint Venture', deferred indefinitely
- Amendments to IAS 19, 'Plan Amendment, Curtailment or Settlement', effective 1 January 2021
- Amendments to IAS 28, 'Long-term interests in associates and joint ventures', effective 1 January 2021
- Annual Improvements 2015-2017 Cycle (issued in December 2017), effective 1 January 2021

In these interim condensed financial statements, the Group has adopted the requirements of IFRS 16 for the first time effective for periods beginning on and after 1 January 2019.

The Group has not restated comparative information for 2018 for leases in the scope of IFRS 16. Therefore, the comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019. Differences arising from the adoption of IFRS 16 have been recognised directly in retained earnings as of 1 January 2019 and are disclosed in Note 4.

2.1.1 IFRS 16 Leases

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

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

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

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

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

Right-of-use assets

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

Lease liabilities

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

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

Short-term leases and leases of low-value assets

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

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

Statement of financial position

	Right-of-use assets £000	Lease liabilities £000
As at 31 December 2018	-	-
Balance arising on transition to IFRS 16	4,847	6,130
Additions	-	-
Depreciation expense	(419)	-
Finance charge	-	87
Payments	-	(582)
As at 30 June 2019	4,428	5,635

Presentation of comparative figures

The comparative financial information for the year ended 31 December 2018 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

3. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Although these estimates are based on management's best assessment of the outcome, actual results may ultimately differ from those estimates. Management believes that the underlying assumptions are appropriate and that the Group's financial statements therefore present the financial position and results fairly. There have been no significant changes in the basis upon which critical estimates and judgements have been determined, compared to those applied at 31 December 2018 except for significant judgement in determining the lease term of contracts with renewal options as discussed below.

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

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

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

4. IFRS 16 TRANSITION DISCLOSURES

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

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

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

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

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

	£000
Assets	
Property and equipment (right-of-use-assets)	4,847
Prepaid rent	(301)
	4,546
Liabilities	
Lease liabilities	6,130
Other liabilities	(1,347)
	4,783

Impact on opening retained earnings as at 1 January 2019:

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

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

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

	1 January 2019
	£000
Operating lease obligations at 31 December 2018 per Note 29*	6,889
Operating lease obligations at 31 December 2018 not disclosed due to low value	32
*Per the 2018 audited financial statements	
Gross lease liabilities at 1 January 2019	**6,921**
Impact of discounting	(791)
Additional lease liabilities as a result of the initial application of IFRS 16 as at 1 January 2019	**6,130**

5. SEGMENTAL INFORMATION

The Group has three operating segments as described below, 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. The following summary describes the operations of each of the Group's reportable segments during the period:

Wealth Management

Wealth Management includes the Group's Private Banking, Investment Solutions and Real Estate Finance.

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

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

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

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

Treasury

The Treasury division manages the Bank and Group's capital, liquidity and funding, ensuring that the Group operates within its market and liquidity risk appetites. To this end Treasury ensures funding sources are diversified and at cost effective rates. In alignment with the strategy objective to achieve wider and diversified funding, the minimum deposit amount for the Premier Deposit Account was reduced during 2018. BLME has seen the benefits of continued efficiency and improved customer experience in digitalising its growing savings products.

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

For the six months ended 30 June 2019

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

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 six months ended 30 June 2018

	Wealth Management £000	Commercial Finance £000	Treasury Division £000	Total £000
Net margin from financing and investing activities	5,475	9,504	696	15,675
Operating lease income	-	3,414	524	3,938
Net fee income	105	676	21	802
Net investment loss	-	-	(480)	(480)
Other operating income	57	463	544	1,064
Credit impairment gains/ (losses)	346	3,241	(23)	3,564
Net operating income	**5,983**	**17,298**	**1,282**	**24,563**
Directly attributable segment expenses	(1,215)	(2,465)	(664)	(4,344)
Operating lease depreciation	-	(3,145)	-	(3,145)
Net segment contribution	**4,768**	**11,688**	**618**	**17,074**
Common costs not directly attributable to segments				(9,760)
Profit before tax				**7,314**
Segment assets	297,711	602,730	172,391	1,072,832
Unallocated assets				9,319
Total reportable segments assets				**1,082,151**

Entity wide disclosures

Geographical analysis of non-current assets	**As at 30 June 2019 £000**	**As at 30 June 2018 £000**
Dubai	36	30
Luxembourg	-	37
United Kingdom	62,047	50,157
USA	140	442
Total	**62,223**	**50,666**

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

6. RETURNS TO FINANCIAL INSTITUTIONS AND CUSTOMERS

	6 months to 30 June 2019	6 months to 30 June 2018
	£000	£000
Customer deposits	4,070	2,906
Murabaha	4,299	3,981
Wakala	1,546	1,092
FX forward money market swap costs*	1,991	-
	11,906	**7,979**

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

7. PERSONNEL EXPENSES

	6 months to 30 June 2019	6 months to 30 June 2018
	£000	£0
Wages and salaries	6,330	6,520
Social security costs	528	726
Defined contribution pension scheme costs	499	540
Recruitment and relocation costs	71	49
Other staff costs	379	333
	7,807	**8,168**

	6 months to 30 June 2019	6 months to 30 June 2018
	Number	Number
Number of employees at period end	110	117
Average for the period - management	12	10
Average for the period - non-management	102	106

8. IMPAIRMENT OF FINANCIAL ASSETS

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

Income Statement	**6 months to 30 June 2019**	**6 months to 30 June 2018**
	£000	**£000**
New and increased provisions (net of releases)	(2,852)	(3,564)
Inventory write-off	348	-
Total impairment gain	**(2,504)**	**(3,564)**

Statement of Financial Position

As at 30 June 2019	**Stage 1 Collective**	**Stage 2 Collective**	**Stage 3 Specific**	**Total**
	£000	**£000**	**£000**	**£000**
Financing arrangements	493	457	7,823	8,773
Finance lease receivables	1,147	430	974	2,551
Other assets	-	-	825	825
Total Impairment	**1,640**	**887**	**9,622**	**12,149**

Statement of Financial Position

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

Within Stage 1 and Stage 2 for financing arrangements there is an ECL balance of £14k relating to off balance sheet letters of credit and guarantees, an ECL balance of £80k relating to undrawn commitments and an ECL balance of £28k relating to investment securities.

Forborne exposures that have not been specifically provided for equates to £33m. The Stage 1 and Stage 2 ECLs relating to these forborne exposures is £28k.

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

2019 **As at 30 June 2019** **Exposure**	**Stage 1** **Collective** **£000**	**Stage 2** **Collective** **£000**	**Stage 3** **Specific** **£000**	**Total** **£000**
Carrying amount as at 1 January 2019	1,215,991	196,034	21,472	1,433,497
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	29,521	(29,521)	-	-
Transferred to Stage 2	(14,745)	14,745	-	-
Transferred to Stage 3	(161)	(4,159)	4,320	-
New and increased provisions (net of releases)	136,793	(25,601)	(6,589)	104,603
Write-offs from specific provisions	-	-	-	-
Foreign currency translation adjustments	-	-	5	5
Balance at 30 June 2019	**1,367,399**	**151,498**	**19,208**	**1,538,105**

ECL				
Carrying amount as at 1 January 2019	1,305	4,425	9,276	15,006
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	614	(614)	-	-
Transferred to Stage 2	(24)	24	-	-
Transferred to Stage 3	-	(754)	754	-
New and increased provisions (net of releases)	(255)	(2,194)	(403)	(2,852)
Foreign currency translation adjustments	-	-	(5)	(5)
Balance at 30 June 2019	**1,640**	**887**	**9,622**	**12,149**

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

2018 As at 31 December 2018 Exposure	Stage 1 Collective £000	Stage 2 Collective £000	Stage 3 Specific £000	Total £000
Carrying amount as at 1 January 2018	954,908	107,768	45,795	1,108,471
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	13,336	(13,336)	-	-
Transferred to Stage 2	(124,129)	124,129	-	-
Transferred to Stage 3	(8,115)	-	8,115	-
New and increased provisions (net of releases)	379,991	(22,527)	(28,756)	328,708
Write-offs from specific provisions	-	-	(4,494)	(4,494)
Foreign currency translation adjustments	-	-	812	812
Balance at 31 December 2018	**1,215,991**	**196,034**	**21,472**	**1,433,497**
ECL				
Carrying amount as at 1 January 2018	2,395	746	12,821	15,962
Changes due to financial assets recognised in the opening balance that have				
Transferred to Stage 1	151	(151)	-	-
Transferred to Stage 2	(322)	322	-	-
Transferred to Stage 3	(19)	-	19	-
New and increased provisions (net of releases)	(900)	3,508	(321)	2,287
Write-offs from specific provisions	-	-	(3,593)	(3,593)
Foreign currency translation adjustments	-	-	350	350
Balance at 31 December 2018	**1,305**	**4,425**	**9,276**	**15,006**

9. TAXATION

	6 months to 30 June 2019 £000	6 months to 30 June 2018 £000
UK Corporation tax		
- on current period profit	(228)	(254)
	(228)	(254)
Deferred tax credit for the period	484	-
Tax credit / (charge) in income statement	**256**	**(254)**

The effective tax rate for the period is -4% (six months ended 30 June 2018: 3% and year ended 31 December 2018: 3%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the operating profit before tax for the six month period. This is below the standard rate for the period of 19% and the main reason for this is the utilisation of brought forward unrecognised losses and recognition of the deferred tax asset.

The headline rate of UK corporation tax is 19%, and following the enactment of the 2016 Finance Act on 15th September 2016, this will reduce 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

	6 months to 30 June 2019	6 months to 30 June 2018
	£000	£000
Fair value reserve	1	(4)
	1	**(4)**

10. EARNINGS PER SHARE

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

	6 months to 30 June 2019	6 months to 30 June 2018
Earnings per share	**pence**	**pence**
Basic	3.69	3.57
Diluted	3.36	3.54
Profit attributable to ordinary shareholders	**£000**	**£000**
Profit attributable to shareholders (basic)	6,756	6,907
Profit attributable to shareholders (diluted)	6,756	6,907

	At 30 June 2019	At 30 June 2018
Weighted average number of ordinary shares	**Number**	**Number**
Number of ordinary shares of 25p in issue	195,733,691	195,733,691
Shares held by the BLME Holdings Employee Benefit Trust	(2,192,029)	(2,307,640)
Treasury shares	(10,357,374)	-
Weighted average number of shares (basic)	183,184,288	193,426,051
Effect of dilutive share options in issue	18,113,729	1,447,273
Weighted average number of shares (diluted)	201,298,017	194,873,324

11. INVESTMENT SECURITIES

			At 30 June 2019
	Listed	Unlisted	Total
	£000	£000	£000
Fair Value through other comprehensive income (FVOCI)			
Equity	-	341	341
Sukuk	89,609	-	89,609
Amortised cost (AC)			
Sukuk	5,342	-	5,342
	94,951	**341**	**95,292**

			At 31 December 2018
	Listed	Unlisted	Total
	£000	£000	£000
Available-for-sale			
Equity	-	341	341
Sukuk	93,894	-	93,894
Held to Maturity			
Sukuk	9,637	-	9,637
	103,531	**341**	**103,872**

12. FINANCING ARRANGEMENTS

	Less than 1 year	1-5 years	Over 5 years	At 30 June 2019 Total
	£000	£000	£000	£000
Murabaha	705,695	45,567	5,860	757,122
Mudaraba	3,641	-	-	3,641
Participation agreement	110	-	-	110
	709,446	**45,567**	**5,860**	**760,873**
Provision for impairment				(8,773)
				752,100
IFRS 9 Stage 1 and 2 ECL				(950)
IFRS 9 Stage 3 ECL				(7,823)
				(8,773)

	Less than 1 year	1-5 years	Over 5 years	At 31 December 2018 Total
	£000	£000	£000	£000
Murabaha	692,456	50,686	-	743,142
Mudaraba	3,642	-	-	3,642
Participation agreement	141	-	-	141
Sukuk	931	-	-	931
	697,170	**50,686**	**-**	**747,856**
Provision for impairment				(10,334)
				737,522
IFRS 9 Stage 1 and 2 ECL				(2,407)
IFRS 9 Stage 3 ECL				(7,927)
				(10,334)

Refer to Note 8 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

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

13. FINANCE LEASE RECEIVABLES

	At 30 June 2019 £000	At 31 December 2018 £000
Gross investment in finance lease receivables		
Less than one year	63,153	50,616
One to five years	110,835	83,324
More than five years	7,032	4,913
	181,020	138,853
Gross investment in hire purchase		
Less than one year	78,519	61,472
One to five years	124,762	79,597
More than five years	1,394	192
	204,675	141,261
Unearned future income on finance leases	(12,887)	(10,974)
Unearned future income on hire purchase	(13,175)	(8,270)
IFRS 9 Stage 1 & 2 ECL	(1,577)	(3,323)
IFRS 9 Stage 3 ECL	(974)	(1,349)
Net investment in finance leases and hire purchase	**357,082**	**256,198**
The net investment in finance leases comprises:		
Less than one year	55,622	41,840
One to five years	104,008	77,652
More than five years	6,703	4,596
	166,333	**124,088**
The net investment in hire purchase comprises:		
Less than one year	71,406	56,140
One to five years	117,998	75,783
More than five years	1,345	187
	190,749	**132,110**
	357,082	**256,198**

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

Refer to Note 8 for the analysis of changes in IFRS 9 Stages 1 and 2 and IFRS 9 Stage 3 ECLs.

14. OPERATING LEASE ASSETS

	At 31 December 2018 £000	Additions 2019 £000	Disposals 2019 £000	Depreciation 2019 £000	Translation differences 2019 £000	At 30 June 2019 £000
Gross carrying amount	56,663	6,390	(9,965)	-	(1)	53,087
Less depreciation	(13,285)	-	7,160	(3,724)	1	(9,848)
	43,378	**6,390**	**(2,805)**	**(3,724)**	-	**43,239**

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

Future rental receipts under operating leases

	At 30 June 2019 £000	At 31 December 2018 £000
Future rentals are as follows:		
Less than one year	7,228	8,291
Between one and five years	18,769	19,076
More than five years	2,152	2,671
	28,149	**30,038**

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

15. OTHER ASSETS

	At 30 June 2019 £000	At 31 December 2018 £000
VAT recoverable	1,294	2,625
Contract assets	139	65
Collateral deposits	201	404
Prepayments	1,013	1,105
Collateral assets	2,971	-
Other receivables and assets*	4,339	2,442
	9,957	**6,641**

*Other receivables and assets line above include foreign exchange forward deal balance of £1.5m (31 December 2018: £1.2m).

16. OTHER LIABILITIES

	At 30 June 2019 £000	At 31 December 2018 £000
Trade payables	932	18
Contract liability	163	5
Social security and income tax	319	334
Accruals	8,477	10,814
Lease liability	5,617	-
Other creditors*	5,030	1,539
	20,538	**12,710**

*Other creditors line above includes foreign exchange forward deal balance of £2.4m (31 December 2018: £0.2m).

17. SUBSIDIARIES AND OTHER ENTITIES

Principal Subsidiaries	Country of incorporation and principal operations	BLME interest in equity capital	Issued equity capital	Profit for the half year (unaudited) £000	Principal business activity	Ultimate parent undertaking	Immediate parent undertaking
Directly held:							
Bank of London and The Middle East plc	United Kingdom	100%	£48,933,422	6,473	Regulated Bank	BLME Holdings plc	BLME Holdings plc
Walbrook Asset Finance Limited	United Kingdom	100%	£100,000	-	Dormant	BLME Holdings plc	BLME Holdings plc
Indirectly held:							
BLME Asset Management Limited	United Kingdom	100%	£2	-	Dormant	BLME Holdings plc	BLME plc
BLME Holdco Limited	United Kingdom	100%	£102	-	Dormant	BLME Holdings plc	BLME plc
BLME Holdings EBT	Jersey	100%	N/A	-	Employee benefit trust	BLME Holdings plc	BLME plc
BLME Limited	United Kingdom	100%	£2	-	Dormant	BLME Holdings plc	BLME plc
Global Liquidity Solutions Limited	United Kingdom	100%	£1	-	Dormant	BLME Holdings plc	BLME plc
MKL Construction Equipment Finance Limited	United Kingdom	60%	£1,000	470	Leasing	BLME Holdings plc	BLME plc
Renaissance Property Finance Limited	United Kingdom	100%	£2	-	Dormant	BLME Holdings plc	BLME plc
Renaissance Trade Finance Limited	United Kingdom	100%	£2	-	Dormant	BLME Holdings plc	BLME plc
AQ1 Limited	Jersey	96%	£24,870,000	820	Investment Holding Company	BLME Holdings plc	BLME plc
Aspenway Limited	Jersey	56%	£11,300,000	448	Investment Holding Company	BLME Holdings plc	BLME plc

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.

There is one active structured entity ("SE") (2018: one) that does not qualify as subsidiary under UK law but which is consolidated under IFRS 10 as the substance of the relationship is that the entity is deemed to be controlled by the Group. This entity is deemed to be controlled by the Group because the relationship between the Group and the SE is governed by a participation agreement which allows the Group to exercise power over the SE in addition to being exposed to, and having rights over, the variable returns from its involvement with the SE. Furthermore, the Group has the ability to use its power to affect its returns from its involvement in the SE.

The one structured entity is DMJ 2 LLC (USA) – Operating leases.

Lease assets owned by the SE are reported as Group operating lease assets amounting to £0.1 million (31 December 2018: £0.1 million).

The BLME Holdings Employee Benefit Trust ('EBT') holds a stock of own shares acquired at a cumulative cost of £3.5 million (31 December 2018: £3.5 million) which has been deducted from retained earnings in the Condensed Consolidated Statement of Changes in Equity. The EBT did not purchase any Company shares during the period ended 30 June 2019 (31 December 2018: Nil). No stamp duty costs were incurred by the Group on behalf of the BLME Holdings EBT (six months to 30 June 2018: Nil).

- **Significant restrictions**

The Group does not have significant restrictions on its ability to access or use its assets and settle its liabilities other than those resulting from the supervisory frameworks within which banking subsidiaries operate. The supervisory frameworks require banking subsidiaries to keep certain levels of regulatory capital and liquid assets, limit their exposure to other parts of the Group and comply with other ratios. The carrying amounts of Bank of London and The Middle East plc's assets and liabilities are £1,423 million and £1,193 million respectively (31 December 2018: £1,273 million and £1,045 million respectively).

- **Interests in unconsolidated structured entities**

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

- **Contractual arrangements and financial support**

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

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

18. NON-CONTROLLING INTERESTS

The Group holds a 60%, 56% and 96% shareholding in MKL Construction Equipment Finance Limited, Aspenway Limited and AQ1 Limited respectively, and consolidates them as subsidiaries under IFRS 10. The non-controlling interests represents the minority shareholders of 40% in MKL Construction Equipment Finance Limited, 44% in Aspenway Limited and 4% in AQ1 Limited.

19. RELATED PARTIES

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

	6 months to 30 June 2019	6 months to 30 June 2018
	£000	£000
Boubyan Bank K.S.C.P		
Wakala placement	115,039	400,516
Wakala deposit taking	113,846	138,453
Participation deposit	30,592	-
The Public Institution for Social Security		
Reverse Murabaha	103,231	246,365
National Bank of Kuwait SAKP Bahrain		
Reverse Murabaha	23,406	-
Commodity Murabaha	119,452	-
Exchange of deposit (receivable)	61,497	7,517
Exchange of deposit (payable)	152,225	23,400
National Bank of Kuwait International		
Reverse Murabaha	70,058	74,475
Commodity Murabaha	113,398	176,176
National Bank of Kuwait SAKP Singapore		
Commodity Murabaha	-	7,500

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

	At 30 June	At 31 December
Included within:	2019	2018
Due to financial institutions	£000	£000
Reverse Murabaha	422,977	525,193

As at 30 June 2019, The Public Institution for Social Security held 8.10% (31 December 2018: 8.10%) of the Bank's shares and its Chief Investment Officer is a member of the Company's board.

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

Included within:	At 30 June 2019 £000	At 31 December 2018 £000
Cash and balances with banks		
Nostros	812	1,372
Due to financial institutions		
Wakala deposit taking	23,530	31,128
Financing arrangements		
Participation deposit	15,588	15,597
Due from financial institutions		
Wakala placement	4,002	-

As at 30 June 2019, Boubyan Bank K.S.C.P held an economic interest of 27.91% of the Company's shares (31 December 2018: 27.91%). A Non-Executive Director who joined the Board on 6 December 2012 and was appointed Chairman on 31 March 2014 is the Chief Executive Officer and Vice Chairman of Boubyan Bank K.S.C.P.

The amounts outstanding with National Bank of Kuwait SAKP Bahrain were as follows:

Included within:	2019 £000	2018 £000
Due to financial institutions		
Reverse Murabaha	11,850	-
Due to financial institutions		
Exchange of deposit*	42,031	-

*this amount has been shown as a net figure. Transactions entered into have been shown as gross on page 31.

The amounts outstanding with National Bank of Kuwait International were as follows:

Included within:	At 30 June 2019 £000	At 31 December 2018 £000
Due to financial institutions		
Reverse Murabaha	18,882	19,150

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

	6 months to 30 June 2019 £000	6 months to 30 June 2018 £000
Key management emoluments *	419	402
Bank contributions to pension plans	7	22
	426	**424**

* Key management emoluments include share-based payments of £0.07 million (six months to 30 June 2018: £0.07 million).

20. 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 (trading book and banking book)
- operational risk (including conduct and cyber risk)
- capital risk

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

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

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

Risk management framework

The Group's risk management framework ("RMF") provides the foundation for ensuring 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 Bank's Risk Appetite, which when combined with the Bank's strategy articulates its willingness to be exposed to risk events and losses.

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

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

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

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

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

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

The constituting elements of the RMF are:

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

Board Risk Appetite

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

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

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

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

The principal risks faced by the Group, together with details of how these risks are managed (which have not changed in terms of impact significantly during the period), remain as detailed in the Group's 2018 Annual Report and Accounts and are expected to remain unchanged in the final six months of the financial year to 31 December 2019.

Impairment of Financial assets

- **Definition of Default and Cure**
  Credit financing risk is the risk of the Group sustaining a loss from a customer or other counterparty being unable to meet its contractual obligations. This default risk applies to all credit-sensitive transactions.

  Incorporated within credit default risk are the following sub-types:

  Primary Financing Risk: the possibility that payments (Principal, Profit share yield and / or other) due from a transaction will not be paid by the obligor when due. Financing and issuer risk may include amounts that may crystallise from contingent transactions such as letters of credit and underwriting.

  Counterparty Credit Risk (also known as Pre-settlement risk): the potential exposure that could arise if a trading partner for a Profit Rate or Foreign Exchange (FX) product defaults prior to expiration (either maturity or termination) leaving the Group exposed to a loss if the market has moved adversely. BLME uses a bespoke methodology to calculate pre-settlement risk, which represents a conservative view of the possible negative currency fluctuation over time. The resultant calculated or "net" credit risk is then assessed on the same basis as primary financing risk.

  Settlement Risk: the possibility that a counterparty might not honour the settlement of a transaction in a financial instrument, leaving the Group exposed if it has paid but failed to receive the corresponding settlement. The Group policy, not including its major Financial Institution ("FIs") Counterparties, is to enter into customer FX or Profit Rate transactions on delivery versus payment ("DVP") so that no additional exposure arises at maturity. Market transactions with FIs will involve settlement exposure which is covered by the allocation of a specific Settlement Limit.

  Collectively, the total credit default risk represents the majority of the Group's total identified risk as outlined in the Group's ICAAP. This is therefore considered to be the key risk undertaken by the Group.

  The Group seeks to mitigate its credit default risk via:

  - A comprehensive credit application process for individual credit exposures.
  - Regular, focused portfolio reviews.
  - Key risk indicator tracking undertaken on a monthly basis via Executive Risk Committee (ERC).

The management of customer facilities is transferred to the Bank's Asset Recovery Unit (ARU) as a result of the incremental risks identified via triggering of the Early Warning Indicators (EWI) and Watchlist resulting in a concern that BLME could be faced with a non-performing finance ("NPF") situation. The Group policy towards the identification of NPFs mirrors Basel Committee guidance. The facilities of all customers that have suffered sufficient credit deterioration require specialist 'intensive care' and restructuring involvement from the ARU team. Unless specifically approved otherwise, day-to-day management of the file transfers to ARU.

Customers being managed by ARU will typically exhibit one or more of the following traits:

- Multiple Basel II judgemental triggers or one or more Basel II obligatory triggers
- Covenant breach(es)
- Overdue profit or principal payments
- A known requirement for facility restructuring
- Forbearance or a requirement for forbearance in the short-term
- One or more other escalation events per the First Line of Defence (1 LOD) escalation criteria

The Credit Risk Department reserves the right to recommend that any name is elevated to ARU status, subject to Counterparty Credit Risk Committee (CCRC) approval. It is also possible for customers to exhibit one or more of the above traits, but not receive ARU classification (for instance a non-distressed facility restructuring requirement or a minor covenant breach). The ARU checklist contains full details on the requirements of the ARU function on transferal of a file however the below key steps are to be taken in all cases:

1. Day 1: Impairment and transferral to ARU approved by CCRC
2. Day 7: Transferral of file from 1 LOD to be completed
3. Day 14: Customer handover meeting with 1 LOD to be completed
4. Day 30: Finance Loss Reserve form to be submitted to CCRC for approval, containing:
    - Exit analysis
    - Background
    - Future strategy
    - Headline discounted cash flow (DCF) assumptions (to be discussed/agreed at CCRC)
    - Recommendations as to third party business and legal documentation reviews

It is recognised that 30 days may be too soon to adequately determine the level of impairment provision required. In the event that this is the case, a formal provision recommendation will be provided in line with the quarterly finance loss review (FLR) process. ARU undertakes various actions on receipt of a newly-impaired customer file. These are outlined in full in the ARU checklist, which is completed on an individual basis. In addition to the four steps outlined above, actions arising from ARU classification include, but are not limited to:

- Amendment of the credit rating to a default rating.
- Change of reporting department to ARU.
- Account placed on non-accrual.
- Consideration to be given to a formal, external security review.
- Consideration to be given to a formal, external Independent Business Review or valuation of the underlying assets.
- File is discussed at CCRC on an ad-hoc basis in line with any changes or business updates and is then subject to quarterly FLR.

- **Internal rating and Probability of Default (PD) estimation process**
  The Group's independent Credit Risk Department operates its internal rating models, which rates customers on a scale of 1 to 20.

Credit ratings are subject to the following hierarchy:
- ECAI (Moody's, and Fitch only) long-term issuer rating
- Moody's Creditedge rating (to be mapped to BLME Internal rating).
- Moody's RiskCalc / Moody's CRE Model
- Manual Rating

The Group's Internal Credit Ratings follow a numerical scale and are equated to ECAI ratings in accordance with the BLME Internal Credit Ratings Scale. It is the responsibility of the 1 LOD to populate and propose Credit ratings, with these then challenged and analysed by the Credit Risk department. Formal approval of an individual credit rating is the responsibility of the relevant delegated authority holder, in all cases being the most senior signatory to such a proposal. Customers with a BLME Internal Credit Rating greater than 17 are considered to be in default.

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

a. Credit risk

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

i. Management of credit risk

The Group manages credit risk by the use of 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 are regularly re-assessed for creditworthiness.

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

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

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

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

ii. Exposure by Statement of Financial Position line

The tables below present the Group's exposure to credit risk on balance sheet financial instruments as at 30 June 2019, before taking account of any collateral held or other credit enhancements. The amounts at the current reporting date are indicative of the amounts at risk throughout the period.

Group	**At 30 June 2019 £000**	**At 31 December 2018 £000**
Cash and balances with banks	84,369	104,339
Due from financial institutions		
Wakala	34,653	8,045
Due from Customer	10,888	14,612
Investment securities	95,292	103,872
Financing arrangements	752,100	737,522
Finance lease receivables	357,082	256,198
Other assets (Foreign exchange forward deals)	1,451	1,154
Profit rate swaps	-	73
Total credit exposure	**1,335,835**	**1,225,815**

As at 30 June 2019 there were 12 letters of credit (£8,150k) and 4 guarantees (£2,947k) (31 December 2018: 11 letters of credit (£14,232k) and 3 guarantees (£2,162k)) with a total exposure of £11 million (31 December 2018: £16 million). These letters of credit and guarantees mainly relate to short dated Trade Finance and Corporate and Asset Finance facilities with a maturity of less than twelve months. BLME is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. BLME expects most guarantees it provides to expire unused. In addition, BLME has a credit exposure to £157m in undrawn commitments (31 December 2018: £121m).

iii. Exposure by country of the financed counterparty

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

Group	At 30 June 2019 £000	At 31 December 2018 £000
GCC countries		
Bahrain	1,390	5,669
Kuwait	108,545	94,292
Qatar	15,501	41,890
Saudi Arabia	77,554	77,829
United Arab Emirates	17,208	15,473
EEA countries		
Belgium	-	633
Netherlands	-	2,398
United Kingdom	998,608	864,490
Ireland	1,529	-
France	1,618	-
Other countries		
Cayman Islands	2,720	3,060
Japan	6,158	-
Canada	-	230
Switzerland	17,113	16,716
Jersey	36,607	36,691
New Zealand	1,771	2,103
USA	49,513	64,341
Total credit exposure	**1,335,835**	**1,225,815**

iv. Exposure by economic sector

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

Group	At 30 June 2019 £000	At 31 December 2018 £000
Financial services		
GCC financial institutions	133,748	162,854
UK financial institutions	145,761	130,696
Other financial institutions	45,613	49,647
Mining and quarrying	6,108	4,806
Manufacturing	38,646	50,508
Real estate	359,720	309,876
Transportation and storage	56,385	41,059
Government	44,296	46,486
Wholesale / Retail	157,629	127,555
Commodities	38,540	86,047
Energy	14,644	13,247
Construction	164,578	117,149
Others	130,167	85,885
Total credit exposure	**1,335,835**	**1,225,815**

v. Credit risk quality

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

The table below shows the breakdown of credit quality as at 30 June 2019. Of the total portfolio 15% (31 December 2018: 19%) was directly rated by at least one of the ECAI, with 85% (31 December 2018: 81%) using internal ratings.

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

At 30 June 2019	Neither Past Due Nor Impaired							
	ECAI Rating		**BLME Internal Rating**					
	Investment Grade	Sub-Investment Grade	Investment Grade equivalent	Sub-Investment Grade	Ungraded	Past due but not impaired	Individually Impaired	**Total**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Cash and balances with banks	83,631	-	-	-	738	-	-	84,369
Due from financial institutions	26,791	-	7,862	-	-	-	-	34,653
Due from customers	-	-	10,531	-	357	-	-	10,888
Investment securities								
FVOCI								
Government debt securities	32,189	-	-	-	-	-	-	32,189
Other Investment securities	57,420	-	-	341	-	-	-	57,761
AC								
Government debt securities	3,951	-	-	-	-	-	-	3,951
Other Investment securities	-	1,391	-	-	-	-	-	1,391
Financing arrangements	-	-	399,755	277,898	43,234	15,007	16,206	752,100
Finance lease receivables	-	-	153,802	179,726	20,751	1,800	1,003	357,082
Other assets (Foreign exchange forward deals)	1,428	-	23	-	-	-	-	1,451
Total credit exposure	**205,410**	**1,391**	**571,973**	**457,965**	**65,080**	**16,807**	**17,209**	**1,335,835**

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

The Group’s cash balances, amounts due from financial institutions and customers and investment securities were neither past due nor impaired as at 30 June 2019 and 31 December 2018.

vi. Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	At 30 June 2019	At 31 December 2018	At 30 June 2019	At 31 December 2018
	£000	£000	£000	£000
Neither past due nor impaired	728,710	706,723	355,253	249,756
Past due but not impaired	15,007	22,510	1,800	552
Gross exposure associated with impairment provision	16,206	16,216	1,003	7,239
Less: allowance for impairments	(7,823)	(7,927)	(974)	(1,349)
Total	**752,100**	**737,522**	**357,082**	**256,198**

Past due but not impaired	£000	£000	£000	£000
Past due up to 30 days	15,007	7,565	1,739	535
Past due 30 to 60 days	-	8,430	15	17
Past due 60 to 90 days	-	6,515	8	-
Past due over 90 days	-	-	38	-
Total	**15,007**	**22,510**	**1,800**	**552**

The past due but not impaired balances as at 30 June 2019 include £15 million (31 December 2018: £22.5 million) relating to two real estate transactions (31 December 2018: three) where the facility balances are lower than the collateral values. The Group believes that impairment is not appropriate on the basis of the level of security or collateral available and/or the stage of collection of amounts owed to the Group. An analysis of impairments is provided in Note 8 “Impairment of financial assets”.

vii. Fair value of financial assets and liabilities

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

viii. Valuation of financial instruments

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

Further detail on the Group’s fair value measurement techniques can be found in Note 3b of the Group’s annual financial statements for the year ended 31 December 2018.

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

At 30 June 2019	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment securities	89,609	-	341	89,950
Profit rate swaps (asset)	-	-	-	-
Foreign exchange forward deals (assets)	-	1,451	-	1,451
Profit rate swaps (liability)	-	1,628	-	1,628
Foreign exchange forward deals (liabilities)	-	2,381	-	2,381

At 31 December 2018	2018	2018	2018	2018
	Level 1	Level 2	Level 3	Total
	£000	£000	£000	£000
Investment securities	93,894	-	341	94,235
Profit rate swaps (asset)	-	73	-	73
Foreign exchange forward deals (assets)	-	1,154	-	1,154
Profit rate swaps (liability)	-	469	-	469
Foreign exchange forward deals (liabilities)	-	237	-	237

During the six month period ended 30 June 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements (31 December 2018: none). Transfers between levels would occur at the date of the event or change in circumstances that caused the transfer.

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

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

Investment securities	6 months to 30 June 2019	Year to 31 December 2018
	£000	£000
Balance at 1 January	341	973
Total gains / (losses) recognised in:		
- profit or loss*	-	20
- other comprehensive income**	-	(195)
Sales	-	(457)
Balance at 31 December	**341**	**341**

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

ix. Financial assets and financial liabilities

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

b. Liquidity risk

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

i. Residual contractual maturities of financial assets

At 30 June 2019	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Cash and balances with banks	84,369	-	-	-	-	84,369
Due from financial institutions	35,014	-	8,219	-	-	43,233
Due from customers	10,535	-	-	-	-	10,535
Investment securities	20,461	9,071	783	69,716	-	100,031
Financing arrangements	424,533	214,800	61,455	51,928	7,147	759,863
Finance lease receivables	11,727	24,685	102,709	235,597	8,426	383,144
Other assets (Foreign exchange forward deals)	1,450	1	-	-	-	1,451
Profit rate swaps (asset)	-	-	-	-	-	-
	588,089	**248,557**	**173,166**	**357,241**	**15,573**	**1,382,626**

At 31 December 2018	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Cash and balances with banks	104,339	-	-	-	-	104,339
Due from financial institutions	-	8,218	-	-	-	8,218
Due from customers	14,627	-	-	-	-	14,627
Investment securities	456	40,133	29,370	38,789	146	108,894
Financing arrangements	408,511	239,617	67,256	34,858	-	750,242
Finance lease receivables	6,847	17,505	83,064	162,921	5,105	275,442
Other assets (Foreign exchange forward deals)	336	819	-	-	-	1,155
Profit rate swaps (asset)	64	59,777	94	15,415	-	75,350
	535,180	**366,069**	**179,784**	**251,983**	**5,251**	**1,338,267**

The tables above show the contractual, undiscounted cash flows of the Group's financial assets.

None of the Group's assets have been pledged as collateral apart from cash collateral deposits of £0.04 million (31 December 2018: £0.05 million) pledged as security against rental payments on the Group's premises.

ii. Residual contractual maturities of financial liabilities

At 30 June 2019	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £000	Total £000
Due to financial institutions	213,554	186,589	249,274	-	-	649,417
Due to customers	59,886	45,653	243,036	146,534	4,036	499,145
Profit rate swaps	-	317	115	1,196	-	1,628
Other liabilities (Foreign exchange forward deals)	2,380	1	-	-	-	2,381
	275,820	**232,560**	**492,425**	**147,730**	**4,036**	**1,152,571**

At 31 December 2018	Less than 1 month £000	1-3 months £000	3 - 12 months £000	1-5 years £000	5+ years £	Total £000
Due to financial institutions	182,138	174,608	321,080	-	-	677,826
Due to customers	41,451	137,676	105,829	85,748	697	371,401
Profit rate swaps	-	135	249	85	-	469
Other liabilities (Foreign exchange forward deals)	3	234	-	-	-	237
	223,592	**312,653**	**427,158**	**85,833**	**697**	**1,049,933**

The tables above show the contractual, undiscounted cash flows of the Group's financial liabilities.

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 High Quality Liquid Assets ("HQLA") of £90 million as at 30 June 2019 (31 December 2018: £76.1 million). These HQLA holdings have been greater than the regulatory liquidity requirement throughout the period.

c. Market risks

Market risk is the risk that changes in market prices will affect income. It covers profit rate risk, credit spread risk, equity price risk and foreign exchange risk. The credit spread risk only pertains to the part that is not related to the issuer's / obligor's credit standing as that part is already covered in credit risk.

i. Profit rate risk

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

As at 30 June 2019, the Group's net profit rate sensitivity to profit and loss on its fixed and variable rate assets, and its capital and reserves, as measured by the discounted value of a one basis point change in market rates, was £10,901

(31 December 2018: £21,511). The impact of an increase / decrease of 100 basis points in profit rates at the statement of financial position date, subject to a minimum rate of 0%, would be as follows:

	At 30 June 2019		At 30 June 2018		At 31 December 2018	
	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000	Increase of 100 bp £000	Decrease of 100 bp £000
Increase in profit & loss	6,766	-	3,186	-	6,182	-
Decrease in profit & loss	-	6,214	-	2,968	-	5,884
Increase in equity	6,476	-	3,300	-	5,946	-
Decrease in equity	-	5,934	-	3,067	-	5,522

ii. Foreign exchange risk

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

	At 30 June 2019 £000	At 31 December 2018 £000
Resultant foreign exchange revaluation (loss) / gain from a 10% strengthening or weakening of the net foreign currency positions against Sterling	(79)	(85)
	6 months to 30 June 2019 £000	**Year to 31 December 2018 £000**
Net foreign exchange gain for the period	158	173

iii. Equity price risk

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

d. Operational risk

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

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

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

Basel III requires capital to be retained for operational risk, which the Group has calculated to be £5.7 million using the Basic Indicator Approach (31 December 2018: £6.2 million) (unaudited).

e. Capital risk

Capital risk is the risk that low risk adjusted returns or stress events reduce the Bank's profitability, which result in a reduction in available capital. This could potentially lead to a breach in the Bank's regulatory capital requirements. Capital adequacy and capital risk was assessed during the 2019 ICAAP process, which showed BLME's internal assessment of capital requirements was sufficient to cover the capital requirements set by the Prudential Regulation Authority ("PRA").

At 30 June 2019 and throughout the period BLME complied with the capital requirements that were in force as set out by the PRA.

In addition, the Brexit risk to the Group is regularly reviewed at the ERC and BRC meetings.

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

21. INTERIM REPORT AND STATUTORY ACCOUNTS

The information in this interim report is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This interim report was approved by the Board of Directors on 21 August 2019. The statutory accounts for the year ended 31 December 2018 have been delivered to the Registrar of Companies for England and Wales in accordance with section 446 of the Companies Act 2006.

GLOSSARY OF ABBREVIATIONS

This is complete glossary of the abbreviations used in 31 December 2018 year-end financial statements and for the half year ended 30 June 2019 condensed financial statements.

AED	Arab Emirate Dirham
AFS	Available-for-Sale
AGM	Annual General Meeting
ALCO	Assets & Liabilities Committee
AML	Anti-Money Laundering
ARU	Asset Recovery Unit
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
DCF	Discounted cash flow
DFSA	Dubai Financial Services Authority
DIFC	Dubai International Financial Centre
DIPs	Deferred Incentive Plan Scheme
DVP	Delivery versus payment
EBT	Employee Benefit Trust
ECAI	External Credit Assessment Institutions
ECL	Expected Credit Loss
EPS	Earnings Per Share
ERC	Executive Risk Committee
EU	European Union
EWI	Early Warning Indicators
EXCO	Executive Committee
EY	Ernst & Young LLP
FCA	Financial Conduct Authority
FI	Financial Institution
FLR	Finance loss review
FRC	Financial Reporting Council
FVOCI	Fair Value Through Other Comprehensive Income
FVPL	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 Customer
LAB	Liquid Asset Buffer
LGD	Loss Given Default
LLP	Limited Liability Partnership
LOD	Lines of Defence
MBA	Master of Business Administration
MCOBs	Mortgage and Home Finance Conduct of Business rules
MENA	Middle East and North Africa
MIFID	Markets in Financial Instruments Directive
MLRO	Money Laundering Reporting Officer
NCI	Non-Controlling Interest
NEDs	Non-executive Directors
NPF	Non-performing finance
OCI	Other Comprehensive Income
ORC	Operational Risk Committee
PC	Product Committee
PD	Probability of default
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
RMF	Risk Management Framework
RRP	Recovery and Resolution Planning
RSCA	Risk Control Self-Assessment
SE	Structured Entities
SIC	Standard Interpretations Committee of the IASB
SID	Senior Independent Director
SM&CR	Senior Managers and Certification Regime
SSB	Sharia'a Supervisory Board
UAE	United Arab Emirates
UK	United Kingdom
USA	United States of America
USOP	Unapproved Share Option Plan
WMIC	Wealth Management Investment Committee

Naming convention and abbreviations:

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

GLOSSARY OF ISLAMIC FINANCE TERMINOLOGY

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

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