A view of 2011

Annual Report & Accounts 2011

BLME
BANK ON OUR PRINCIPLES

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Annual Report

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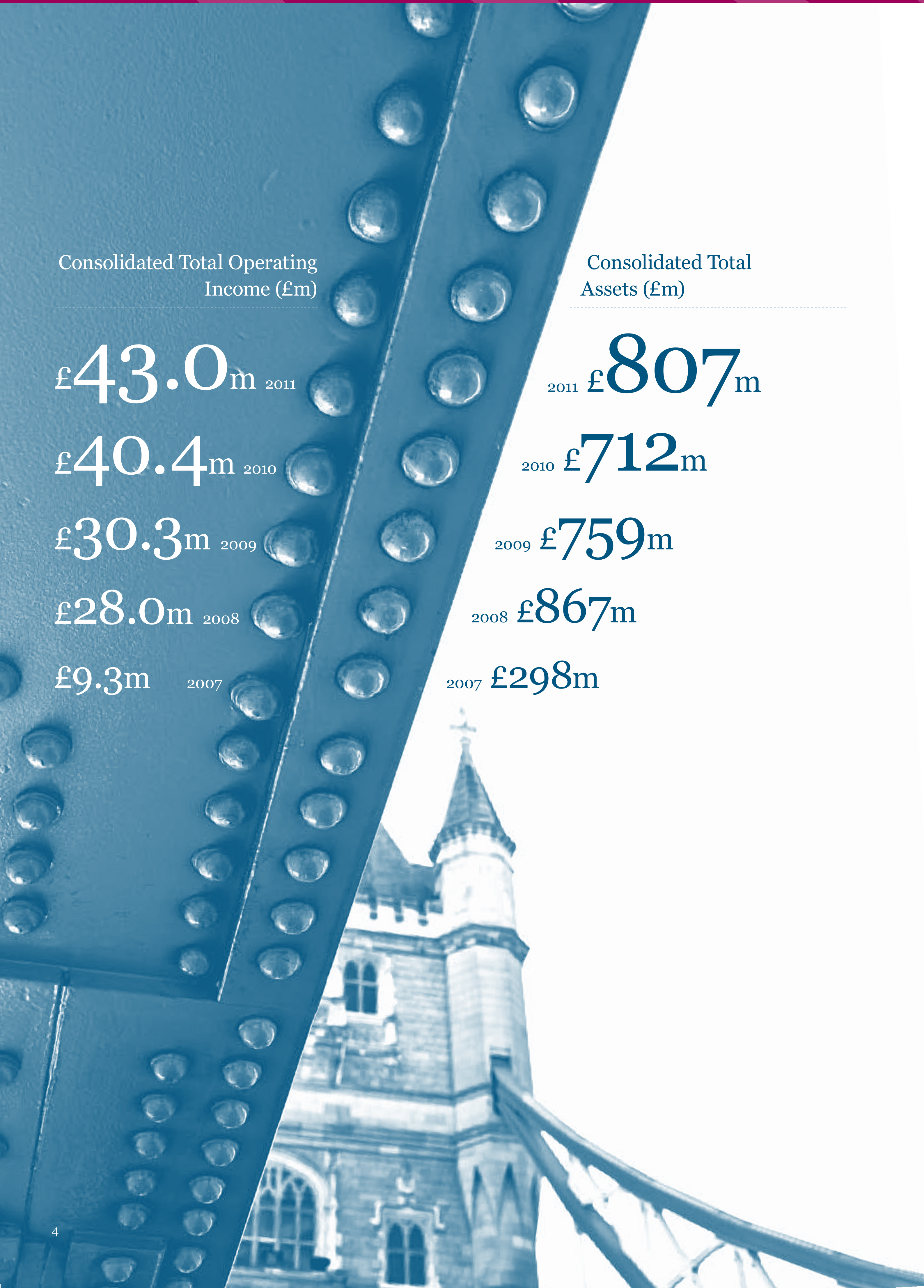


Consolidated Total Operating Income (£m)

£43.0m 2011

£40.4m 2010

£30.3m 2009

£28.0m 2008

£9.3m 2007

Consolidated Total Assets (£m)

2011 £807m

2010 £712m

2009 £759m

2008 £867m

2007 £298m

2011 Group Highlights for Bank of London and The Middle East plc

BLME has delivered consistent and sustained growth…

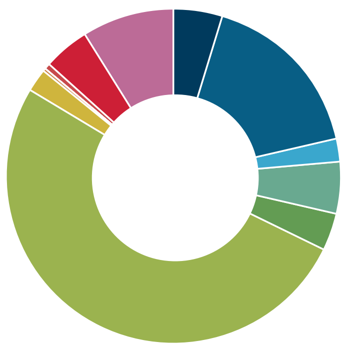
- A 10% increase in Operating Profit before Impairment Charges in 2011
- A 242% increase in the value of BLME Premier Deposit Accounts in 2011

while investing in people, product development & infrastructure

- Continued development of innovative products as demonstrated by the successful launch of the BLME Light Industrial Building Fund and BLME US$ High Yield Fund
- The investment grade BLME US$ Income Fund was ranked 3rd out of 797 funds by Lipper Hindsight, the Reuter’s Fund ranking service

Exposure by Country as at 31 December 2011

Kuwait	4.75%
United Arab Emirates	16.81%
Bahrain	2.10%
Qatar	5.13%
Saudi Arabia	3.46%
United Kingdom	51.60%
Switzerland	2.06%
Germany	0.26%
France	0.12%
Luxembourg	0.49%
USA	4.60%
Other Countries	8.62%



Exposure by Sector as at 31 December 2011

GCC financial institutions	24.40%
UK financial institutions	13.87%
European financial institutions	0.26%
Other financial institutions	4.86%
Mining and quarrying	2.98%
Manufacturing	0.21%
Real estate	24.07%
Transportation and storage	14.33%
Government	3.62%
Healthcare	0.11%
Sharia’a compliant funds	0.49%
Wholesale / Retail	5.02%
Oil and Gas	2.13%
Others	3.65%

In this document the bank’s name is shortened to ‘BLME’ in narrative text. The expression ‘the Bank’ refers to the parent company, Bank of London and The Middle East plc, while the expression ‘the Group’ refers to the parent company and its subsidiaries.

Chairman's statement

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

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

I write to report to our shareholders on the solid underlying business performance and growth of Bank of London and The Middle East plc (BLME) in the 12 months to 31 December 2011, where the Net Operating Profit before Impairment Charges for the Group of £4.4 million amounted to a 10% increase over the previous year's result. Whilst I am encouraged by this result and the tangible steps made to strengthen the Bank's liquidity platform and diversify the credit portfolio, I am nevertheless disappointed by the deterioration in a large credit exposure in late 2011 that required the Bank to take a full impairment charge that resulted in an overall Net Operating Loss after Tax of £8.9 million. Be assured that all steps are being taken to recover the provision that the Bank has been forced to take.

During the year your Board oversaw the review of the BLME Business Strategy. I am pleased to note the strong position of the Bank's Lease Finance business and its notable expertise in the transportation sector; the continued strengthening of the Bank's Property Financing capabilities across both Private and Corporate Banking; the welcome signs of a BLME Capital Markets capability; and the track record and risk management capabilities of the Treasury function. At the same time, I am positive about the opportunities for the Bank to pursue a stronger presence and to nurture deeper customer relationships in the GCC region, particularly in the Asset Management, Private Banking and Capital Markets businesses.

With the increased regulatory emphasis on corporate governance, I decided to commission an independent review of the effectiveness of the Board and its committee structures. In this regard, I am pleased to advise you of the favourable nature of the assessment. The report also provided helpful guidance on several measures that your Board will look to adopt in keeping with anticipated regulatory change and the development of BLME's businesses.

I anticipate the year ahead to be another challenging one for financial institutions globally. Nevertheless, your Board looks forward to BLME achieving its profitability targets and deepening its customer relationships in its chosen areas of financing and fund expertise. The forging of strong relationships with strategic partners and customers in the GCC is an important aspect of the Bank's planned development in Wealth Management. Such growth will take place with due regard to strong risk management practices and regulatory compliance. Your Board will, in the best interest of shareholders, determine the appropriate time to obtain a London Stock Exchange listing and thereby achieve one of the key goals set before shareholders in the 2006 Private Placement Memorandum. We continue to monitor market conditions and the valuation of financial institutions.

I would like to take the opportunity to record my gratitude for the expertise and support provided by our Sharia'a Supervisory Board, and my appreciation of the dedication and efforts of the Bank's staff. Lastly, I would like to extend my gratitude to all of our shareholders for their continued support and I look forward to reporting on BLME's development and profitability in the coming year.

Yacob Al-Muzaini
Chairman
26 March 2012

"I am positive about the opportunities for the Bank to pursue a stronger presence and to nurture deeper customer relationships in the GCC region"

Chief Executive Officer's statement

Business summary and results

In the year to 31 December 2011 Bank of London and The Middle East plc reported a Net Operating Profit before Impairment Charges for the Group of £4.4 million representing a 10% increase over the 2010 result of £4.0 million. The Group's Total Operating Income rose 6% to £43.0 million from £40.4 million in 2010. The Group's Total Assets have increased from £711.9 million in 2010 to £807.1 million in 2011 and most businesses demonstrated meaningful revenue growth.

In recent months a customer facility that was reducing in size throughout 2011 failed to meet key payment obligations. At the time of writing BLME is working with the customer to address these issues. It is also taking all necessary legal measures to improve the Bank's collateral position and to ensure that repayments are recommenced at the earliest opportunity. However, until such time as BLME is more certain about the customer's willingness to meet its repayment obligations, the Board has decided on the conservative measure of taking a full credit provision of £14.6 million. As a result, BLME is reporting a 2011 Net Operating Loss after Tax of £8.9 million.

To put this in perspective, BLME's non performing loans as a percentage of total loans and operating lease assets as at 31 December 2011 increased to 6.5% from 3.33% as at 31 December 2010 and remains within the industry range.

Notwithstanding this credit impairment, the underlying growth in Net Operating Profit before Impairment Charges and the Group's Balance Sheet was achieved against a background of renewed market uncertainty and upheaval, including the ongoing effects of the Arab Spring and the Euro zone crisis. Market and investor sentiment were dominated by an extremely cautious outlook and heightened liquidity concerns. In these challenging conditions BLME decided to strengthen the Group's liquidity and diversify its funding base to support the growing Balance Sheet and to meet the planned tightening of liquidity regulations.

BLME has very limited direct credit exposure to Euro zone institutions and governments which represented less than 1% of the Group's total credit exposure by country (note 34). Furthermore BLME has no direct exposure to Portugal, Ireland, Greece or Spain.

The Net Fair Value Loss on Investment Securities of £1.0 million includes a £1.7 million one-off write-down relating to an investment in a Sharia'a compliant global equity fund managed by an external investment manager. The fund is closed to redemptions and, due to doubt over the timing of the realisation of the Bank's investment, the Board has decided to take a full write down of this investment. In the absence of this write-down, the reported 10% increase in Net Operating Profit before Impairment Charges would have been a more significant increase of 52%.

BLME continued to grow its customer financing businesses in 2011, as evidenced most clearly by the 24% increase in operating lease income (note 8) and the 13% increase in the Group's Balance Sheet. This growth was achieved at a time when many banks curtailed their lending activities due to reduced global supply of longer term interbank funding and the simultaneous need to strengthen capital ratios in the lead up to Basel III. The growth in the Operating Profit before Impairment Charges benefited from rigorous cost control, where the Group's operating expenses excluding depreciation and amortisation reduced by 10% compared to the previous year.

Liquidity management continues to be an area of critical importance for the Asset and Liability Committee of the Bank in the light of market conditions, the continuing regulatory requirements for banks to strengthen liquidity resources and BLME's planned asset growth. Through undertaking the annual Individual Liquidity Adequacy Assessment (ILAA) and Individual Capital Adequacy Assessment Process (ICAAP) required by the Financial Services Authority (FSA), BLME confirmed that its liquidity profile and capital resources are well positioned to meet market and regulatory challenges, including the full range of Basel III requirements.

In respect of longer term liquidity, it is encouraging to report that the level of customer deposits rose 128% in the year and, in particular, that this includes 242% growth in the on-line Premier Deposit Account where 70% of new deposits were for periods of two years or more.

Corporate Banking

In line with the Strategy Review, the financing business focused on domestic collateralised business which saw a 40% rise in the number of active customers in the year to 31 December 2011 and a reduction in the average obligor risk from £8.0 million to £6.5 million.

The increased levels of financing business were most evident in the UK based lease and property finance businesses, where the latter showed an improved new business pipeline. In the Capital Markets business it was pleasing to see BLME undertake a growing number of transactions whilst building relationships with a number of strategic partners in the GCC. BLME has a growing reputation in the transportation sector in lease finance, in the UK development and high end residential property markets and in the development of Islamic Capital Markets. All of these areas showed business growth and increased profitability in 2011.

Treasury

Treasury is responsible for managing the Bank's Capital and the asset and liability position. Its results are to a great extent determined by the level of global rates and the shape of the yield curve. Despite the near zero rate environment Treasury was able to achieve the budgeted return on the Bank's Capital of 3.35% and successfully increase the bank's stock of liquidity. The number of depositors rose from 182 in 2010 to 524 in 2011. In large part this was achieved through the growing number of investors in the Bank's Premier Deposit Account. This both improves the Bank's liquidity position and bodes well for the future as increasingly stringent regulatory liquidity standards are introduced.

Wealth Management

The interest in high end UK residential property acquisition and investment financing through our Private Banking relationships led to higher profitability. The increase in customer enquiries from Private Banking clients has led to further opportunities and the establishment of a property advisory service. The Asset Management business was active in product development and the launch of new funds across a range of asset classes. Lipper, the industry benchmarking specialist, continued to rank the BLME US$ income fund performance favourably, rating it 3rd out of a peer group of 797 funds. In addition the fund achieved an investment grade rating from Moody's distinguishing it from its peers. A new Light Industrial Building fund has been launched as part of the diversified fund offering which meets the demand for UK property, high yield and income distribution.

Our staff

A key asset for the Bank is our stock of human capital and BLME has been able to attract and retain high quality professionals. This has allowed the Bank to strengthen its product offering and expand its client business. I am pleased to report that BLME received the Islamic Finance News award for the Best Islamic Bank in Europe for the third year in succession.

Outlook for the future

Looking forward I am encouraged by the growth and profitability in the Bank's customer financing businesses and the increasing number of clients. BLME will now look to build on the progress being made in its Capital Markets and Wealth Management businesses to achieve a higher degree of profitability. I look forward to an increase in the network of key customer relationships in the GCC. The importance of this region to the BLME business model is a central strategic priority in order to enhance the Bank's on balance sheet earnings with higher levels of fee generation. To this end the Bank will look to establish a presence in the GCC in 2012 in either a representative role or in partnership with a local institution.

Despite the challenging global economic environment, I take note of the positive feedback received from shareholders, customers and market participants and look forward to the Bank achieving strong levels of growth and profitability in the years ahead.

Humphrey Percy
Chief Executive Officer
26 March 2012

The Board & Executive management

Yacob Yousef Al-Muzaini – Chairman

Yacob is the non-executive Chairman of the Board of BLME. He has over 28 years of leadership experience in private and public sector financial institutions. Until 2008 he was the Chairman and Managing Director of Boubyan Bank. Yacob has also held several board memberships of national and international companies and investment funds.

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

Abdullah is the non-executive Vice Chairman of the Board of BLME. He is the Deputy Director General for Investment at the Public Institution for Social Security (PIFSS) and Chairman of Housing Finance Company (ISKAN) and Ahli United Bank of Kuwait (AUBK). Previously he was Vice President at Wafra Investment Advisory Group in New York between 1991 - 1998, where he was involved with projects in direct equity, real estate and equity portfolios.

Executive Directors

Humphrey Richard Percy – CEO

Humphrey joined BLME as Chief Executive Officer in August 2006. Humphrey has more than 30 years of international banking experience focusing on treasury and global markets. In the course of his career he has worked at J. Henry Schroder Wagg, Barclays Merchant Bank (later Barclays de Zoete Wedd/ BZW) and WestLB where he held positions including CEO, Managing Director, General Manager, and Head of Global Financial Markets. Humphrey is experienced in building new functions and product areas, and has managed start up businesses within both BZW and WestLB as well as founding his own business in 2002.

Richard Radway Williams – Finance Director

Richard joined BLME as Finance Director and Company Secretary in November 2006. Having qualified as a Chartered Accountant with KPMG in 1980, Richard's early career in Investment Banking was spent with Chase Manhattan, Credit Agricole and Bankers Trust. He then spent 10 years at Robert Fleming & Co setting up their Global Equities Derivatives business, including three years in Hong Kong with Jardine Fleming. Richard also has experience with start up companies and in private equity with Legal & General Ventures.

Nigel Brodie Denison – Head of Treasury and Wealth Management

Nigel joined BLME as Director and Head of Treasury in November 2006. Prior to this he was Head of European Sales for WestLB's Global Markets unit which included Treasury, Capital Markets and Emerging Markets. Nigel began his career at Barclays Merchant Bank (later Barclays de Zoete Wedd/ BZW), where he became Head of Trading for Barclays Swaps and Options European business, based in London. He then spent some time in New York where he took over the derivatives trading operations for Barclays.

Non-Executive Directors

Neil Jonathan Holden

Neil is Chairman of BLME's Board Risk and Remuneration Committees. He is a mathematician and Chartered Accountant with more than 25 years experience of international banking focusing on financial control, risk management and governance. His executive roles included Head of Corporate and Investment Banking Credit for Standard Bank Group, Head of Risk for Standard Bank Plc, and previously various senior roles at WestLB and Hambros Bank covering all risk, finance and operational disciplines. He is also a non-executive director of Stanbic International Insurance Limited and Integrated Financial Arrangements Plc.

Frank Willem Vermeulen

Frank is Chairman of BLME's Audit Committee. He has a Master's Degree in Dutch law and has more than 20 years experience in banking. For most of this period Frank worked for ABN Bank NV in a variety of roles, including Head of Corporate Banking, Syndications & International for Saudi Hollandi Bank, Riyadh. In 1992 he joined Olayan Financing Company in Riyadh, where he worked until his retirement at the end of 2006. At Olayan he held positions including Treasurer and CFO and now is an advisor. Frank currently holds Board positions with Mining & Minerals Opportunity, Inc. and Bolsa Resources Inc. He also acts as an advisor for Jarir Marketing Company, Riyadh, where he is also a member of the Audit Committee, and Mitsubishi Chemical Company for the Middle East.

Ibrahim Al Qadhi

Ibrahim is a non-executive member of the Board of BLME. He is the General Manager of Kuwait Clearing Company and has been a member of the Kuwait Stock Exchange Committees since 1998. From 2009 until March 2012 he was the Chairman of Boubyan Bank. Ibrahim has more than 28 years experience in international banking and during his career to date he has worked for Kuwait Investment Company and National Commercial Bank in Jeddah (Saudi Arabia) where he held a variety of senior positions. He was Executive Director of the Supervision Sector at the Central Bank of Kuwait and representative for the Central Bank of Kuwait in the Institute of International Finance (IIF) in Washington for five years until 2008. From 2003 to 2008 Ibrahim was a member of the Technical Committee of The Islamic Financial Services Board (IFSB) in Kuala Lumpur.

Michael Williams

Michael Williams is a non-executive member of the Board of BLME. He is a qualified banker with an extensive background in international finance. He has held a number of senior and board level positions in the UK and more recently in the Middle East. Michael currently is Chairman of a UK PLC with interests in IT and Recruitment and also holds board positions at a Mutual Friendly Society where he chairs the Audit and Risk Committee and a Business Services Group in the United Arab Emirates. Michael also holds a consultancy role with a major Middle Eastern bank advising on their international expansion. Prior to this he was CEO of the International Bank of Qatar in Doha before which he was the CEO of the National Bank of Fujairah in the UAE having previously been Managing Director of Nomura Bank International Plc for 6 years. Michael started his career with Barclays Bank Group working for them for 25 years holding a number of senior positions including Managing Director of Barclays Global Services and Corporate Banking Director at Barclays Bank PLC.

Directors’ report

The Directors present their annual report and audited financial statements for the year ended 31 December 2011.

Principal activities

Bank of London and The Middle East plc was originally incorporated in the United Kingdom on 7 August 2006 (as United House of Britain plc) and received FSA authorisation to launch and start trading as a bank in the City of London on 5 July 2007. BLME, an independent wholesale bank, provides a range of Sharia’a compliant banking services and advice to businesses and individuals, with a strong focus on Europe, the Middle East and North Africa regions, requiring access to innovative Islamic financial products.

Financial results

The financial statements for the reporting period ended 31 December 2011 are shown on pages 26 to 109. The consolidated Group loss for the year after taxation amounts to £8,897,990 (2010: profit £3,517,677). The unconsolidated loss for the Bank for the year after taxation amounts to £8,983,963 (2010: profit £3,411,463).

Financial review

In the year to 31 December 2011 BLME continued to build on its established Treasury and Corporate Banking businesses and develop its more recently established Asset Management and Private Banking activities. Further information on the development of the BLME businesses is included in the Chief Executive Officer’s Statement on pages 9 to 11.

Dividends

The Directors do not recommend the payment of a dividend.

Risk

The Group and Bank have exposure to the following risk categories arising from the use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

A full description of how the Group and Bank manages these risks is provided in Note 34.

Directors and Directors' interests

The Directors who held office during the year were as follows:

Name	Date of appointment	Date of resignation	Committee
Yacob Yousef Al-Muzaini *Chairman of the Board* *Chairman of the Nominations Committee*	07 August 2006	—	Nominations
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah *Vice Chairman of the Board*	22 October 2007	—	Nominations Audit Remuneration Risk
Humphrey Richard Percy	21 September 2006	—	Executive
Richard Radway Williams	28 November 2006	—	Executive
Nigel Brodie Denison	28 November 2006	—	Executive
Neil Jonathan Holden *Chairman of the Risk Committee* *Chairman of the Remuneration Committee*	01 November 2006	—	Audit Risk Remuneration
Frank Willem Vermeulen *Chairman of the Audit Committee*	01 January 2007	—	Nominations Audit Risk
Masood Akbar	22 October 2007	30 March 2011	Risk Remuneration
Ibrahim Al Qadhi	25 September 2009	—	Audit

Mr Michael Williams was appointed as a director on 2 March 2012. Under the Articles of Association Yacob Yousef Al-Muzaini, Neil Jonathan Holden and Frank Willem Vermeulen will retire by rotation at the next Annual General Meeting and Michael Williams who was appointed by the Board after the year-end will also retire. They intend to offer themselves for re-appointment at the next Annual General Meeting.

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

Sharia'a Supervisory Board members

The Sharia'a Supervisory Board members are as follows:

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

Policy and practice on payment of creditors

BLME's policy is to agree terms of payment with suppliers and these normally provide for settlement within 30 days after the date of the invoice, except where other arrangements have been negotiated.

Political and charitable contributions

BLME made no political contributions during the period (2010: Nil). Charitable donations amounting to £52,385 were made during the period (2010: Nil).

Going concern

The Directors have reviewed the business activities and financial position of BLME and have a reasonable expectation that it has adequate resources to continue in operational existence for the foreseeable future. In making this assessment the Directors have considered a wide range of information about the current and future condition of the Group including the strategic direction, activities and risks that affect the financial position. In particular the Directors have assessed the 2012 budget and future plans. For these reasons the financial statements have been prepared on a going concern basis.

Disclosure of information to auditors

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

Auditors

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

By order of the Board

Richard Williams
Company Secretary
26 March 2012


CITY OF LONDON
LONDON
BRIDGE
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Corporate governance report

The Board considers that good corporate governance is central to achieving the Bank's objectives. The following statement describes BLME's structure and processes in relation to the Board, Directors' remuneration, accountability and audit, and relations with shareholders.

Board and Board Committees

The Board of Directors

The Board is responsible for BLME's system of corporate governance. At 31 December 2011 the Board of Directors comprised three executive Directors: Humphrey Percy - Chief Executive Officer, Richard Williams - Finance Director, Nigel Denison - Director and Head of Treasury and Wealth Management, and five non-executive Directors including the non-executive Chairman.

Yacob Yousef Al-Muzaini is non-executive Chairman and Sheikh Abdullah Jaber Al-Ahmed Al-Sabah is Vice Chairman of the Board. The other non-executive Directors are Neil Holden – Chairman of Risk and Remuneration Committees, Frank Vermeulen - Chairman of the Audit Committee and Ibrahim Al-Qadhi.

The appointment of Directors is considered by the Nominations Committee and then the Board. Following the provisions in the Articles of Association all Directors must stand for re-election by the shareholders at the first Annual General Meeting following their appointment and, following that meeting, must stand for re-election by the shareholders at least every three years.

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

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

Board Meetings

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

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

The Board met four times during the year. All Board members attended each meeting.

Board Committees

The Board has delegated to the Committees of the Bank the responsibility to review and make recommendations to the full Board.

The Board Committees operate within clearly defined terms of reference.

Board Audit Committee

The Audit Committee is chaired by Frank Vermeulen and comprises Sheikh Abdullah Jaber Al-Ahmed Al-Sabah, Neil Holden and Ibrahim Al-Qadhi.

The Committee's main responsibility is to review any reports from management, the internal auditor, and the external auditors regarding the accounts and the internal control systems implemented throughout the Bank, along with consideration of both interim and annual accounts. It also makes recommendations to the Board on the appointment of the auditors and their audit fee.

The Board considers that the members of the Audit Committee possess recent and relevant financial experience. The Audit Committee has unrestricted access to BLME's auditors. The external auditors, KPMG, provide non-audit services in addition to the provision of audit services. In the year ending 31 December 2011, non-audit services provided by KPMG comprised advice with regard to taxation, share schemes and other miscellaneous services.

The Audit Committee met eight times during the year; each meeting was attended by all members, other than the meetings on 16 February, 3 March and 5 September when Sheikh Abdullah Jaber Al-Ahmed Al-Sabah was absent and the meeting on 5 September when Ibrahim Al-Qadhi was absent.

Board Risk Committee

The Risk Committee is chaired by Neil Holden and comprises Frank Vermeulen and Sheikh Abdullah Jaber Al-Ahmed Al-Sabah. Ibrahim Al-Qadhi stepped down as a member of the Risk Committee in April and was replaced by Sheikh Abdullah Jaber Al-Ahmed Al-Sabah.

The role of the Risk Committee is to oversee, on behalf of the Board, the risk appetite and policies for managing risk, and to review the exposures and risk concentrations across the Group's portfolio.

The Risk Committee met six times during the year; each meeting was attended by all members, other than the meetings on 28 January and 10 March, when Ibrahim Al-Qadhi was absent and the meetings on 16 August and 1 December when Sheikh Abdullah Jaber Al-Ahmed Al-Sabah was absent.

Board Remuneration Committee

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

The Remuneration Committee considers matters relating to the overall reward framework across BLME, including policy for Executive Management and their individual remuneration awards. In addition, it will advise on the remuneration policy for the Group's employees. The Remuneration Committee has appointed Kepler Associates as its advisor.

The Remuneration Committee met four times during the year; each meeting was attended by all members.

Board Nominations Committee

The Nominations Committee is chaired by Yacob Yousef Al-Muzaini and comprises Sheikh Abdullah Jaber Al-Ahmed Al-Sabah and Frank Vermeulen.

The Nominations Committee is responsible for matters relating to the composition of the Board, including the appointment of new Directors, and making recommendations to the Board as appropriate.

The Nominations Committee is also responsible for determining and recommending to the Board the framework and reporting timetable for commissioning and overseeing the annual performance evaluation of the Board, its principal Committees and the respective Chairmen of those committees.

The Nominations Committee met four times during the year; each meeting was attended by all members.

Chairman and Chief Executive

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

a. The non-executive Chairman, Yacob Yousef Al-Muzaini, is responsible for the leadership of the Board, ensuring effectiveness in all aspects of its role, reviewing the Board's agenda and conducting Board meetings, and ensuring effective communication with shareholders and the conduct of shareholders meetings; and

b. Executive management is led by the Chief Executive Officer, Humphrey Percy, who has been delegated responsibility by the Board for the day-to-day management of the Bank within the control and authority framework set by the Board. The Finance Director, Richard Williams, and Head of Treasury and Wealth Management, Nigel Denison, assist the Chief Executive Officer in managing the business.

Board balance

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

Information and professional development

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

Accountability

Financial reporting

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

Internal control

The Directors are responsible for reviewing the effectiveness of the Bank's internal controls on an annual basis. There is an ongoing process to identify, evaluate and manage risk, which has been in place throughout the period and is regularly reviewed by the Board.

The system includes internal controls covering financial, operational and compliance areas, and risk management. There are limitations to any system of internal control, which can only provide reasonable but not absolute assurance with respect to the preparation of financial information, the safeguarding of assets and the possibility of misstatement or loss.

Relations with shareholders

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

Sharia'a Supervisory Board report

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

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

Assalamu Alaikum wa Rahmat Allah wa Barakatuh.

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

We, the Sharia'a Supervisory Board of BLME have reviewed and monitored the operations, agreements and transactions conducted by BLME during the period 1 January 2011 to 31 December 2011 and have reviewed the BLME Annual Report and Accounts for the year ended 31 December 2011. We conducted our reviews to form an opinion as to whether BLME has complied with the principles of the Sharia'a and with specific fatwa rulings and guidelines issued by the Sharia'a Supervisory Board.

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

1. The operations, agreements and transactions entered into and conducted by BLME during the year 1 January 2011 to 31 December 2011 and which were reviewed by the Sharia'a Supervisory Board are in compliance with the principles of the Sharia'a.
2. The distribution of profits and the sharing of losses in terms of the investment accounts at BLME are in compliance with the principles of the Sharia'a.
3. All income and profit generated by BLME during the year 1 January 2011 to 31 December 2011 has been derived from Sharia'a compliant sources.

Moreover, BLME does not pay zakat on behalf of its shareholders and it is the sole responsibility of the individual shareholders to make their zakat payments.

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

Wassalam Alaikum wa Rahmat Allah wa Barakatuh

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

Sheikh Dr. Abdulaziz Al-Qassar
Chairman
26 March 2012

Statement of Directors' responsibilities

In respect of the annual report and financial statements

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

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

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

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

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

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

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

Independent auditor's report

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

We have audited the financial statements of Bank of London and The Middle East plc for the year ended 31 December 2011 set out on pages 26 to 109. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRS) as adopted by the EU and, as regards the Parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm.

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent company's affairs as at 31 December 2011 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRS as adopted by the EU;
- the Parent company's financial statements have been properly prepared in accordance with IFRS as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

Paul Furneaux
Senior Statutory Auditor
For and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
London
26 March 2012

Consolidated income statement

For the year 1 January 2011 to 31 December 2011

Income	Note	2011 (£)	2010 (£)
Income from financing and investing activities	5	25,721,315	23,716,697
Returns to financial institutions and customers	6	(9,430,933)	(7,393,355)
Net Margin		**16,290,382**	**16,323,342**
Fee and commission income		735,263	1,066,741
Fee and commission expense		(92,915)	(92,048)
Net fee income		**642,348**	**974,693**
Net fair value (losses) / gains on investment securities	7	(975,203)	1,665,384
Net fair value loss on investment properties	19	(326,155)	–
Other operating income	8	27,387,962	21,475,178
Total operating income		**43,019,334**	**40,438,597**
Expenses			
Personnel expenses	10	(9,519,860)	(11,373,644)
Depreciation and amortisation	22, 23, 24	(21,273,929)	(17,168,169)
Other operating expenses	12	(7,820,969)	(7,870,338)
Change in third party interest in consolidated funds	32	(50,732)	(58,499)
Total operating expenses		**(38,665,490)**	**(36,470,650)**
Operating profit before impairment charges		**4,353,844**	**3,967,947**
Net impairment (charge) / credit on financial assets	14	(15,202,534)	1,047,977
Net operating (loss) / profit before tax		(10,848,690)	5,015,924
Tax credit / (expense)	15	1,950,700	(1,498,247)
(Loss) / profit for the year		**(8,897,990)**	**3,517,677**

All of the loss for the financial year and the profit for the prior year were derived from continuing activities.
The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

For the year 1 January 2011 to 31 December 2011

Income	2011 (£)	2010 (£)
(Loss) / profit for the year	**(8,897,990)**	**3,517,677**

Other comprehensive expense

Foreign currency translation differences for foreign operations	3,113	(111,962)
Foreign currency translation differences for cash flow hedging reserve	(8,152)	(121,751)
Changes in fair value of cash flow hedges taken to equity	(755,500)	(2,398,684)
Ineffective portion of change in fair value of cash flow hedges transferred to income statement	168,294	33,429
Change in fair value of available-for-sale financial assets taken to equity	200,006	60,568
Transfer from fair value reserve to income statement in respect of amortisation of reclassified financial assets	377,886	291,301
Income tax on other comprehensive income	1,010	1,350,949
Other comprehensive expense for the year net of income tax	**(13,343)**	**(896,150)**
Total comprehensive (loss) / profit for the year attributable to equity holders of the Bank	**(8,911,333)**	**2,621,527**

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December 2011

Assets	*Note*	2011 (£)	2010 (£)
Cash and balances with banks		97,298,498	37,228,323
Due from financial institutions	*17*	76,671,550	94,169,310
Investment securities	*18*	81,401,505	26,774,748
Financing arrangements	*20*	299,102,091	323,998,989
Finance lease receivables	*21*	131,012,099	118,299,503
Operating lease assets	*23*	93,282,765	89,187,818
Investment properties	*19*	12,858,712	7,232,573
Property and equipment	*22*	452,346	776,094
Intangible assets	*24*	474,018	419,263
Other assets	*25*	8,437,532	9,659,996
Current tax asset		500,000	500,000
Deferred tax assets	*15*	5,640,300	3,687,131
Total assets		**807,131,416**	**711,933,748**

Liabilities			
Due to financial institutions	*26*	500,474,105	424,132,046
Due to customers	*27*	51,031,160	24,253,449
Profit rate swaps	*9*	7,268,757	6,553,819
Third party interest in consolidated funds	*32*	1,763,834	1,081,346
Other liabilities	*28*	7,953,098	8,921,109
Total liabilities		**568,490,954**	**464,941,769**

Equity

Share capital	*31*	48,933,422	48,933,422
Share premium	*31*	206,226,328	206,226,328
Fair value reserve		213,567	(238,645)
Cash flow hedging reserve		(4,186,084)	(3,717,416)
Share based payment reserve		4,403,930	3,044,114
Foreign currency translation reserve		(72,757)	(75,870)
Retained losses		(16,877,944)	(7,179,954)
Total equity attributable to equity holders of the Bank		**238,640,462**	**246,991,979**
Total liabilities and equity		**807,131,416**	**711,933,748**

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on 26 March 2012 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Finance Director

Bank statement of financial position

As at 31 December 2011

Assets	Note	2011 (£)	2010 (£)
Cash and balances with banks		93,620,120	33,385,602
Due from financial institutions	17	67,616,508	84,934,865
Investment securities	18	97,651,844	38,748,411
Financing arrangements	20	376,049,738	420,344,528
Finance lease receivables	21	110,848,277	88,454,713
Operating lease assets	23	46,451,474	32,934,001
Property and equipment	22	452,346	776,094
Intangible assets	24	474,018	419,263
Other assets	25	7,435,707	9,096,554
Current tax asset		500,000	500,000
Deferred tax assets	15	4,810,094	2,602,234
Total assets		**805,910,126**	**712,196,265**

Liabilities			
Due to financial institutions	26	500,474,105	424,132,046
Due to customers	27	51,031,160	24,253,449
Profit rate swaps	9	7,268,757	6,553,819
Other liabilities	28	5,717,328	6,967,156
Total liabilities		**564,491,350**	**461,906,470**

Equity

Share capital	*31*	48,933,422	48,933,422
Share premium	*31*	206,226,328	206,226,328
Fair value reserve		213,567	(238,645)
Cash flow hedging reserve		(3,307,067)	(2,407,983)
Share based payment reserve		4,403,930	3,044,114
Retained losses		(15,051,404)	(5,267,441)
Total equity attributable to equity holders of the Bank		**241,418,776**	**250,289,795**
Total liabilities and equity		**805,910,126**	**712,196,265**

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on 26 March 2012 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Finance Director

Company Registration Number: 05897786

Consolidated statement of cash flows

For the year 1 January 2011 to 31 December 2011

Cash flows from operating activities	2011 (£)	2010 (£)
Operating (loss) / profit before tax	(10,848,690)	5,015,924
Adjusted for:		
Exchange differences	(3,329,833)	(2,653,587)
Fair value loss on investment property	326,155	–
Fair value loss / (gain) on investment securities	1,804,369	(1,199,159)
Provision for impairment	17,642,159	1,937,296
Depreciation and amortisation	21,273,929	17,168,169
Share based payment awards	1,359,816	877,951
Accretion of instruments held under financing arrangements	(686,166)	(2,004,089)
Mark to market movement in profit rate swaps	(11,181)	186,287
Amortisation of fair value reserve	377,886	291,301
	27,908,444	**19,620,093**

Net increase in operating assets:		
Due from financial institutions	17,790,789	38,926,444
Financing arrangements	10,476,807	(16,038,063)
Recovery of impaired asset	(2,439,625)	(2,985,273)
Finance lease receivables	(12,692,204)	(16,819,986)
Operating lease assets	(25,040,666)	(28,693,272)
Other assets	71,322	1,202,992
	(11,833,577)	**(24,407,158)**

Net increase / (decrease) in operating liabilities:

Due to financial institutions	78,382,251	(69,348,664)
Due to customers	26,798,326	16,207,142
Third party interest in consolidated funds	706,751	289,419
Other liabilities	261,172	(1,018,274)
	106,148,500	**(53,870,377)**
Corporation tax paid	(1,459)	–
Net cash inflow / (outflow) from operating activities	**122,221,908**	**(58,657,442)**
Purchase of property and equipment	(47,771)	(90,506)
Purchase of intangible assets	(350,444)	(118,417)
Purchase of investment property	(5,938,529)	–
Net purchase of investment securities	(55,823,381)	(1,254,208)
Net cash outflow from investing activities	**(62,160,125)**	**(1,463,131)**
Net change in cash and cash equivalents	60,061,783	(60,120,573)
Cash and cash equivalents at the beginning of the year	37,228,323	96,272,364
Exchange differences in respect of cash and cash equivalents	8,392	1,076,532
Cash and cash equivalents at the end of the year	**97,298,498**	**37,228,323**

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Bank statement of cash flows

For the year 1 January 2011 to 31 December 2011

Cash flows from operating activities	2011 (£)	2010 (£)
Operating (loss) / profit before tax	(10,993,345)	4,968,885
Adjusted for:		
Exchange differences	(3,465,590)	(2,469,410)
Fair value loss / (gain) on investment securities	2,344,689	(1,791,117)
Provision for impairment	17,642,159	1,937,296
Depreciation and amortisation	9,039,104	4,789,728
Share based payment awards	1,359,816	877,951
Accretion of instruments held under financing arrangements	(686,166)	(2,004,089)
Mark to market movement in profit rate swaps	(11,181)	68,188
Amortisation of future swap present value	(630,737)	(639,881)
Amortisation of fair value reserve	377,886	291,301
	14,976,635	**6,028,852**

Net decrease / (increase) in operating assets:		
Due from financial institutions	17,618,302	39,448,509
Financing arrangements	29,368,231	1,094,005
Recovery of impaired asset	(2,439,625)	(2,985,273)
Finance lease receivables	(22,026,454)	(26,855,804)
Operating lease assets	(21,889,368)	(21,851,841)
Other assets	494,114	1,129,291
	1,125,200	**(10,021,113)**

Net increase / (decrease) in operating liabilities:

Due to financial institutions	78,382,251	(69,348,664)
Due to customers	26,798,326	16,207,142
Other liabilities	(30,592)	(2,000,362)
	105,149,985	**(55,141,884)**
Net cash inflow / (outflow) from operating activities	**121,251,820**	**(59,134,145)**

Cash flows from investing activities

Purchase of property and equipment	(47,771)	(90,506)
Purchase of intangible assets	(350,444)	(118,417)
Net purchase of investment securities	(60,621,404)	(1,880,248)
Net cash outflow from investing activities	**(61,019,619)**	**(2,089,171)**
Net change in cash and cash equivalents	60,232,201	(61,223,316)
Cash and cash equivalents at the beginning of the year	33,385,602	93,651,558
Exchange differences in respect of cash and cash equivalents	2,317	957,360
Cash and cash equivalents at the end of the year	**93,620,120**	**33,385,602**

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December 2011

	Share capital £	Share premium account £	Fair value reserve £	Cash flow hedging reserve £	Share based payment reserve £	Retained earnings £	Foreign currency translation reserve £	Total £
Balance at 31 December 2010	48,933,422	206,226,328	(238,645)	(3,717,416)	3,044,114	(7,179,954)	(75,870)	246,991,979
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(8,897,990)**	**—**	**(8,897,990)**
Other comprehensive income / (expense)								
Foreign currency translation	—	—	—	(8,152)	—	—	3,113	(5,039)
Changes in fair value of cash flow hedges	—	—	—	(755,500)	—	—	—	(755,500)
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	—	—	—	168,294	—	—	—	168,294
Recognition of tax asset on cash flow hedge reserve	—	—	—	126,690	—	—	—	126,690
Change in fair value of available-for-sale financial assets taken to equity	—	—	200,006	—	—	—	—	200,006
Transfer to income statement in respect of amortisation of reclassified financial assets	—	—	377,886	—	—	—	—	377,886
Tax on amortisation of reclassified financial assets	—	—	(125,680)	—	—	—	—	(125,680)
Total other comprehensive expense	**—**	**—**	**452,212**	**(468,668)**	**—**	**—**	**3,113**	**(13,343)**
Total comprehensive loss for the year	**—**	**—**	**452,212**	**(468,668)**	**—**	**(8,897,990)**	**3,113**	**(8,911,333)**
Contributions by and distributions to owners								
Share based payment awards	—	—	—	—	1,359,816	—	—	1,359,816
Purchase of own shares	—	—	—	—	—	(800,000)	—	(800,000)
Total transactions with owners	**—**	**—**	**—**	**—**	**1,359,816**	**(800,000)**	**—**	**559,816**
Balance at 31 December 2011	**48,933,422**	**206,226,328**	**213,567**	**(4,186,084)**	**4,403,930**	**(16,877,944)**	**(72,757)**	**238,640,462**

Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments until the investment is either derecognised or becomes impaired. £377,886 of the change in the fair value reserve transferred to income statement relates to the financial assets reclassified to loans and receivables on 1 July 2008 in accordance with the amendments to IAS 39.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments.

Share based payment reserve

The share based payment reserve includes the amortised portion of the fair value of equity instruments.

Foreign currency translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations.

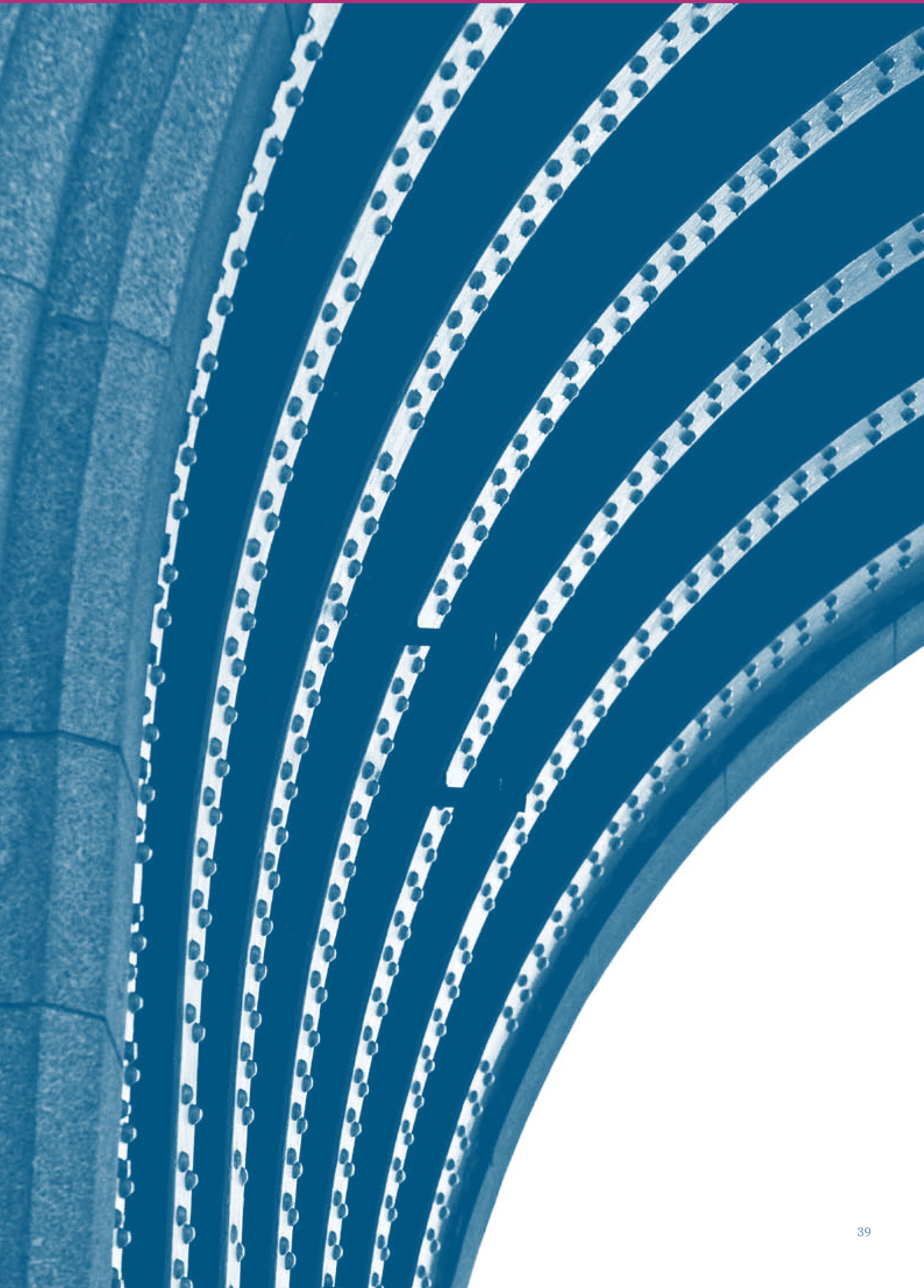
The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity continued

For the year ended 31 December 2010

	Share capital £	Share premium account £	Fair value reserve £	Cash flow hedging reserve £	Share based payment reserve £	Retained earnings £	Foreign currency translation reserve £	Total £
Balance at 31 December 2009	48,928,422	206,206,328	(514,550)	(2,657,323)	2,191,163	(10,697,631)	36,092	243,492,501
Profit for the year	**—**	**—**	**—**	**—**	**—**	**3,517,677**	**—**	**3,517,677**
Other comprehensive income / (expense)								
Foreign currency translation	—	—	—	(121,751)	—	—	(111,962)	(233,713)
Changes in fair value of cash flow hedges	—	—	—	(2,398,684)	—	—	—	(2,398,684)
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	—	—	—	33,429	—	—	—	33,429
Recognition of tax asset on cash flow hedge reserve	—	—	—	1,426,913	—	—	—	1,426,913
Change in fair value of available-for-sale financial assets taken to equity	—	—	60,568	—	—	—	—	60,568
Other movements	—	—	5,600	—	—	—	—	5,600
Transfer to income statement in respect of amortisation of reclassified financial assets	—	—	291,301	—	—	—	—	291,301
Tax on amortisation of reclassified financial assets	—	—	(81,564)	—	—	—	—	(81,564)
Total other comprehensive expense	**—**	**—**	**275,905**	**(1,060,093)**	**—**	**—**	**(111,962)**	**(896,150)**
Total comprehensive income for the year	**—**	**—**	**275,905**	**(1,060,093)**	**—**	**3,517,677**	**(111,962)**	**2,621,527**
Contributions by and distributions to owners								
Shares issued	5,000	20,000	—	—	—	—	—	25,000
Share based payment awards	—	—	—	—	852,951	—	—	852,951
Total transactions with owners	**5,000**	**20,000**	**—**	**—**	**852,951**	**—**	**—**	**877,951**
Balance at 31 December 2010	**48,933,422**	**206,226,328**	**(238,645)**	**(3,717,416)**	**3,044,114**	**(7,179,954)**	**(75,870)**	**246,991,979**

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.



Bank statement of changes in equity

For the year ended 31 December 2011

	Share capital £	Share premium account £	Fair value reserve £	Cash flow hedging reserve £	Share based payment reserve £	Retained earnings £	Total £
Balance at 31 December 2010	48,933,422	206,226,328	(238,645)	(2,407,983)	3,044,114	(5,267,441)	250,289,795
Loss for the year	**—**	**—**	**—**	**—**	**—**	**(8,983,963)**	**(8,983,963)**
Other comprehensive income / (expense)							
Foreign currency translation	—	—	—	(5,300)	—	—	(5,300)
Changes in fair value of cash flow hedges	—	—	—	(755,500)	—	—	(755,500)
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	—	—	—	168,294	—	—	168,294
Amortisation of future swap present value	—	—	—	(630,737)	—	—	(630,737)
Recognition of tax asset on cash flow hedge reserve	—	—	—	324,159	—	—	324,159
Change in fair value of available-for-sale financial assets taken to equity	—	—	200,006	—	—	—	200,006
Transfer to income statement in respect of amortisation of reclassified financial assets	—	—	377,886	—	—	—	377,886
Tax on amortisation of reclassified financial assets	—	—	(125,680)	—	—	—	(125,680)
Total other comprehensive expense	**—**	**—**	**452,212**	**(899,084)**	**—**	**—**	**(446,872)**
Total comprehensive loss for the year	**—**	**—**	**452,212**	**(899,084)**	**—**	**(8,983,963)**	**(9,430,835)**
Contributions by and distributions to owners							
Share based payment awards	—	—	—	—	1,359,816	—	1,359,816
Purchase of own shares	—	—	—	—	—	(800,000)	(800,000)
Total transactions with owners	**—**	**—**	**—**	**—**	**1,359,816**	**(800,000)**	**559,816**
Balance at 31 December 2011	**48,933,422**	**206,226,328**	**213,567**	**(3,307,067)**	**4,403,930**	**(15,051,404)**	**241,418,776**

Fair value reserve

The fair value reserve includes the cumulative net change in fair value of available-for-sale investments until the investment is either derecognised or becomes impaired. £377,886 of the change in the fair value reserve transferred to income statement relates to the financial assets reclassified to loans and receivables on 1 July 2008 in accordance with the amendments to IAS 39.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in fair value of cash flow hedging instruments. It also includes amortisation of the present value of certain profit rate swaps as at 1 July 2009 following their reclassification from a fair value hedge to a macro cash flow hedge.

Share based payment reserve

The share based payment reserve includes the amortised portion of the fair value of equity instruments.

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Bank statement of changes in equity continued

For the year ended 31 December 2010

	Share capital £	Share premium account £	Fair value reserve £	Cash flow hedging reserve £	Share based payment reserve £	Retained earnings £	Total £
Balance at 31 December 2009	48,928,422	206,206,328	(514,550)	(308,438)	2,191,163	(8,678,904)	247,824,021
Profit for the year	**—**	**—**	**—**	**—**	**—**	**3,411,463**	**3,411,463**
Other comprehensive income / (expense)							
Foreign currency translation	—	—	—	(14,132)	—	—	(14,132)
Changes in fair value of cash flow hedges	—	—	—	(2,415,510)	—	—	(2,415,510)
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	—	—	—	33,540	—	—	33,540
Amortisation of future swap present value	—	—	—	(639,881)	—	—	(639,881)
Recognition of tax asset on cash flow hedge reserve	—	—	—	936,438	—	—	936,438
Change in fair value of available-for-sale financial assets taken to equity	—	—	60,568	—	—	—	60,568
Other movements	—	—	5,600	—	—	—	5,600
Transfer to income statement in respect of amortisation of reclassified financial assets	—	—	291,301	—	—	—	291,301
Tax on amortisation of reclassified financial assets	—	—	(81,564)	—	—	—	(81,564)
Total other comprehensive expense	**—**	**—**	**275,905**	**(2,099,545)**	**—**	**—**	**(1,823,640)**
Total comprehensive income for the year	**—**	**—**	**275,905**	**(2,099,545)**	**—**	**3,411,463**	**1,587,823**
Contributions by and distributions to owners							
Shares issued	5,000	20,000	—	—	—	—	25,000
Share based payment awards	—	—	—	—	852,951	—	852,951
Total transactions with owners	**5,000**	**20,000**	**—**	**—**	**852,951**	**—**	**877,951**
Balance at 31 December 2010	**48,933,422**	**206,226,328**	**(238,645)**	**(2,407,983)**	**3,044,114**	**(5,267,441)**	**250,289,795**

The notes on pages 46 to 109 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

BLME
BANK ON OUR PRINCIPLES

Notes to the consolidated financial statements

Reporting entity

Bank of London and The Middle East plc ('BLME' or the 'Bank') is a company domiciled in the United Kingdom. The address of the Bank's registered office is Sherborne House, 119 Cannon Street, London, EC4N 5AT. BLME is a wholly Sharia'a compliant wholesale bank involved in investment, corporate banking, private client banking and asset management. The consolidated financial statements of the Group for the year ended 31 December 2011 comprise the Bank and its subsidiaries (together referenced as 'the Group').

The following terms are used in the financial statements:

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, 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 (usually 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 Special Purpose Vehicles ('SPV') 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. The fixed or floating rate is multiplied by a notional amount.

Participation agreement

A participation agreement is an agreement executed between the relevant SPV and the Bank. The main objective of this agreement is to facilitate the required funding to enable the SPV to acquire leased assets or investment property and to convey the beneficial ownership of the leased equipment or investment property to the Bank. Under this agreement the risks and rewards are transferred to the Bank and the SPV is indemnified against actual losses that arise as a result of any lease or investment property transaction it enters into except in cases where it misappropriates any funds.

1. Basis of preparation

a. Presentation of financial statements

The Group has prepared its consolidated financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the EU and effective for the Group's reporting for the year ended 31 December 2011. IFRS comprise accounting standards issued by the International Accounting Standards Board ('IASB') and its predecessor body as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC') and its predecessor body.

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

In October 2008, the IASB issued amendments to IAS 39, 'Financial Instruments: Recognition and Measurement', and IFRS 7, 'Financial Instruments: Disclosures', titled 'Reclassification of Financial Assets'. The amendments to IAS 39 permitted (1) certain reclassifications of non-derivative financial assets (other than those designated under the fair value option) out of financial assets held for trading and (2) also allowed the reclassification of financial assets from the available-for-sale category to the loans and receivables category in particular circumstances. The amendments to IFRS 7 introduced additional disclosure requirements if an entity reclassified financial assets in accordance with the amendments to IAS 39.

BLME identified assets, eligible under the amendments, for which at 1 July 2008 it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. In these instances, BLME believes the intrinsic value of the assets exceeds their estimated fair value, which has been significantly adversely impacted by the reduced liquidity in the financial markets; the returns on these assets will be optimised by holding them for the foreseeable future rather than through exit in the short term. The reclassifications align more closely the accounting treatment with the business intent.

Under the terms of the amendments, the reclassifications were made with effect from 1 July 2008 at fair value on that date. All reclassifications were to the IAS 39 category loans and receivables.

The impact of the reclassifications in the year ended 31 December 2011 was to increase operating profit before impairment charges and taxes by £526,701 (2010: £962,907). For further information, please refer to note 4.

The Group applies revised IAS 1 Presentation of Financial Statements (2007), which became effective as of 1 January 2009. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statements of income and other comprehensive income.

The Group has also applied Improving Disclosures about Financial Instruments (Amendments to IFRS 7) issued in March 2009 which requires enhanced disclosure about fair value measurements and liquidity risk in financial instruments. The amendments require that fair value measurement disclosures use a three level fair value hierarchy that reflects the significance of the inputs used in measuring fair values of financial instruments. Specific disclosures are required when fair value measurements are categorised as Level 3 (significant unobservable inputs) in the fair value hierarchy. The amendments require that any significant transfers between Level 1 and Level 2 of the fair value hierarchy be disclosed separately together with changes in valuation techniques from one period to another. The definition of liquidity risk has been amended and is now defined as the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Judgements made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in Note 3 and Note 34.

b. New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2011, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except for IFRS 9 Financial Instruments, which becomes mandatory for the Group's 2013 consolidated financial statements and could change the classification and measurement of financial assets. The Group does not plan to adopt this standard early and the full extent of the impact on the financial statements is currently under review by the Group.

c. Basis of consolidation

i. Subsidiaries

Subsidiaries are entities controlled by the Bank. Control exists when the Bank has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of the subsidiaries are included in the consolidated financial statements from the date the control commences until the date control ceases (see note 32).

ii. Special Purpose Vehicles ('SPV')

An SPV is an entity that is created to accomplish narrow and well-defined objectives such as the execution of a specific financing transaction. The assets and liabilities of SPVs are included in the Group's consolidated financial statements where the substance of the relationship is that the Bank controls the SPV (see note 32).

iii. Employee Benefit Trust ('EBT')

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

d. Consolidation of foreign entities

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

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

e. Basis of measurement

The financial statements have been prepared on the historical cost basis, except for investment property and financial instruments, specifically investment securities and profit rate swaps, which are stated at their fair value. Financial instruments are recognised on a trade date basis.

f. Functional and presentation currency

The financial statements are presented in Sterling, which is also the bank's functional currency. Supplementary information has been provided in notes 9, 14, 19, 33 and 34 to enhance the understanding of the reader. The method of translation is explained in the foreign currency note.

2. Significant accounting policies

a. Foreign currency

Transactions in foreign currencies are translated to the functional currency at the exchange rate ruling at the date of each transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate ruling at that date. Foreign currency differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities are translated into the functional currency at the effective historical rate used on the date of initial recognition. Foreign exchange for non-monetary items measured at fair value is determined at the spot rate at the time the fair value is determined. The associated foreign exchange differences for both monetary and non-monetary assets and liabilities go to the same place that the gains and losses are booked to, i.e. equity or profit and loss.

b. Revenue recognition

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

Profits and costs are recognised in the income statement throughout the period of the contract using the 'effective profit share' basis. The 'effective profit share rate' is the rate that exactly discounts the estimated future cash payments and receipts through the agreed payment term of the contract to the carrying amount of the financial asset or liability.

The majority of Sukuk held by the Bank are classified as loans and receivables, effective 1 July 2008 onward. Sukuk reported by the Group as a result of the consolidation of the BLME Sharia'a Umbrella Fund SICAV-SIF have been classified under the fair value option as investment securities at 'fair value through profit and loss'. Any fair value gain or loss is accounted for in the consolidated income statement in the line 'net fair value gains on investment securities'.

In addition the Bank has a small portfolio of Sukuk in a trading book which is also marked to market under the fair value option and accounted for as 'fair value through profit and loss'.

ii. Fees and commission

Fees and commission which are not recognised on an effective yield basis over the life of the financial instruments to which they relate, such as fees for negotiating transactions for third parties, underwriting fees and commission, and non-discretionary asset management fees are recognised in revenue when it is probable that the economic benefit will flow to the Bank. This will normally be from the point at which the activity to which the fees and commission relate has been completed.

c. Financial assets and liabilities

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

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

i. Due from financial institutions and financing arrangements

Due from financial institutions and financing arrangements are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and which are not classified as available-for-sale. These assets are initially recognised at fair value including direct and incremental transaction costs. These are subsequently measured at amortised cost using the effective profit share rate basis and any impairment losses are deducted. They are de-recognised when the rights to receive cash flows have expired or the Bank has transferred all the risks and rewards of ownership.

ii. Investment securities

- Financial instruments at fair value through profit or loss

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

  Financial instruments included in this category are recognised initially at fair value and transaction costs are taken directly to the income statement. Gains and losses arising from changes in fair value are included directly in the income statement. The instruments are de-recognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

- Available-for-sale

  Available-for-sale ('AFS') assets are either debt or equity non-derivative financial assets that are designated as available-for-sale and are not classified into the categories described above. The assets are intended to be held for an indefinite period of time, but may be sold in response to liquidity requirements or changes in profit rates, exchange rates or equity prices. They are initially recognised at fair value including direct and incremental transaction costs. They are subsequently held at fair value. Gains and losses arising from changes in the fair value of AFS financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly within a separate component of equity, until the financial assets are de-recognised or impaired at which time the cumulative gain or loss previously recognised within equity is transferred to the income statement. For debt instruments, income is determined using the effective profit share rate and recognised in the income statement. Dividends on equity instruments are recognised in the income statement when the Group's right to receive payment is established. The instruments are de-recognised when the rights to receive cash flows have expired or the Bank has transferred substantially all the risks and rewards of ownership.

iii. Offsetting financial assets

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

iv. De-recognition of financial assets

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

– substantially all the risks and rewards of ownership have been transferred; or

– substantially all the risks and rewards have neither been retained nor transferred but control is not retained.

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

v. Impairment of financial assets

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

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

i. significant financial difficulty of the issuer or obligor;

ii. a breach of contract, such as default or delinquency in profit or principal payments;

iii. the Group granting to the client, for economic or legal reasons relating to the client's financial difficulty, a concession that the financier would not otherwise consider;

iv. it becoming probable that the client will enter bankruptcy or other financial reorganisation;

v. the disappearance of an active market for that financial asset because of financial difficulties; or

vi. observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

– adverse changes in the payment status of clients in the portfolio; or

– national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

- Assets carried at amortised cost

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

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

- Available-for-sale assets

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

  In the case of AFS debt instruments, impairment is assessed against the impairment indicators discussed in detail on pages 49. If there is objective evidence that an impairment loss has occurred, the cumulative loss, measured as the difference between the asset's amortised cost and current fair value, less any impairment loss on the debt instrument previously recognised in the income statement, is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the income statement.

vi. Financial liabilities

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

vii. Determining fair value

Where the classification of a financial instrument requires it to be stated at fair value, this is determined by reference to the quoted bid price or asking price (as appropriate) in an active market wherever possible. Where no such active market exists for the particular asset or liability, the Bank uses a valuation technique to arrive at the fair value, including the use of prices obtained in recent arm's length transactions, discounted cash flow analysis and other valuation techniques commonly used by market participants (see note 3b).

viii. Derivatives and hedge accounting

Derivatives are recognised initially, and are subsequently re-measured, at fair value. Fair values of over-the-counter derivatives (profit rate swaps) are obtained using valuation techniques, including discounted cash flow models.

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

The method of recognising fair value gains and losses depends on whether derivatives are held for trading or are designated as hedging instruments and, if the latter, the nature of the risks being hedged. When derivatives are designated as hedges, BLME classifies them as either:

i. hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); or
ii. hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedges').

Hedge accounting is applied to derivatives designated as hedging instruments in a fair value hedge or cash flow hedge provided certain criteria are met.

- Hedge accounting

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

- Fair value hedge

  Changes in the fair value of derivatives that are designated and qualify as fair value hedging instruments are recorded in the income statement, along with changes in the fair value of the hedged assets, liabilities or group thereof that are attributable to the hedged risk.

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

- Cash flow hedge

  The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity within the cash flow hedging reserve. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement under 'Other operating income / expenses' as applicable.

  Amounts accumulated in equity are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity until the forecast transaction is eventually recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

- Hedge effectiveness testing

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

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

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

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

d. Collateral and netting

The Bank enters into master agreements with counterparties whenever possible and, when appropriate, obtains collateral. Master agreements provide that, if an event of default occurs, all outstanding transactions with the counterparty will fall due and all amounts outstanding will be settled on a net basis.

- Collateral

  The Bank obtains collateral in respect of customer liabilities where this is considered appropriate. The collateral normally takes the form of a lien over the customer's assets and gives the Bank a claim on these assets for both existing and future liabilities.

- Netting

  Financial assets and liabilities are offset and the net amount reported in the balance sheet if, and only if, there is a legally enforceable right to set off the recognised amounts and there is an intention to settle on a net basis, or to realise and settle an asset and a liability simultaneously.

e. Investment property

Property that is held for long term rental yields and that is not occupied by the companies in the consolidated Group is classified as investment property. Investment property comprises a leasehold building.

The Group has elected to adopt the fair value model under IAS 40; as such the investment property is measured initially at its cost, including related transaction costs. After initial recognition, investment property is carried at fair value. Fair value is based on active market prices, adjusted, if necessary, for any differences in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections. These valuations are reviewed annually by an independent external valuation agent.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions.

Subsequent expenditure is charged to the asset's carrying amount only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Changes in fair value are recorded in the income statement within 'Net fair value gains / (losses) on investment property'.

f. Property and equipment

i. Recognition and measurement

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

ii. Depreciation

Depreciation is recognised in the income statement on a straight line basis over the estimated useful life of each part of an item of property and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives.

– Computer equipment, software and licences – 3 years

– Fixtures and fittings – 4 years

– Office equipment – 3 years

– Leasehold improvements – 4 years or over the life of the lease, whichever is shorter

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

g. Intangible assets

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

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

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

h. Impairment of property and equipment and intangible assets

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

The impairment review comprises a comparison of the carrying amount of the asset with its recoverable amount, which is taken as the lower of the asset's net selling price and its value in use. Net selling price is calculated by reference to the amount at which the asset could be disposed of in a binding sale agreement in an arm's length transaction evidenced by an active market or recent transactions for similar assets. Value in use is calculated by discounting the expected future cash flows obtainable as a result of the assets continued use, including those resulting from its ultimate disposal, at a market based discount rate on a pre-tax basis.

i. Other assets

Other assets include loans made by the EBT to facilitate employees investing in BLME shares, prepayments associated with legal fees incurred in the set up of trades and amounts owed by HMRC in respect of VAT.

Additionally, within other assets are returned leased assets which are stated at the lower of cost and net realisable value. When returned leased assets are not readily convertible into cash, the policy is to dispose of such assets at auction. Net realisable value is the estimated selling price observed at recent auctions less any applicable costs.

j. Operating leases

i. Lessor

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

ii. Lessee

Operating lease rentals payable are recognised as an expense in the income statement on a straight line basis over the lease term unless another systematic basis is more appropriate.

k. Finance leases

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

l. Employee benefits

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

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

m. Share based payments to employees

The Group engages in equity settled share based incentive schemes in respect of services received for certain of its employees. In accordance with IFRS 2, the cost of the share based payment arrangements with the employees is measured by reference to the fair value of equity instruments on the date they are granted, and recognised as an expense on a straight line basis over the vesting period, with a corresponding credit to the ‘Share based payment reserve’. The fair value of equity instruments that are made available immediately, with no vesting period attached to the award, are expensed immediately.

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

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

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

n. Own shares

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

o. Provisions

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

p. Income tax

Income tax expense comprises current and deferred tax. Income tax expense is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

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

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

q. Cash and cash equivalents

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

r. Other receivables

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

3. Use of critical accounting estimates and judgements in applying accounting policies

a. Key sources of estimation uncertainty

Allowance for credit losses

Assets accounted for at amortised cost are evaluated quarterly for impairment on a basis described in note 2c (v) and 34a (v). In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual financing arrangements. This evidence may include observable data indicating that there has been an adverse change in the payment status of counterparties in a portfolio, or national or local economic conditions that correlate with defaults on assets in the portfolio. The specific counterparty component of the total allowance for impairment applies to claims evaluated individually and is based upon management's best estimate of the present value of the cash flows that are expected to be received. In estimating these cash flows, management makes judgements about each counterparty's financial situation and the realisable value of any underlying collateral. Each impaired asset is assessed on its merits, and the present value of estimated cash flows considered recoverable is approved by the Counterparty Credit Risk Committee.

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

b. Determining fair values

The Group's accounting policy on fair value measurements is in accordance with IFRS 7 Financial Statement: Disclosures and is discussed in Note 34.

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

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category comprises profit rate swaps, which are valued using reference to quoted market data such as yield curves, and investments in Sharia'a compliant funds.

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

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

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

Valuation techniques include net present value and discounted cash flow models, comparison to similar instruments for which market observable prices exist, Black-Scholes and polynomial option pricing models and other valuation models. Assumptions and inputs used in valuation techniques include risk free and benchmark profit rates, credit spreads and other premia used in estimating discount rates, bond prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

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

Deferred tax relating to fair value re-measurement of available-for-sale investments and cash flow hedges, which are charged or credited directly to equity, is also credited or charged directly to equity and is subsequently recognised in the income statement when the deferred fair value gain or loss is recognised in the income statement.

4. Amendments to IAS 39 and IFRS 7, 'Reclassification of Financial Assets'

Following the amendments to IAS 39 and IFRS 7, 'Reclassification of Financial Assets', the Bank reclassified certain trading assets and financial assets available-for-sale to loans and receivables. The Bank identified assets, eligible under the amendments for which, at 1 July 2008, it had a clear change of intent to hold for the foreseeable future rather than to exit or trade in the short term. Under IAS 39, as amended, the reclassifications were made with effect from 1 July 2008 at fair value at that date. The disclosures below detail the impact of the reclassifications to the Bank and Group. The following table shows carrying values and fair values of the reclassified assets:

	At 31 December 2011		At 31 December 2010		At 31 December 2009		At 1 July 2008
	Carrying Value £	Fair Value £	Carrying Value £	Fair Value £	Carrying Value £	Fair Value £	Fair Value £
US Dollar trading assets: Sukuk at FV through P&L reclassified to loans and receivables	12,859,719	12,450,688	15,835,150	15,059,940	14,915,723	12,958,012	11,861,841
US Dollar financial assets: available-for-sale Sukuk reclassified as loans and receivables	10,901,068	10,249,984	16,370,485	14,357,229	39,170,696	34,776,783	39,925,758
Total financial assets reclassified to loans and receivables	**23,760,787**	**22,700,672**	**32,205,635**	**29,417,169**	**54,086,419**	**47,734,795**	**51,787,599**

USD/GBP exchange rates were 1.9901 at 1 July 2008, 1.6195 at 31 December 2009, 1.5485 at 31 December 2010 and 1.5461 at 31 December 2011.

The carrying value and the fair value of the reclassified assets have decreased since 1 July 2008 due to a combination of factors including the disposal of an impaired Sukuk issued by a Saudi based company, the maturity of three other Sukuks and the partial redemption of another Sukuk but partially offset by the weakening of sterling against the US dollar.

If the reclassification had not been made, excluding the impact of foreign exchange rates referred to above, the Group and Bank income statement for the year to 31 December 2011 would have included unrealised fair value profits on the reclassified trading assets of £530,351 (2010: £1,508,231 profits, 2009: £1,210,559 profits and 2008: £2,358,638 profits).

For the year to 31 December 2011, as a result of the reclassification, the Bank made an unrealised fair value gain of £526,701 (2010: £962,907 and 2009: £972,471) excluding the impact of foreign exchange rates referred to above and impairment charges. For the six month period ended 31 December 2008 the Bank made an unrealised fair value gain of £426,616, excluding the impact of foreign exchange rates referred to above through the income statement.

For the twelve months to 31 December 2011 shareholders' equity would have included unrealised fair value net profits on the reclassified financial assets available-for-sale of £854,261 (2010: £2,402,096 profits, 2009: £4,355,441 losses and 2008: £3,547,284 losses).

After reclassification, the reclassified financial assets contributed the following amounts to income before taxes for the year to 31 December 2011:

Trading assets Sukuk	12 months to 31 December 2011 £	12 months to 31 December 2010 £	12 months to 31 December 2009 £	6 months to 31 December 2008 £
Profit share	233,419	489,248	225,691	235,194
Provision for credit loses	–	–	–	–
Income before taxes on reclassified trading assets Sukuk	**233,419**	**489,248**	**225,691**	**235,194**
Available-for-sale Sukuk				
Profit share	293,282	473,659	746,780	47,225
Provision for credit loses	–	–	(11,322,269)	–
Income before taxes on reclassified financial assets available-for-sale Sukuk	**293,282**	**473,659**	**(10,575,489)**	**47,225**

Prior to 1 July 2008 unrealised fair value losses of £1,421,411 on reclassified financial assets available-for-sale that were not impaired were recorded directly in shareholders' equity. From 1 July 2008 this amount will be released from shareholders' equity and accreted to the carrying value of the reclassified financial assets available-for-sale on an effective profit rate basis over the life of the respective financial assets unless they are impaired or sold. The average effective profit rate on the reclassified Sukuk is 0.42% (2010: 1.40%, 2009: 2.33% and 2008: 3.05%).

5. Income from financing and investing activities

Income from:

Financial institutions	2011 £	2010 £
Wakala income	201,381	73,455
Murabaha income	194,651	279,922

Financing arrangements		
Murabaha income	13,543,737	12,233,827
Mudaraba income	40,953	90,084
Musharaka income	93,591	77,181
Istisna and Ijara income	107,051	130,511
Finance lease income	7,360,577	5,959,025
Sukuk	4,179,374	4,872,692
	25,721,315	**23,716,697**

6. Returns to financial institutions and customers

	2011 £	2010 £
Murabaha	4,274,095	3,477,130
Wakala	869,308	547,669
Profit rate swap	3,507,332	3,269,685
Customer deposits	780,198	98,871
	9,430,933	**7,393,355**

7. Net fair value (losses) / gains on investment securities

	2011 £	2010 £
Net realised gain on sale of investment securities	167,831	469,936
Net unrealised (loss) / gain on investment securities	(1,143,034)	1,195,448
	(975,203)	**1,665,384**

8. Other operating income

	2011 £	2010 £
Gain on foreign exchange transactions	367,447	–
Operating lease income	25,259,609	20,289,306
Gain on leased asset sale	464,477	88,890
Rental income from investment property	957,679	843,174
Other	338,750	253,808
	27,387,962	**21,475,178**

9. Profit rate swaps

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

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. PRSs may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges. These are described under the relevant headings below:

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

Group and Bank	2011 Cash flow hedge $	2011 Cash flow hedge £	2011 Fair value hedge $	2011 Fair value hedge £
Profit rate swaps	157,000,000	101,545,825	35,000,000	22,637,604
	157,000,000	**101,545,825**	**35,000,000**	**22,637,604**

Group and Bank	2010 Cash flow hedge $	2010 Cash flow hedge £	2010 Fair value hedge $	2010 Fair value hedge £
Profit rate swaps	147,000,000	94,927,513	35,000,000	22,601,789
	147,000,000	**94,927,513**	**35,000,000**	**22,601,789**

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

Fair value hedges

BLME's fair value hedges consist of PRSs that are used to protect against changes in the fair value of fixed rate financial instruments due to movements in market rates and to accommodate the Bank's risk management policy. For effective fair value hedges, all changes in the fair value of the PRSs and in the fair value of the item in relation to the risk being hedged are recognised in the income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item is amortised to the income statement on an even yield basis over the remainder of the hedging period.

Effective 1 July 2009, the Bank moved from fair value hedge accounting for the PRSs held as at 1 July 2009 to cash flow hedge accounting to bring consistency to hedge accounting across the Group. Both the Bank and the Group designated liabilities under a macro cash flow hedge. In the last quarter of 2009 the Bank and Group transacted PRSs to hedge fixed rate Sukuk. These PRSs in both the Bank and the Group were accounted for under the fair value hedge accounting rules.

The fair value adjustment to the hedged item as at 1 July 2009 will be amortised to the income statement over the remainder of the hedging period.

Fair value of PRSs designated as fair value hedges:

Group and Bank	2011 Fair value assets £	2011 Fair value liabilities £	2010 Fair value assets £	2010 Fair value liabilities £
Profit rate swaps	**–**	**1,375,531**	**–**	**1,117,860**

Gains or losses arising from fair value hedges:

Group and Bank	2011 £	2010 £
Net profit rate swap (liability) / asset as at 1 January	(1,117,860)	15,041
Gains / (losses):		
Exchange translation	(1,772)	689
On hedging instruments through the profit and loss	34,354	(59,437)
On the hedged items attributable to the hedged risk	(290,253)	(1,074,153)
Net profit rate swap liability as at 31 December	**(1,375,531)**	**(1,117,860)**

The gains and losses on ineffective portions of fair value hedges are recognised immediately in 'Other operating income / expense'. During the year to 31 December 2011 a gain of £34,354 (2010: £59,437 loss) was recognised due to hedge ineffectiveness.

Cash flow hedges

The Group's cash flow hedges consist of US dollar denominated profit rate swaps that are used to protect against exposures to variability in future cash flows on selected US dollar liabilities placed by financial institutions. The objective of the hedge relationship is to minimise the volatility of cash flows in respect of floating rate liabilities due to fluctuations in market rates. A macro approach is taken in designating the hedge relationship as described in IAS 39 and the hedged item is a portfolio of existing and future highly probable liabilities. Gains and losses on effective cash flow hedges are initially recognised directly in equity, in the cash flow hedging reserve, and are transferred to the income statement when the forecast cash flows affect the income statement.

Fair value of PRSs designated as cash flow hedges:

Group and Bank	2011 Fair value assets £	2011 Fair value liabilities £	2010 Fair value assets £	2010 Fair value liabilities £
Profit rate swaps	**–**	**5,893,226**	**–**	**5,435,959**

Gains or losses arising from cash flow hedges:

Group and Bank	2011 £	2010 £
Net profit rate swap liability as at 1 January	(5,435,959)	(2,864,878)
Gains / (losses):		
Exchange translation	(8,614)	(130,205)
On hedging instruments through the profit and loss	138,553	(42,193)
On hedging instruments through reserves	(587,206)	(2,398,683)
Net profit rate swap liability as at 31 December	**(5,893,226)**	**(5,435,959)**

The gains and losses on ineffective portions of such PRSs are recognised immediately in 'Other operating income / expense'. During the year to 31 December 2011, a gain of £138,553 (2010: £42,193 loss) was recognised due to hedge ineffectiveness.

Contractual principal balances of PRSs designated for cash flow hedging purposes

The schedules of contractual principal balances on which the expected profit cash flows arise as at 31 December 2011 and 31 December 2010 respectively are as follows:

Group and Bank	Less than 3 months £	More than 3 months but less than 6 months £	1 year or less but more than 6 months £	2011 Total £
Liabilities	3,233,943	82,142,164	16,169,718	101,545,825
	3,233,943	**82,142,164**	**16,169,718**	**101,545,825**

Group and Bank	Less than 3 months £	More than 3 months but less than 6 months £	1 year or less but more than 6 months £	2010 Total £
Liabilities	32,288,270	46,495,108	16,144,135	94,927,513
	32,288,270	**46,495,108**	**16,144,135**	**94,927,513**

This table reflects the profit rate repricing profile of the underlying hedged items. The Group and Bank adopt a macro cash flow hedging strategy to match the existing rollover or forecast liabilities. Therefore the Group and Bank do not expect any maturity mismatch between the hedged liabilities and profit rate swaps at maturity.

10. Personnel expenses

	2011 £	2010* £
Wages and salaries	7,275,784	9,031,321
Social security costs	1,027,138	1,186,881
Defined contribution pension scheme costs	730,658	620,608
Sharia'a Supervisory Board fees	75,942	78,239
Recruitment costs	178,525	245,506
Other staff costs	231,813	211,089
	9,519,860	**11,373,644**

*Certain prior year numbers have been restated to be consistent with current year presentation.

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

	2011 Number	2010 Number
Period end	77	68
Average for the period - management	6	6
Average for the period - non-management	64	57

11. Directors' emoluments

	2011 £	2010 £
Directors' emoluments	996,078	1,512,884
Bank contributions to pension plans	93,000	75,000
	1,089,078	**1,587,884**

The aggregate of emoluments of the highest paid director was £276,384 (2010: £609,428), and pension contributions of £36,000 (2010: £30,000) were made on his behalf.

12. Other operating expenses

	2011 £	2010 £
Legal and professional fees	1,486,287	1,478,711
Rent and other occupancy costs	1,371,534	1,409,006
Consultancy	154,951	697,368
Communications and IT costs	608,812	610,434
Advertising and market development	1,341,765	592,350
Board and SSB related expenses	458,000	377,574
Loss on foreign exchange transactions and translation	–	850,762
Other operating charges	2,399,620	1,854,133
	7,820,969	**7,870,338**

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

Auditor's remuneration	2011 £	2010 £
Audit of financial statements: Year end	189,170	166,000
Audit of financial statements: Interim report	42,000	40,000
Tax services	51,500	33,882
Other services	131,692	134,695
	414,362	**374,577**

13. Share based payments

During the year £341,481 (2010: £2,058,450) was charged to the income statement in respect of share-based payment transactions settled in equity. This expense was computed based on the grant date fair values of the share based payments transactions arising under the following employee share schemes in accordance with the Group's reward structures:

	2011 £	2010 £
Approved Share Option Plan ('ASOP')	43,151	43,757
Unapproved Share Option Plan ('USOP')	2,410	–
Executive Share Option Scheme ('ESOP')	266,753	285,193
Deferred Annual Bonus Scheme ('DABS')	29,167	1,729,500
	341,481	**2,058,450**

Calculation of fair values

The fair values of share options, measured at the date of grant of the option, are calculated using a Black-Scholes model. The fair value of the options granted during the year, together with the main assumptions used in the Black-Scholes model for the ASOPs, Parallel ASOPs, USOPs and ESOPs awards, is included in the following tables:

	ASOP 2011	ASOP 2010	Parallel ASOP 2011	Parallel ASOP 2010	USOP issued 17/1/11	USOP issued 1/6/11	USOP 2010
Fair value (pence)	1.3	1.9	N/A	1.9	1.3	1.2	N/A
Share price (pence)	5.0	5.0	N/A	5.0	5.0	5.0	N/A
Exercise price (pence)	6.5	5.0	N/A	5.0	6.5	6.5	N/A
Expected volatility (% p.a.)	28	30	N/A	30	28	28	N/A
Option life (years)	6.5	6.5	N/A	6.5	6.5	6.5	N/A
Expected dividends (% p.a.)	Nil	Nil	N/A	Nil	Nil	Nil	N/A
Risk free interest rate (%)	2.9	3.25	N/A	3.25	2.9	2.4	N/A

	DABS 2011	DABS 2010	ESOP 2011	ESOP Tranche 1 2010	ESOP Tranche 2 2010	ESOP Tranche 3 2010	ESOP Tranche 4 2010
Fair value (pence)	6.5	N/A	N/A	1.1	1.2	1.2	1.3
Share price (pence)	N/A	N/A	N/A	5.0	5.0	5.0	5.0
Exercise price (pence)	Nil	N/A	N/A	6.5	6.5	6.5	6.5
Expected volatility (% p.a.)	N/A	N/A	N/A	30	30	30	30
Option life (years)	N/A	N/A	N/A	5.35	5.85	6.35	6.85
Expected dividends (% p.a.)	Nil	N/A	N/A	Nil	Nil	Nil	Nil
Risk free interest rate (%)	N/A	N/A	N/A	2.0	2.0	2.1	2.2

The expected volatility was determined by reference to the historical volatility of the FTSE 350 Banks Index. Awards of DABS are made in the first quarter of the year as part of the annual discretionary bonus process and relate to, and are accrued in, the previous calendar year. No DABS were awarded in 2010 in respect of the 2009 performance year.

The ESOP awards are made in four equal tranches with different vesting periods. The expected option life is dependent on the behaviour of option holders and is incorporated into the model on the basis of best estimate. No ESOP awards were made in 2011.

Approved share options

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

ASOPs	Number of options 2011	Weighted average exercise price (pence) 2011	Number of options 2010	Weighted average exercise price (pence) 2010
Outstanding at 1 January	7,038,458	5.8	4,153,846	6.5
Granted in the year	5,076,923	6.5	3,500,000	5.0
Forfeited in the year	(1,938,460)	6.2	(615,388)	6.5
Outstanding at 31 December	**10,176,921**	**6.0**	**7,038,458**	**5.8**
Exercisable at 31 December	**769,229**		**Nil**	

The weighted average remaining contractual life of the above approved options outstanding at the balance sheet date was 8.1 years (2010: 8.5 years). The weighted average exercise price was 6.0 pence (2010: 5.8 pence).

During 2010 options were issued in parallel to the existing approved options which had been granted during 2008 and 2009. These new ‘parallel’ options were granted to staff over the same number of shares as their existing approved options but with an exercise price of 5 pence per share as against an exercise price of 6.5 pence per share for their existing approved options. The old and new options will operate in parallel, meaning that staff will be able to choose which to exercise. When one option is exercised, the other option will lapse. Therefore, although participating staff now have two approved options, they will only be able to exercise one of them.

Parallel ASOPs	Number of parallel options 2011	Number of parallel options 2010
Outstanding at 1 January	3,384,612	–
Granted in the year	–	4,000,000
Forfeited in the year	(692,307)	(615,388)
Outstanding at 31 December	**2,692,305**	**3,384,612**
Exercisable at 31 December	**Nil**	**Nil**

The weighted average remaining contractual life of the above parallel options outstanding at the balance sheet date was 8.2 years (2010: 9.2 years). The weighted average exercise price is 5 pence. None of these options were exercisable at the balance sheet date. The issue of these approved parallel options has been accounted for under IFRS 2 as a modification with the incremental fair value being amortised to the income statement over the remaining vesting period.

Unapproved share options

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

USOPs	Number of options 2011	Number of options 2010
Outstanding at 1 January	–	–
Granted in the year	769,231	–
Forfeited in the year	–	–
Outstanding at 31 December	**769,231**	–
Exercisable at 31 December	**Nil**	**Nil**

The weighted average remaining contractual life of the above unapproved options outstanding at the balance sheet date was 9.3 years. The weighted average exercise price is 6.5 pence. None of these options were exercisable at the balance sheet date.

Deferred annual bonus scheme

Awards were first made to employees under the 'BLME Deferred Annual Bonus Scheme' in 2008. The Group introduced the scheme to ensure that the long term interests of certain employees were aligned with the interests of shareholders. Under the original scheme rules the employee was required to surrender a percentage of their annual discretionary bonus in return for a conditional right to receive shares in the Bank at the vesting date being three years following the award date.

During 2010 the existing awards were modified so that they took the form of nil cost options. The modified awards gave employees options, to acquire the same number of shares as the original award, which can be exercised at any point from the original vesting date until the tenth anniversary of the original award date. No incremental fair value arose as a result of this modification.

Participating in the scheme entitles the employee to receive a matching award at no cost providing certain conditions, including a performance condition, are met. Performance conditions are set and monitored by the Remuneration Committee.

DABS	Number of nil cost options 2011	Number of nil cost options 2010
Outstanding at 1 January	37,276,921	29,215,384
Awarded and deferred	17,000,000	–
Awarded under matched award	448,718	8,876,923
Forfeited in the year	(128,205)	–
Settled in the year	(1,205,128)	(815,386)
Outstanding at 31 December	**53,392,306**	**37,276,921**
Exercisable at 31 December	**8,846,154**	**Nil**

The weighted average remaining contractual life of the above nil cost options outstanding at the balance sheet date was 7.6 years (2010: 7.9 years). The weighted average exercise price was Nil.

Executive share option scheme

Share options were first granted to senior management under the BLME Unapproved Share Option Plan in 2009. The options granted were split equally into employment options and performance options. Employment options vest upon completion of service periods, performance options vest on meeting or surpassing targets for growth in the Net Asset Value of the Bank. Both categories of options only vest upon BLME being listed on a recognised exchange.

ESOPs	Number of options 2011	Number of options 2010
Outstanding at 1 January	111,099,163	85,599,163
Granted in the year	–	25,500,000
Forfeited in the year	(27,644,404)	–
Outstanding at 31 December	**83,454,759**	**111,099,163**

The options forfeited relate to performance options where the target criteria were not met. The weighted average remaining contractual life of the executive share options outstanding at the balance sheet date was 7.6 years (2010: 8.6 years). The weighted average exercise price was 6.5 pence.

Share purchase plan

BLME launched an Executive Share Purchase Plan in December 2007 to enable certain employees to purchase shares in the Bank. Interest free financing is provided by Appleby Trust (Jersey) Limited in its capacity as Trustee of the Bank of London and The Middle East EBT. Financing is scheduled to be repaid by 30 June 2013.

14. Impairment of financial assets

Group

Impairments of financial assets:	Individual £	Collective £	2011 Total £
Balance at 1 January 2011	6,735,503	1,468,014	8,203,517
Exchange translation and other movements	(61,809)	2,326	(59,483)
Profit and loss account:			
Gross impairment charge for the year	17,642,159	–	17,642,159
Amount recovered during the year	(1,914,502)	(525,123)	(2,439,625)
Net impairment charge for the year	**15,727,657**	**(525,123)**	**15,202,534**
Amounts written off during the year	(1,409,789)	(484,865)	(1,894,654)
Balance as at 31 December 2011	**20,991,562**	**460,352**	**21,451,914**
Being impairments against:			
Financing arrangements	20,991,562	–	20,991,562
Finance lease receivables	–	460,352	460,352
	20,991,562	**460,352**	**21,451,914**

Group

Impairments of financial assets:	Individual £	Collective £	2010 Total £
Balance at 1 January 2010	15,887,264	1,841,110	17,728,374
Exchange translation and other movements	556,397	84,354	640,751
Profit and loss account:			
Gross impairment charge	1,937,296	–	1,937,296
Amount recovered during the year	(2,985,273)	–	(2,985,273)
Net impairment credit for the year	**(1,047,977)**	**–**	**(1,047,977)**
Amounts written off during the year	(8,660,181)	(457,450)	(9,117,631)
Balance as at 31 December 2010	**6,735,503**	**1,468,014**	**8,203,517**
Being impairments against:			
Financing arrangements	6,222,326	–	6,222,326
Finance lease receivables	513,177	1,468,014	1,981,191
	6,735,503	**1,468,014**	**8,203,517**

Bank

Impairments of financial assets:	Individual £	Collective £	2011 Total £
Balance at 1 January 2011	6,735,503	1,468,014	8,203,517
Exchange translation and other movements	(61,809)	2,326	(59,483)
Profit and loss account:			
Gross impairment charge for the year	17,642,159	–	17,642,159
Amount recovered during the year	(1,914,502)	(525,123)	(2,439,625)
Net impairment charge for the year	**15,727,657**	**(525,123)**	**15,202,534**
Amounts written off during the year	(1,409,789)	(484,865)	(1,894,654)
Balance as at 31 December 2011	**20,991,562**	**460,352**	**21,451,914**
Being impairments against:			
Financing arrangements	20,991,562	460,352	21,451,914
Finance lease receivables	–	–	–
	20,991,562	**460,352**	**21,451,914**

Bank

Impairments of financial assets:	Individual £	Collective £	2010 Total £
Balance at 1 January 2010	15,887,264	1,841,110	17,728,374
Exchange translation and other movements	556,397	84,354	640,751
Profit and loss account:			
Gross impairment charge for the year	1,937,296	–	1,937,296
Amount recovered during the year	(2,985,273)	–	(2,985,273)
Net impairment credit for the year	**(1,047,977)**	**–**	**(1,047,977)**
Amounts written off during the year	(8,660,181)	(457,450)	(9,117,631)
Balance as at 31 December 2010	**6,735,503**	**1,468,014**	**8,203,517**
Being impairments against:			
Financing arrangements	6,222,326	1,468,014	7,690,340
Finance lease receivables	513,177	–	513,177
	6,735,503	**1,468,014**	**8,203,517**

As at 31 December 2011, 6 facilities (5 individual and 1 collective) comprising amounts due to the Group of £40.4 million (2010: 4 facilities totalling £20.8 million) were deemed to be impaired.

As at 31 December 2011, the individual provisions are £3.4 million ($5.25 million) against the transportation sector (2010: £2.6 million / $4 million), £2.1 million (€2.5 million) in respect of a European manufacturing business (2010: £2.2 million / €2.5 million), £0.5 million against the UK real estate sector (2010: £nil), £0.3 million ($0.5 million) against a Sukuk issued by a Bahraini based company (2010: £nil / $nil) and a £14.6 million (€17.5 million) provision against a Turkish manufacturing business (2010: £nil / €nil).

The collective provision of £0.5 million ($0.7 million) is against a US finance lease portfolio in the transportation sector (2010: £1.5 million / $2.3 million).

15. Taxation

Group

UK Corporation Tax	2011 £	2010 £
– current tax for the year	–	860,474
– adjustments in respect of prior years	–	(381,655)
	–	**478,819**
Overseas tax for the year	1,459	–
Deferred tax for the year	(1,952,159)	1,019,428
Tax (credit) / charge in income statement	**(1,950,700)**	**1,498,247**

The tax credit for the year is lower than the standard rate of corporation tax which is explained as follows:

Group

Reconciliation of effective tax rate	2011 £	2010 £
(Loss) / profit on ordinary activities	(10,848,690)	5,015,924
Loss / (profit) on ordinary activities multiplied by standard rate of corporation tax in the UK of 26.5% (2010: 28%)	(2,874,903)	1,404,459
Expenses not deductible for tax purposes	30,488	54,733
Tax exempt income	(9,636)	(61,608)
Share based payment transactions	310,503	204,955
Change in temporary differences	–	199,743
Effect of change in tax rates	401,662	77,620
Prior year adjustment to current tax	–	(381,655)
Prior year adjustment to deferred tax	191,186	–
Tax (credit) / charge in income statement	**(1,950,700)**	**1,498,247**

The Budget announcements on 23 March 2011 to reduce the main UK Corporation Tax rate from 28% to 26% with effect from 1 April 2011 and then from 26% to 25% with effect from 1 April 2012 were substantially enacted on 29 March 2011 and 5 July 2011 respectively. Accordingly the deferred tax assets and liabilities recognised below have been calculated using a corporation tax rate of 25% (31 December 2010: 27%).

The Budget announcements on 21 March 2012 included proposals to increase the reduction in the main UK Corporation Tax rate scheduled for 1 April 2012 to a 2% reduction from 26% to 24% and that the rate would be reduced further from 24% to 22% over the following two tax years. These proposed changes had not been enacted into UK law at the balance sheet date. The overall effect of further tax rate reductions from 25% to 22%, if applied to the deferred tax balances below at 31 December 2011, would be to reduce the Group deferred tax assets by approximately £677,000 and the Company deferred tax assets by approximately £577,000.

Tax recognised in other comprehensive income

Group	2011 £	2010 £
Cash flow hedging reserve	126,690	1,426,913
Fair value reserve	(125,680)	(75,964)
	1,010	**1,350,949**

Bank	2011 £	2010 £
Cash flow hedging reserve	324,159	936,438
Fair value reserve	(125,680)	(75,964)
	198,479	**860,474**

Deferred tax

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. It is estimated that the tax losses carried forward will be utilised by the end of the year ended 31 December 2014.

Recognised deferred tax assets at 31 December 2011

Group	Assets £	Liabilities £	Net £
Property, equipment and software	242,416	–	242,416
Tax loss carry forwards	4,453,427	–	4,453,427
Cash flow hedges	293,006	–	293,006
Share based payment transactions	651,451	–	651,451
Net tax assets at 31 December 2011	**5,640,300**	**–**	**5,640,300**

Recognised deferred tax assets and liabilities at 31 December 2010

Group	Assets £	Liabilities £	Net £
Property, equipment and software	–	(1,620,128)	(1,620,128)
Tax loss carry forwards	3,812,984	–	3,812,984
Cash flow hedges	414,117	–	414,117
Share based payment transactions	965,385	–	965,385
Other expenses	114,773	–	114,773
Net tax assets at 31 December 2010	**5,307,259**	**(1,620,128)**	**3,687,131**

Recognised deferred tax assets at 31 December 2011

Bank	Assets £	Liabilities £	Net £
Property, equipment and software	242,416	–	242,416
Tax loss carry forwards	3,916,227	–	3,916,227
Share based payment transactions	651,451	–	651,451
Net tax assets at 31 December 2011	**4,810,094**	**–**	**4,810,094**

Recognised deferred tax assets and liabilities at 31 December 2010

Bank	Assets £	Liabilities £	Net £
Property, equipment and software	–	(1,620,128)	(1,620,128)
Tax loss carry forwards	3,256,977	–	3,256,977
Share based payment transactions	965,385	–	965,385
Net tax assets at 31 December 2010	**4,222,362**	**(1,620,128)**	**2,602,234**

16. Loss attributable to equity shareholders of the Bank

£8,983,963 of the consolidated loss for the financial year (2010: profit of £3,411,463) has been dealt with in the accounts of the Bank.

As permitted by section 408 of the Companies Act 2006, a separate profit and loss account of the parent has not been presented.

17. Due from financial institutions

Group	0-3 months £	4-12 months £	1-5 years £	2011 Total £
Murabaha	50,199,285	–	–	50,199,285
Wakala	22,254,221	–	4,218,044	26,472,265
	72,453,506	**–**	**4,218,044**	**76,671,550**

Group	0-3 months £	4-12 months £	1-5 years £	2010 Total £
Murabaha	81,833,216	–	–	81,833,216
Wakala	7,297,875	–	5,038,219	12,336,094
	89,131,091	**–**	**5,038,219**	**94,169,310**

Bank	0-3 months £	4-12 months £	1-5 years £	2011 Total £
Murabaha	42,049,748	–	–	42,049,748
Wakala	21,348,716	–	4,218,044	25,566,760
	63,398,464	**–**	**4,218,044**	**67,616,508**

Bank	0-3 months £	4-12 months £	1-5 years £	2010 Total £
Murabaha	73,438,265	–	–	73,438,265
Wakala	6,458,380	–	5,038,220	11,496,600
	79,896,645	**–**	**5,038,220**	**84,934,865**

18. Investment securities

Group	Listed £	Unlisted £	2011 Total £
Fair value through profit and loss			
Sukuk	39,259,354	–	39,259,354
Available-for-sale			
Equity	–	2,359,313	2,359,313
Sukuk	39,782,838	–	39,782,838
	79,042,192	**2,359,313**	**81,401,505**

Group	Listed £	Unlisted £	2010 Total £
Fair value through profit and loss			
Sukuk	23,451,780	–	23,451,780
Designated as fair value through profit and loss			
Sharia'a compliant fund	–	1,741,828	1,741,828
Available-for-sale			
Equity	–	1,581,140	1,581,140
	23,451,780	**3,322,968**	**26,774,748**

Bank	Listed £	Unlisted £	2011 Total £
Designated as fair value through profit and loss			
Sukuk	8,234,026	–	8,234,026
Sharia'a compliant funds	–	47,259,397	47,259,397
Available-for-sale			
Equity	–	2,359,313	2,359,313
Sukuk	39,782,838	–	39,782,838
Investment in subsidiaries	–	16,270	16,270
	48,016,864	**49,634,980**	**97,651,844**

Investment in subsidiaries includes $25,000 invested in BLME Sharia'a Umbrella Fund Management Sarl and £100 invested in BLME (UK) GP Limited.

Bank	Listed £	Unlisted £	2011 Total £
Designated as fair value through profit and loss			
Sukuk	1,302,699	–	1,302,699
Sharia'a compliant funds	–	35,848,428	35,848,428
Available-for-sale			
Equity	–	1,581,140	1,581,140
Investment in subsidiary	–	16,144	16,144
	1,302,699	**37,445,712**	**38,748,411**

19. Investment properties

Group	2011 £	2010 £
Opening valuation	7,232,573	6,915,715
Net exchange differences	13,765	316,858
Purchases at cost	5,938,529	–
Movements in fair value	(326,155)	–
Closing valuation	**12,858,712**	**7,232,573**

The Group accounts for its three investment properties under IAS 40 'Investment property' using a fair value model. The investment properties are valued by independent external professionally qualified valuation agents based on current prices in an active market.

The two purchases during the year relate to the Group's investment in the BLME Light Industrial Building Fund compartment of the BLME Sharia'a Umbrella Fund SICAV SIF which is consolidated into the Group's results as disclosed in Note 32.

The two commercial property purchases of industrial & office units in Christchurch, Dorset (£2.4 million) and Kettering, Northamptonshire (£3.15 million) were valued by GVA Grimley Limited. The acquisition costs of the properties totalling £388,529 are reflected in the above purchases at cost figure and have been expensed in the consolidated income statement as part of the above movements in fair value for the year.

The Group's leasehold interest in a US commercial real estate property in Bettendorf, Iowa was valued by CB Richard Ellis at $11.3 million (2010: $11.2 million). This property is held through the SPV 'TP Funding Company LLC' (see note 32).

The income statement includes rental income from the investment properties of £957,679 (2010: £843,174) in the line 'Other operating income' and direct operating expenses of £474,683 (2010: £478,525) including repairs and maintenance in the line 'Other operating expenses'.

20. Financing arrangements

Group	Less than 1 year £	1 - 5 years £	Over 5 years £	2011 Total £
Murabaha	91,084,208	149,117,705	20,922	240,222,835
Mudaraba	3,777,745	–	–	3,777,745
Musharaka	1,555	–	4,561,696	4,563,251
Istisna and Ijara	1,182	–	10,475,949	10,477,131
Sukuk	31,789,849	29,262,842	–	61,052,691
	126,654,539	**178,380,547**	**15,058,567**	**320,093,653**
Provision for impairment				(20,991,562)
				299,102,091

Group	Less than 1 year £	1 - 5 years £	Over 5 years £	2010 Total £
Murabaha	109,540,596	112,234,096	20,922	221,795,614
Mudaraba	645,915	3,244,892	–	3,890,807
Musharaka	–	–	4,910,661	4,910,661
Istisna and Ijara	2,575,084	–	10,918,650	13,493,734
Sukuk	14,735,476	71,395,023	–	86,130,499
	127,497,071	**186,874,011**	**15,850,233**	**330,221,315**
Provision for impairment				(6,222,326)
				323,998,989

These tables represent contractual maturities.

Bank	Less than 1 year £	1 - 5 years £	Over 5 years £	2011 Total £
Murabaha	91,084,207	149,117,705	20,922	240,222,834
Mudaraba	3,777,745	–	–	3,777,745
Musharaka	1,555	–	4,561,696	4,563,251
Istisna and Ijara	1,182	–	10,475,949	10,477,131
Participation agreement	12,551,520	64,202,276	–	76,753,796
Profit rate swaps	68,146	586,060	–	654,206
Sukuk	31,789,848	29,262,841	–	61,052,689
	139,274,203	**243,168,882**	**15,058,567**	**397,501,652**
Provision for impairment				(21,451,914)
				376,049,738

Bank	Less than 1 year £	1 - 5 years £	Over 5 years £	2010 Total £
Murabaha	109,540,597	112,234,096	20,922	221,795,615
Mudaraba	645,915	3,244,892	–	3,890,807
Musharaka	–	–	4,910,661	4,910,661
Istisna and Ijara	2,575,084	–	10,918,650	13,493,734
Participation agreement	19,201,663	66,400,004	10,742,245	96,343,912
Profit rate swaps	85,444	1,367,107	17,089	1,469,640
Sukuk	14,735,476	71,395,023	–	86,130,499
	146,784,179	**254,641,122**	**26,609,567**	**428,034,868**
Provision for impairment				(7,690,340)
				420,344,528

These tables represent contractual maturities.

21. Finance leases

Group

Gross investment in finance lease receivables	2011 £	2010 £
Within one year	52,787,159	45,434,893
One to five years	91,585,235	86,866,873
Over five years	1,423,320	2,530,214
	145,795,714	**134,831,980**
Unearned future income on finance leases	(14,323,263)	(14,551,286)
Provision for impairment	(460,352)	(1,981,191)
Net investment in finance leases	**131,012,099**	**118,299,503**

The net investment in finance leases comprises:

Within one year	47,987,557	39,481,916
One to five years	81,799,359	76,713,111
Over five years	1,225,183	2,104,476
	131,012,099	**118,299,503**

These tables represent contractual maturities.

Bank

Gross investment in finance lease receivables	2011 £	2010 £
Within one year	45,739,839	31,262,235
One to five years	75,544,790	67,894,759
Over five years	1,423,320	568,678
	122,707,949	**99,725,672**
Unearned future income on finance leases	(11,859,672)	(10,757,782)
Provision for impairment	–	(513,177)
Net investment in finance leases	**110,848,277**	**88,454,713**

The net investment in finance leases comprises:

Within one year	42,042,545	27,637,533
One to five years	67,580,549	60,361,017
Over five years	1,225,183	456,163
	110,848,277	**88,454,713**

These tables represent contractual maturities.

The Group and Bank's investment in finance leases covers a wide range of equipment types, including transport, construction, mining and heavy machinery equipment.

22. Property and equipment

Group and Bank Cost	Computer Equipment £	Office Equipment £	Fixtures & Fittings £	2011 Total £
At 1 January 2010	352,587	101,135	1,710,243	2,163,965
Additions	41,398	3,098	46,010	90,506
At 31 December 2010	**393,985**	**104,233**	**1,756,253**	**2,254,471**
At 1 January 2011	393,985	104,233	1,756,253	2,254,471
Additions	47,645	–	126	47,771
At 31 December 2011	**441,630**	**104,233**	**1,756,379**	**2,302,242**
Depreciation and impairment losses				
At 1 January 2010	230,540	44,999	708,140	983,679
Charge for the year	83,451	29,020	382,227	494,698
At 31 December 2010	**313,991**	**74,019**	**1,090,367**	**1,478,377**
At 1 January 2011	313,991	74,019	1,090,367	1,478,377
Charge for the year	60,551	26,548	284,420	371,519
At 31 December 2011	**374,542**	**100,567**	**1,374,787**	**1,849,896**
Net Book Value				
At 1 January 2010	122,047	56,136	1,002,103	1,180,286
At 31 December 2010	79,994	30,214	665,886	776,094
At 31 December 2011	**67,088**	**3,666**	**381,592**	**452,346**

23. Operating lease assets

Group	At 31 December 2010 £	Additions 2011 £	Disposals 2011 £	Depreciation 2011 £	Translation differences 2011 £	At 31 December 2011 £
Gross carrying amount	123,412,891	33,486,004	(21,652,673)	–	134,529	135,380,751
Less depreciation	(34,225,073)	–	13,231,364	(20,606,721)	(497,556)	(42,097,986)
	89,187,818	**33,486,004**	**(8,421,309)**	**(20,606,721)**	**(363,027)**	**93,282,765**

Group	At 31 December 2009 £	Additions 2010 £	Disposals 2010 £	Depreciation 2010 £	Translation differences 2010 £	At 31 December 2010 £
Gross carrying amount	94,405,161	26,178,558	(732,647)	–	3,561,819	123,412,891
Less depreciation	(17,743,858)	–	409,960	(16,181,345)	(709,830)	(34,225,073)
	76,661,303	**26,178,558**	**(322,687)**	**(16,181,345)**	**2,851,989**	**89,187,818**

Rental receipts under operating leases	2011 £	2010 £
Future rentals are as follows:		
Less than one year	29,154,337	28,517,210
Between one and five years	77,693,343	74,636,185
More than five years	–	422,000
	106,847,680	**103,575,395**

Bank	At 31 December 2010 £	Additions 2011 £	Disposals 2011 £	Depreciation 2011 £	At 31 December 2011 £
Gross carrying amount	38,517,019	24,151,331	(4,767,667)	–	57,900,683
Less depreciation	(5,583,018)	–	2,505,703	(8,371,894)	(11,449,209)
	32,934,001	**24,151,331**	**(2,261,964)**	**(8,371,894)**	**46,451,474**

Bank	At 31 December 2009 £	Additions 2010 £	Disposals 2010 £	Depreciation 2010 £	At 31 December 2010 £
Gross carrying amount	16,665,179	21,851,840	–	–	38,517,019
Less depreciation	(1,780,114)	–	–	(3,802,904)	(5,583,018)
	14,885,065	**21,851,840**	**–**	**(3,802,904)**	**32,934,001**

Rental receipts under operating leases	2011 £	2010 £
Future rentals are as follows:		
Less than one year	13,979,572	10,226,514
Between one and five years	38,835,480	27,387,731
More than five years	–	336,065
	52,815,052	**37,950,310**

The Group and Bank's investment in finance leases covers a wide range of equipment types, including transport, construction, mining and heavy machinery equipment.

24. Intangible assets

Group and Bank Cost	2011 £	2010 £
Opening balance	2,011,788	1,893,371
Acquisitions	350,444	118,417
Closing balance	**2,362,232**	**2,011,788**
Depreciation and impairment losses		
Opening balance	1,592,525	1,100,399
Charge for the year	295,689	492,126
Closing balance	**1,888,214**	**1,592,525**
Net Book Value	**474,018**	**419,263**

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

25. Other assets

Group	2011 £	2010 £
VAT recoverable	1,739,911	2,490,238
Accrued income	112,329	340,581
Collateral deposits*	775,633	891,997
Prepayments	1,270,244	1,143,122
Operating lease accrued income	58,878	65,589
Other receivables**	4,402,971	4,620,027
Returned leased assets***	77,566	108,442
	8,437,532	**9,659,996**

Bank	2011 £	2010 £
VAT recoverable	1,736,098	2,490,238
Accrued income	60,621	334,067
Collateral deposits*	775,633	891,997
Prepayments	948,186	849,770
Other receivables**	3,915,169	4,530,482
	7,435,707	**9,096,554**

*The Bank has pledged cash collateral deposits of £775,633 (2010: £891,997) including £775,633 (2010: £775,633) as security against rental payments on its premises.

**Other receivables include £3,550,000 (2010: £4,350,000) of interest free loans due from BLME employees to the Bank of London and The Middle East EBT. These loans were advanced to facilitate employees investing in BLME shares through the Executive Share Purchase Plan as referred to in Note 13.

***Represents leased assets repossessed or returned by the customer. This is net of a £38,777 (2010: £244,977) write down in inventory value. The returned leased assets are carried at net realisable value (estimated selling price based on recent auctions less any applicable costs). A loss of £68,971 (2010: £398,113) has been recognised in the income statement in respect of items sold during the year. The related costs incurred to maintain the returned leased assets during the year were £84,270 (2010: £281,334).

26. Due to financial institutions

Group and Bank	2011 £	2010 £
Reverse Murabaha	412,216,978	364,207,554
Wakala	88,257,127	59,924,492
	500,474,105	**424,132,046**

27. Due to customers

Group and Bank	2011 £	2010 £
Security deposits	3,064,231	3,180,000
Customer deposits	47,966,929	21,073,449
	51,031,160	**24,253,449**

28. Other liabilities

Group	2011 £	2010 £
Trade payables	1,083,227	949,085
Deferred income	2,662,975	2,019,179
Social security and income tax	278,407	223,711
Accruals	2,434,929	4,375,331
Other creditors	1,493,560	1,353,803
	7,953,098	**8,921,109**

Bank	2011 £	2010 £
Trade payables	507,749	275,658
Deferred income	1,647,601	1,074,910
Social security and income tax	278,407	223,711
Accruals	2,421,216	4,357,719
Other creditors	862,355	1,035,158
	5,717,328	**6,967,156**

29. Commitments under operating leases

There is a commitment for the Group and Bank at the year-end under a non-cancellable operating lease for the Bank's premises at 1st Floor, Sherborne House, 119 Cannon Street, London, EC4N 5AT for a ten year period from 20 April 2007 to 19 April 2017, at an annual rental of £324,564, with an initial rent free period.

Sherborne House

Future minimum rentals are as follows:	2011 £	2010 £
More than five years	1,703,961	2,028,525
	1,703,961	**2,028,525**

During the year £275,880 (2010: £275,880) was recognised as an expense in the income statement in respect of this operating lease.

There is a commitment for the Group and Bank at the year-end under a non-cancellable operating lease for the Bank's Wealth Management Division's premises at 12 Manchester Square, London W1U 3PP for a twenty year period (with a ten year break clause) from 23 June 2008 to 22 June 2028, at an annual rental of £452,945 with an initial rent free period.

Manchester Square

Future minimum rentals are as follows:	2011 £	2010 £
More than five years	7,435,847	7,888,792
	7,435,847	**7,888,792**

During the year £450,108 (2010: £490,685) was recognised as an expense in the income statement in respect of this operating lease.

30. Capital commitments

Group and Bank

Undrawn investment call commitments	2011 £	2010 £
BLME Light Industrial Building Fund	**3,984,470**	**–**

During the year the Bank entered a contract to subscribe for up to £10 million of shares in the BLME Light Industrial Building Fund ('LIBF') compartment of the BLME Sharia'a Umbrella Fund SICAV SIF (2010: £nil). During 2011 the Bank invested £6,015,530 into LIBF and a further £2,437,491 was invested in January 2012. On 22 December 2011 the Bank advanced £263,100 on behalf of LIBF for the deposit to purchase a property for the fund. This advance was repaid on 19 January 2012.

31. Share capital and share premium

Group and Bank

Authorised	2011 £	2010 £
6,000,000,000 ordinary shares of £0.01 each	60,000,000	60,000,000

Allotted, called up and fully paid	No. of Shares	Share capital £	Share premium £
At 31 December 2009	4,892,842,232	48,928,422	206,206,328
Shares issued on 28 February 2010	500,049	5,000	20,000
At 31 December 2010	**4,893,342,281**	**48,933,422**	**206,226,328**

Allotted, called up and fully paid			
At 31 December 2010	4,893,342,281	48,933,422	206,226,328
Shares issued during 2011	–	–	–
At 31 December 2011	**4,893,342,281**	**48,933,422**	**206,226,328**

32. Subsidiaries and other entities

Subsidiary	Country of incorporation	BLME interest in equity capital %	Issued equity capital
BLME Umbrella Fund Management Sarl	Luxembourg	100	US$ 25,000
BLME (UK) GP Limited	England & Wales	100	£100
BLME Nominees LIBF Limited	England & Wales	100	£100
Bank of London and The Middle East EBT	Jersey	100	£100

In addition, BLME holds the following investments in three (2010: one) different compartments of the BLME Sharia'a Umbrella Fund SICAV SIF:

BLME US$ Income Fund compartment:	1 Class M share, 47,883.888 Class B shares and 1,234.491 Class G shares (2010: 1 Class M share and 49,733.531 Class B shares)
BLME US$ High Yield Fund compartment:	10,000 Class A shares (2010: Nil)
BLME Light Industrial Building Fund compartment:	6,015.528 Class A shares (2010: Nil)

These holdings represent a majority interest in all three active compartments of the BLME Sharia'a Umbrella Fund SICAV SIF which are therefore deemed to be controlled by the Bank and thus consolidated into the Group's results. The overall holding in the BLME Sharia'a Umbrella Fund SICAV SIF is approximately 96.5% (2010: 97%) of the shares issued. The Group recognised an expense of £50,732 (2010: £58,499) in the income statement line 'Change in third party interest in consolidated funds' relating to the minority interest of third party investors in the fund. The minority interest of 3.5% (2010: 3%) has been reported in the Group's balance sheet liabilities line 'Third party interest in consolidated funds'.

In 2011 the Bank subscribed $10 million into the BLME US$ High Yield Fund compartment which was launched during the year. A GBP share class of the BLME US$ Income Fund compartment was launched during the year and the Bank subscribed the sterling equivalent of $2 million into the GBP share class funded by redeeming $2 million from the US$ share class of the BLME US$ Income Fund compartment. As described in Note 30, during the year the Bank subscribed £6,015,530 into the BLME Light Industrial Building Fund compartment.

There are six entities (2010: seven) that do not qualify as subsidiaries under UK law but which are consolidated under IAS 27 (SIC-12) as the substance of the relationship is that the entities are controlled by the Bank. These entities are deemed to be controlled by the Bank because the relationships between the Bank and the SPVs are governed by participation agreements which confer the risk and rewards to the Bank and indemnify the SPVs for losses. Therefore this gives rise to benefits and risks that are in substance no different from those that would arise were the entities subsidiaries of the Bank.

The six entities are as follows:

- Kalakane Transatlantic Investors II, Inc. (USA) – Operating leases
- BLX13 Inc (USA) – Operating leases and Finance leases
- DMJ 1 LLC (USA) – Finance leases
- DMJ 2 LLC (USA) – Operating leases
- TP Funding Company LLC (USA) – Investment property
- Medical Property Investments LLC (USA) – Investment property

Lease assets owned by the SPVs are reported as Group operating lease assets amounting to £46,831,291 (2010: £56,253,817). Finance leases owned by the SPVs amount to £20,163,822 (2010: £29,844,790).

At the end of the year the Bank had the following balances with the above mentioned subsidiaries and other consolidated entities which are related parties of the Bank:

Bank

Financing arrangements	2011 £	2010 £
Particpation agreement amounts due from leasing SPVs	68,390,839	85,824,942
Participation agreement amounts due from investment property SPVs	7,902,604	7,790,514
Murabaha due from LIBF compartment of the SICAV SIF	263,100	–
Other assets		
Management fees due from BLME Sharia'a Umbrella Fund SICAV SIF	61,231	54,578
Loan due from BLME (UK) GP Limited	2,752	–
Interest free loans due from BLME employees to the BLME EBT	3,550,000	4,350,000
Total	**80,170,526**	**98,020,034**

During the year income was received from the following subsidiaries and other consolidated entities as follows:

Bank

Income from financing activities	2011 £	2010 £
Participation agreement income from leasing SPVs	4,061,163	5,142,603
Participation agreement income from investment property SPVs	229,048	242,180
Management fee income		
Management fees from BLME Sharia'a Umbrella Fund SICAV SIF	167,393	110,415
Property acquisition fees from LIBF compartment of the SICAV SIF	55,500	–
Total	**4,513,104**	**5,495,198**

During the year the Bank incurred costs recharged from BLME Umbrella Fund Management Sarl of £48,992 (2010: £18,796) under a service fee agreement. At the end of the year an amount of £33,491 (2010: £18,796) was due under this agreement and included within 'Other liabilities' in the Bank's Statement of Financial Position.

During the year the BLME EBT purchased 6,153,846 of BLME shares at 6.5 pence per share for a total consideration of £400,000 from employees who had left the company (2010: 6,153,846 shares for £400,000). Consequently the BLME EBT holds a stock of own shares at a cost of £800,000 which has been deducted from retained earnings in the Statement of Changes in Equity.

During the year the Bank incurred stamp duty costs on behalf of the BLME EBT amounting to £2,000 (2010: £2,000).

33. Related parties

During the year the Bank entered into transactions, other than those disclosed in Note 32 above, on an arm's length basis with related counterparties as detailed below.

Boubyan Bank	2011 £	2010 £
Commodity Murabaha	–	6,000,000
Wakala placement	4,186,046	5,000,000
Reverse Murabaha	–	6,802,952
Foreign exchange transactions	–	37,513
SGM-FX		
Foreign exchange transactions	7,881,064	35,852,679

The amounts outstanding with Boubyan Bank as at 31 December 2011 were as follows:

Included within:	2011 £	2010 £
Cash and balances with banks		
Nostros	128,281	116,549
Due from financial institutions		
Wakala placement	4,186,046	5,000,000

The maximum amounts outstanding, on and off balance sheet, with Boubyan Bank during the year ended 31 December 2011 were £5,000,000 and £nil respectively (2010: £12,809,304 and £nil).

On 22 September 2010 the Bank entered into a 5 year marketing and advisory services agreement with Boubyan Bank. The Bank will be paying KWD 450,000, which was equivalent to £1,044,690 at the balance sheet date (2010: £1,033,294), annually in arrears for the services with the first payment made on 30 September 2011. In return Boubyan Bank has committed to a comprehensive range of marketing and advisory initiatives. The cost of these services is being recognised in the income statement over the period of the agreement and is included in the line 'Other operating expenses'.

On 4 April 2011 the Bank was appointed by Boubyan Bank as agent under a 2 year facility agency agreement with Boubyan Bank in relation to a master murabaha facility agreement between Boubyan Bank and a client of Boubyan Bank for the purpose of the acquisition and development of a property in London. For this service, the Bank will receive a facility agency fee of £124,000 during the first year of the agreement and £62,000 in the second year of the agreement. The fee will be payable in four equal quarterly instalments each year.

As at 31 December 2011, Boubyan Bank held 19.8% (2010: 14.96%) of the Bank's shares. A non executive director who joined the Board on 25 September 2009 is also the Chairman of Boubyan Bank.

The maximum outstanding amount with SGM-FX during the year ended 31 December 2011 was £9,015,920 (2010: £17,810,221).

As at 31 December 2011 the Bank had the following outstanding foreign currency forward contracts with SGM-FX: £2,815,131 (2010: £6,105,004) of sell GBP / buy USD and £nil (2010: £624,212) of buy USD / sell ZAR. The fair value of these contracts as at 31 December 2011 was £35,892 (2010: £12,289).

SGM-FX has pledged cash collateral deposits with BLME of £150,000 (2010: £150,000) as security against foreign currency forward contracts.

The Bank's Chief Executive Officer holds a majority interest in SGM-FX.

Key management of the Bank are the three Executive Directors. The compensation of key management personnel is as follows:

	2011 £	2010 £
Key management emoluments*	897,518	2,490,853
Bank contributions to pension plans	93,000	75,000
	990,518	**2,565,853**

*Key management emoluments includes share based payments of £187,438 (2010: £1,257,969).

During the year one of the Executive Directors entered spot foreign exchange transactions with the Bank totalling £12,556 (2010: £19,544). As at 31 December 2010, one Executive Director had a balance of £50,000 in a BLME Premier Deposit Account which matured during the current year. These transactions arose from the ordinary course of business and were conducted on the same terms as for comparable transactions with third-party counterparties.

34. Financial risk management

The Group and Bank have exposure to the following risks categories arising from the use of financial instruments:

- credit risk
- liquidity risk
- market risk
- operational risk

This note 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.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework, which it exercises through the Risk Committee. Day to day management of risk is undertaken by the Executive Committee ('EXCO'), which has established the Asset and Liability Committee ('ALCO'), Counterparty Credit Risk Committee ('CCRC') and the Investment Committee ('IC'). These three bodies are responsible for developing policies, approving risks and limits, and regularly reviewing the Group's exposures to all risk classes.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered.

The principal risks faced by the Group are described below, together with details of how these risks are managed (which have not changed significantly during the year). Quantitative information indicates the amounts of such risks at the reporting date. The amounts at the reporting date are indicative of the amounts of such risks which have been experienced throughout the period.

a. Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty is not able to repay capital and / or profit, or otherwise meet its contractual obligations under credit facilities or in respect of other agreements. This risk is guided by the Group's Credit Risk Management Policy. The Group has a quality checking process in place covering all its customers and counterparties whereby it assigns an in-house rating and maximum tenor. External rating agency ratings are used where available. Ratings are subject to regular review and constrain 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 Target Market Criteria 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 independently monitored on a daily basis and regularly re-assessed for creditworthiness. The management and overview of credit exposures also ensures that credit capacities are diversified across the Bank's businesses to facilitate allocation of risk capital and to mitigate against concentrations of risk by customer, country, sector and rating.

Through the Risk Committee the Board of Directors has delegated responsibility for the management of credit risk to the CCRC. A separate Credit Risk Department, accountable to the CCRC, is responsible for oversight of the Bank's credit risk, including:

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

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

The Group also employs a credit grading system, to facilitate monitoring of the quality of the overall portfolio and individual segments thereof, including movements in the portfolio over time.

ii. *Exposure*

The tables below present the Group and Bank's maximum exposure to credit risk on their balance sheet financial instruments as at 31 December 2011, before taking account of any collateral held or other credit enhancements. The amounts at the reporting date are indicative of the amounts at risk throughout the period.

Group	2011 £	2010 £
Cash and balances with banks	97,298,498	37,228,323
Due from financial institutions		
Murabaha	50,199,285	81,833,216
Wakala	26,472,265	12,336,094
Investment securities	81,401,505	26,774,748
Financing arrangements	299,102,091	323,998,989
Finance lease receivables	131,012,099	118,299,503
Total credit exposure	**685,485,743**	**600,470,873**

There were two off balance sheet letters of guarantee outstanding at 31 December 2011 with a total exposure of £245,297 (2010: £nil).

Bank	2011 £	2010 £
Cash and balances with banks	93,620,120	33,385,602
Due from financial institutions		
Murabaha	42,049,748	73,438,265
Wakala	25,566,760	11,496,600
Investment securities	97,651,844	38,748,411
Financing arrangements	376,049,738	420,344,528
Finance lease receivables	110,848,277	88,454,713
Total credit exposure	**745,786,487**	**665,868,119**

There were two off balance sheet letters of guarantee outstanding at 31 December 2011 with a total exposure of £245,297 (2010: £nil).

iii. Exposure by Country

The Group and Bank assets were dispersed across the following countries:

Group

GCC countries	2011 £	2010 £
Bahrain	14,424,385	18,378,562
Kuwait	32,579,567	12,846,584
Qatar	35,164,567	24,435,503
Saudi Arabia	23,733,945	28,332,838
United Arab Emirates	115,263,490	61,549,334
EEA countries		
France	844,774	32,808,119
Germany	1,811,008	17,825,143
Luxembourg	3,376,107	3,487,311
United Kingdom	353,513,611	296,257,507
Other countries		
Bermuda	8,741,042	10,103,904
Chile	–	1,253,928
Djibouti	4,563,251	4,910,661
Hong Kong	200,000	492,820
Indonesia	3,708,636	–
Japan	3,111,829	2,901,897
Malaysia	7,136,066	1,675,567
South Korea	14,537,377	–
Switzerland	14,144,469	18,040,004
Turkey	17,072,286	17,055,230
USA	31,559,333	48,115,961
Total credit exposure	**685,485,743**	**600,470,873**

The Group has very limited direct credit exposure to institutions and governments of the European Union ('EU'). The EU component above represents less than 1% (2010: 9%) of the Group's total credit exposure of which the majority relates to a Luxembourg fund run by the Group's asset management business. The Group had no direct exposure to either the governments of, or institutions or corporates in Greece, Portugal, Ireland or Spain.

Bank

GCC countries	2011 £	2010 £
Bahrain	12,610,379	16,061,413
Kuwait	30,583,616	10,673,041
Qatar	29,204,859	19,345,225
Saudi Arabia	18,948,788	26,949,446
United Arab Emirates	97,407,921	49,758,330
EEA countries		
France	844,774	32,808,119
Germany	–	16,146,153
Luxembourg	47,538,912	34,122,750
United Kingdom	353,242,240	296,048,157
Other countries		
Bermuda	8,741,042	10,103,904
Chile	–	1,260,442
Djibouti	4,563,251	4,910,661
Hong Kong	200,000	492,820
Indonesia	3,708,636	–
Japan	1,302,721	1,302,699
Malaysia	6,469,033	–
South Korea	14,537,377	–
Switzerland	14,144,469	18,040,004
Turkey	16,233,902	17,055,230
USA	85,504,567	110,789,725
Total credit exposure	**745,786,487**	**665,868,119**

iv. Exposure by economic sector

The Group and Bank assets were dispersed across the following economic sectors:

Group	2011 £	2010 £
Financial services		
GCC financial institutions	167,277,464	121,124,329
UK financial institutions	95,098,633	59,306,643
European financial institutions	1,811,008	46,653,054
Other financial institutions	33,305,792	14,908,980
Mining and quarrying	20,425,954	26,497,639
Manufacturing	1,446,632	19,923,226
Real estate	165,027,324	176,063,618
Transportation and storage	98,210,268	80,548,800
Government	24,802,391	13,933,292
Healthcare	750,369	635,078
Sharia'a compliant funds	3,376,107	5,229,134
Wholesale / Retail	34,427,429	15,360,011
Oil and Gas	14,602,599	671,661
Others	24,923,773	19,615,408
Total credit exposure	**685,485,743**	**600,470,873**

Bank	2011 £	2010 £
Financial services		
GCC financial institutions	141,977,751	104,895,613
UK financial institutions	94,847,335	59,097,293
European financial institutions	–	44,974,064
Other financial institutions	28,473,916	10,958,951
Mining and quarrying	20,425,954	26,504,153
Manufacturing	15,914,695	39,694,602
Real estate	171,206,774	180,695,150
Transportation and storage	98,351,100	80,431,600
Government	21,530,638	10,919,844
Healthcare	2,039,372	9,120,429
Sharia'a compliant funds	47,522,742	35,848,428
Wholesale / Retail	52,494,938	32,860,076
Oil and Gas	24,937,163	11,594,489
Others	26,064,109	18,273,427
Total credit exposure	**745,786,487**	**665,868,119**

v. Credit risk quality

BLME's credit quality and direct investments are managed by the Counterparty Credit Risk Committee and the Investment Committee respectively, under the oversight of the Executive Committee. Credit quality is assessed using techniques that include information from the major External Credit Assessment Institutions ('ECAI') as well as BLME internal ratings. The latter are mapped to the ratings of the ECAI. The table below shows the breakdown of credit quality as at 31 December 2011. Of the total portfolio 48% was directly rated by at least one of the ECAI, with 52% mapped using internal ratings.

There are many counterparties with whom BLME transacts that are not rated by the major ECAI. For such counterparties BLME determines underlying counterparty credit quality by use of its internal credit rating procedures. These procedures assess in combination, the financial and managerial strength, business model robustness, collateral value and availability and the sector and geography of the counterparty concerned. Following this assessment an internal BLME rating is allocated. BLME's internal ratings range from 'aa' considered very strong to 'b' considered relatively weak.

Group	2011 Investment Grade £	2011 Sub-Investment Grade £	2011 BLME Internal Rating £	2011 Total £
Cash and balances with banks	97,298,498	–	–	97,298,498
Due from financial institutions	55,322,498	–	21,349,052	76,671,550
Financing arrangements	53,370,139	12,901,714	232,830,238	299,102,091
Investment securities	75,248,388	2,326,024	3,827,093	81,401,505
Finance lease receivables	31,711,068	–	99,301,031	131,012,099
Total credit exposure	**312,950,591**	**15,227,738**	**357,307,414**	**685,485,743**

Group	2010 Investment Grade £	2010 Sub-Investment Grade £	2010 BLME Internal Rating £	2010 Total £
Cash and balances with banks	37,228,323	–	–	37,228,323
Due from financial institutions	93,329,815	–	839,495	94,169,310
Financing arrangements	77,379,714	17,382,695	229,236,580	323,998,989
Investment securities	21,340,472	–	5,434,276	26,774,748
Finance lease receivables	25,494,479	10,103,904	82,701,120	118,299,503
Total credit exposure	**254,772,803**	**27,486,599**	**318,211,471**	**600,470,873**

The Group cash balances, due from financial institutions and investment securities were neither past due nor impaired as at 31 December 2011 and as at 31 December 2010.

Analysis of past due amounts and impairments

Group	Financing arrangements 2011 £	Financing arrangements 2010 £	Financing leases 2011 £	Financing leases 2010 £
Neither past due nor impaired	277,501,634	307,641,984	129,855,190	114,403,563
Past due but not impaired	3,808,273	12,742,263	–	–
Gross exposure associated with impairment provision	38,783,746	9,837,068	1,617,261	5,877,131
Less: allowance for impairments	(20,991,562)	(6,222,326)	(460,352)	(1,981,191)
Total	**299,102,091**	**323,998,989**	**131,012,099**	**118,299,503**
Past due but not impaired	£	£	£	£
Past due up to 30 days	–	8,607,258	–	–
Past due 30 to 60 days	–	-	–	–
Past due 60 to 90 days	–	152,120	–	–
Past due over 90 days	3,808,273	3,982,885	–	–
Total	**3,808,273**	**12,742,263**	**–**	**–**

The 'past due over 90 days' category disclosed above includes £3,777,745 (2010: £3,890,807) relating to a syndicated facility. In July 2011 the syndicate agent requested a temporary standstill agreement with creditors pending completion of a business plan and restructuring proposal. This proposal will provide the Bank with an improved yield. Negotiations have been more protracted than anticipated but the Bank believes that the restructuring is nearing completion and is planned to enable debt service and repayment of capital to re-commence in 2012.

Based on the credit exposures existing as at 31 December 2011 there had been no instances:

– where the Bank waived material financial covenants or agreed to temporary relaxation of repayment terms which were subsequently cured.

– where the Bank agreed to provide temporary facilities beyond the terms upon which the facilities were intended to operate.

Bank	2011 Investment Grade £	2011 Sub-Investment Grade £	2011 BLME Internal Rating £	2011 Total £
Cash and balances with banks	93,620,120	–	–	93,620,120
Due from financial institutions	46,267,457	–	21,349,051	67,616,508
Financing arrangements	105,143,573	24,768,490	246,137,675	376,049,738
Investment securities	47,349,781	–	50,302,063	97,651,844
Finance lease receivables	12,693,850	–	98,154,427	110,848,277
Total credit exposure	**305,074,781**	**24,768,490**	**415,943,216**	**745,786,487**

Bank	2010 Investment Grade £	2010 Sub-Investment Grade £	2010 BLME Internal Rating £	2010 Total £
Cash and balances with banks	33,385,602	–	–	33,385,602
Due from financial institutions	84,934,865	–	–	84,934,865
Financing arrangements	146,486,456	32,110,576	241,747,496	420,344,528
Investment securities	1,302,699	–	37,445,712	38,748,411
Finance lease receivables	–	10,103,904	78,350,809	88,454,713
Total credit exposure	**266,109,622**	**42,214,480**	**357,544,017**	**665,868,119**

The Bank cash balances, due from financial institutions and investment securities were neither past due nor impaired as at 31 December 2011 and as at 31 December 2010.

Analysis of past due amounts and impairments

	Financing arrangements		**Financing leases**	
Bank	2011 £	2010 £	2011 £	2010 £
Neither past due nor impaired	353,292,372	400,782,699	110,848,277	87,763,598
Past due but not impaired	3,808,273	12,742,263	–	–
Gross exposure associated with impairment provision	40,401,007	14,509,906	–	1,204,292
Less: allowance for impairments	(21,451,914)	(7,690,340)	–	(513,177)
Total	**376,049,738**	**420,344,528**	**110,848,277**	**88,454,713**
Past due but not impaired	£	£	£	£
Past due up to 30 days	–	8,607,258	–	–
Past due 30 to 60 days	–	-	–	–
Past due 60 to 90 days	–	152,120	–	–
Past due over 90 days	3,808,273	3,982,885	–	–
Total	**3,808,273**	**12,742,263**	**–**	**–**

Additional disclosure regarding the circumstances of the ‘past due but not impaired’ balances of the Bank disclosed in the above table is included in the footnote to the ‘past due but not impaired’ balances of the Group on page 96.

- Allowance for impairment

The Group has established a policy to monitor impairment events that could lead to losses in its asset portfolio. This policy covers specific loss events for individual significant exposures as well as for events that relate to collective losses on groups of homogenous assets that have yet to be identified and assessed individually for impairment.

The Group writes off a balance (and any related allowances for impairment) when the Credit Risk Department determines that the balance is uncollectible. This determination would be reached after considering information such as the occurrence of significant changes in the counterparty’s financial position such that the counterparty can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure.

vi. Collateral

Within its financing activities, which spans working capital finance provision to term real estate financing, BLME seeks to ensure that, where appropriate, at the inception of a transaction it has sufficient collateral coverage in place to assist with the avoidance of stress should the customer concerned fail to honour its obligations when due. BLME monitors the market value of its collateral on an ongoing basis which, dependent upon the collateral type, can vary from monthly to at least once a year. As at 31 December 2011, collateral represented 46% (2010: 52%) of BLME assets.

During the year, BLME obtained assets by taking possession of collateral with a value of £225,830 (2010; £538,101). This represented plant and equipment and the carrying amount at 31 December 2011 was £10,303 (2010: £108,442) and is classified as returned leased assets in ‘Other Assets’ (see note 25).

Group	2011 Exposure £	2011 Collateral £	2010 Exposure £	2010 Collateral £
Cash and balances with banks	97,298,498	–	37,228,323	–
Due from financial institutions	76,671,550	–	94,169,310	–
Investment securities	81,401,505	–	26,774,748	–
Financing arrangements	299,102,091	187,592,674	323,998,989	191,444,406
Finance lease receivables	131,012,099	131,472,454	118,299,503	119,767,517
Total credit exposure	**685,485,743**	**319,065,128**	**600,470,873**	**311,211,923**

Analysis of collateral	2011 £	2010 £
Plant and equipment	136,129,001	127,000,089
Property	159,846,424	172,904,631
Raw materials / finished stock	8,049,322	7,294,002
Financial guarantee	15,040,381	4,013,201
Total credit exposure	**319,065,128**	**311,211,923**

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

Bank	2011 Exposure £	2011 Collateral £	2010 Exposure £	2010 Collateral £
Cash and balances with banks	93,620,120	–	33,385,602	–
Due from financial institutions	67,616,508	–	84,934,865	–
Investment securities	97,651,844	–	38,748,411	–
Financing arrangements	376,049,738	263,755,261	420,344,528	287,230,377
Finance lease receivables	110,848,277	110,848,277	88,454,713	88,454,713
Total credit exposure	**745,786,487**	**374,603,538**	**665,868,119**	**375,685,090**

Analysis of collateral	2011 £	2010 £
Plant and equipment	184,358,699	184,240,684
Property	167,155,136	180,137,203
Raw materials / finished stock	8,049,322	7,294,002
Financial guarantees	15,040,381	4,013,201
Total credit exposure	**374,603,538**	**375,685,090**

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

vii. Fair value of financial assets and liabilities

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

Group	*Note*	2011 Carrying value £	2011 Fair value £	2010 Carrying value £	2010* Fair value £
Due from financial institutions	*i*	76,671,550	76,671,550	94,169,310	94,169,310
Investment securities	*ii*	81,401,505	81,401,505	26,774,748	26,774,748
Financing arrangements	*iii*	299,102,091	283,612,631	323,998,989	304,649,493
Finance lease receivables	*iv*	131,012,099	122,187,007	118,299,503	109,640,345
Due to financial institutions	*iv*	500,474,105	498,791,155	424,132,046	423,741,631
Profit rate swaps liability	*v*	7,268,757	7,268,757	6,553,819	6,553,819
Due to customers	*iv*	51,031,160	51,031,160	24,253,449	24,253,449

*Certain prior year numbers have been restated to be consistent with current year presentation.

Bank	*Note*	2011 Carrying value £	2011 Fair value £	2010 Carrying value £	2010* Fair value £
Due from financial institutions	*i*	67,616,508	67,616,508	84,934,865	84,934,865
Investment securities	*ii*	97,651,844	97,651,844	38,748,411	38,748,411
Financing arrangements	*iii*	376,049,738	356,899,134	420,344,528	393,387,637
Finance lease receivables	*iv*	110,848,277	103,301,023	88,454,713	81,728,874
Due to financial institutions	*iv*	500,474,105	498,791,155	424,132,046	423,741,631
Profit rate swaps liability	*v*	7,268,757	7,268,757	6,553,819	6,553,819
Due to customers	*iv*	51,031,160	51,031,160	24,253,449	24,253,449

*Certain prior year numbers have been restated to be consistent with current year presentation.

Notes

i. Apart from the £4,186,047 (2010: £5 million) Wakala placement with Boubyan Bank, which is disclosed in further detail in Note 33, these assets represent short term liquidity with an average residual life of 1 week for the Bank and 3 weeks for the Group and a maximum individual residual maturity of 3 weeks for the Bank and 2 months for the Group. The assets are placed with banks with an average credit rating of BBB for the Bank and BBB+ for the Group. On this basis, carrying value reflects fair value.

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

iii. Fair value reflects screen based quotes where appropriate and available or replacement value based on current profit rates with reference to residual maturity from balance sheet date.

iv. Fair value represents present replacement value based on current profit rates with reference to residual maturity from balance sheet date. Fair value is less than carrying value due to liabilities with fixed profit share agreements.

v. Fair value represents replacement value based on current profit rates with reference to residual maturity from balance sheet date.

Valuation of Financial Instruments

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

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

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices). This category comprises profit rate swaps and investments in Sharia'a compliant funds.

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

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

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

Group	2011 Level 1 £	2011 Level 2 £	2011 Level 3 £	2011 Total £
Investment securities	79,042,192	–	2,359,313	81,401,505
Profit rate swaps liability	–	7,268,757	–	7,268,757

Group	2010 Level 1 £	2010 Level 2 £	2010 Level 3 £	2010 Total £
Investment securities	23,451,780	1,741,828	1,581,140	26,774,748
Profit rate swaps liability	–	6,553,819	–	6,553,819

Bank	2011 Level 1 £	2011 Level 2 £	2011 Level 3 £	2011 Total £
Investment securities	48,016,864	47,259,397	2,375,583	97,651,844
Profit rate swaps liability	–	7,268,757	–	7,268,757

Bank	2010 Level 1 £	2010 Level 2 £	2010 Level 3 £	2010 Total £
Investment securities	1,302,699	35,848,428	1,597,284	38,748,411
Profit rate swaps liability	–	6,553,819	–	6,553,819

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

Group Investment securities	2011 £	2010 £
Balance at 1 January	1,581,140	933,146
Total gains and losses recognised in:		
– profit or loss	1,896	2,439
– other comprehensive income	103,628	60,568
Purchases	672,649	584,987
Balance at 31 December	**2,359,313**	**1,581,140**

Bank Investment securities	2011 £	2010 £
Balance at 1 January	1,597,284	948,583
Total gains and losses recognised in:		
– profit or loss	1,922	3,146
– other comprehensive income	103,628	60,568
Purchases	672,749	584,987
Balance at 31 December	**2,375,583**	**1,597,284**

viii. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2011.

Group Assets	2011 Fair value through profit and loss £	2011 Designated at fair value through profit and loss upon initial recognition £	2011 Available-for-sale £	2011 Financial assets at amortised cost £	2011 Total £
Cash and balances with banks	–	–	–	97,298,498	97,298,498
Due from financial institutions	–	–	–	76,671,550	76,671,550
Investment securities:					
Sukuk	39,259,354		39,782,838	–	79,042,192
Equity	–	–	2,359,313	–	2,359,313
Financing arrangements	–	–	–	299,102,091	299,102,091
Finance lease receivables	–	–	–	131,012,099	131,012,099
Total assets	**39,259,354**	**–**	**42,142,151**	**604,084,238**	**685,485,743**

Group Liabilities	Profit Rate Swaps designated as fair value hedging instruments £	Profit Rate Swaps designated as cash flow hedging instruments £	Financial liabilities at amortised cost £	2011 Total £
Due to financial institutions	–	–	500,474,105	500,474,105
Due to customers	–	–	51,031,160	51,031,160
Profit rate swaps	1,375,531	5,893,226	–	7,268,757
Total liabilities	**1,375,531**	**5,893,226**	**551,505,265**	**558,774,022**

Group Assets	2010 Fair value through profit and loss £	2010 Designated at fair value through profit and loss upon initial recognition £	2010 Available-for-sale £	2010 Financial assets at amortised cost £	2010 Total £
Cash and balances with banks	–	–	–	37,228,323	37,228,323
Due from financial institutions	–	–	–	94,169,310	94,169,310
Investment securities:					
Sukuk	23,451,780	–	–	–	23,451,780
Unlisted Sharia'a compliant fund	–	1,741,828	–	–	1,741,828
Equity	–	–	1,581,140	–	1,581,140
Financing arrangements	–	–	–	323,998,989	323,998,989
Finance lease receivables	–	–	–	118,299,503	118,299,503
Total assets	**23,451,780**	**1,741,828**	**1,581,140**	**573,696,125**	**600,470,873**

Liabilities	Profit Rate Swaps designated as fair value hedging instruments £	Profit Rate Swaps designated as cash flow hedging instruments £	Financial liabilities at amortised cost £	2010 Total £
Due to financial institutions	–	–	424,132,046	424,132,046
Due to customers	–	–	24,253,449	24,253,449
Profit rate swaps	1,117,860	5,435,959	–	6,553,819
Total liabilities	**1,117,860**	**5,435,959**	**448,385,495**	**454,939,314**

Bank **Assets**	2011 Fair value through profit and loss £	2011 Designated at fair value through profit and loss upon initial recognition £	2011 Available-for-sale £	2011 Financial assets at amortised cost £	2011 Total £
Cash and balances with banks	–	–	–	93,620,120	93,620,120
Due from financial institutions	–	–	–	67,616,508	67,616,508
Investment securities:					
Sukuk	8,234,026	–	39,782,838	–	48,016,864
Unlisted Sharia'a compliant funds	–	47,259,397	–	–	47,259,397
Equity	–	–	2,359,313	–	2,359,313
Investment in subsidiaries	–	–	–	16,270	16,270
Financing arrangements	–	–	–	376,049,738	376,049,738
Finance lease receivables	–	–	–	110,848,277	110,848,277
Total assets	**8,234,026**	**47,259,397**	**42,142,151**	**648,150,913**	**745,786,487**

Liabilities	Profit Rate Swaps designated as fair value hedging instruments £	Profit Rate Swaps designated as cash flow hedging instruments £	Financial liabilities at amortised cost £	2011 Total £
Due to financial institutions	–	–	500,474,105	500,474,105
Due to customers	–	–	51,031,160	51,031,160
Profit rate swaps	1,375,531	5,893,226	–	7,268,757
Total liabilities	**1,375,531**	**5,893,226**	**551,505,265**	**558,774,022**

Bank Assets	2010 Fair value through profit and loss £	2010 Designated at fair value through profit and loss upon initial recognition £	2010 Available-for-sale £	2010 Financial assets at amortised cost £	2010 Total £
Cash and balances with banks	–	–	–	33,385,602	33,385,602
Due from financial institutions	–	–	–	84,934,865	84,934,865
Investment securities:					
Sukuk	1,302,699	–	–	–	1,302,699
Unlisted sharia'a compliant funds	–	35,848,428	–	–	35,848,428
Equity	–	–	1,581,140	–	1,581,140
Investment in subsidiaries	–	–	–	16,144	16,144
Financing arrangements	–	–	–	420,344,528	420,344,528
Finance lease receivables	–	–	–	88,454,713	88,454,713
Total assets	**1,302,699**	**35,848,428**	**1,581,140**	**627,135,852**	**665,868,119**

Liabilities	Profit Rate Swaps designated as fair value hedging instruments £	Profit Rate Swaps designated as cash flow hedging instruments £	Financial liabilities at amortised cost £	2010 Total £
Due to financial institutions	–	–	424,132,046	424,132,046
Due to customers	–	–	24,253,449	24,253,449
Profit rate swaps	1,117,860	5,435,959	–	6,553,819
Total liabilities	**1,117,860**	**5,435,959**	**448,385,495**	**454,939,314**

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 always has sufficient liquidity to meet its liabilities when due.

The Treasury Department is responsible for monitoring the liquidity profile of financial assets and liabilities, including projected cash flows from current and future business. This area maintains a portfolio of short-term money market assets and marketable securities to ensure that sufficient liquidity is maintained. The liquidity position is monitored on a daily basis under the guidance of the Asset and Liability Committee ('ALCO'). Overall, the management of liquidity risk is guided by the Group's Liquidity Risk Management Policy and its annual Individual Liquidity Adequacy Assessment, as required by the Financial Services Authority.

Over and above regulatory liquidity, ALCO establishes its own liquidity performance measures and prudential guidelines. These include a series of early warning triggers and management data on liability stickiness, diversification and reserve liquidity. As at 31 December 2011, the Bank had acquired £540,076,590 (2010: £435,646,200) of term deposits and held £59,443,979 (2010: £86,130,499) of secondary market assets.

Residual contractual maturities of financial liabilities

Group and Bank	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	2011 Total £
Due to financial institutions	104,584,788	105,879,748	290,626,624	2,040,257	–	503,131,417
Due to customers	9,063,798	2,282,132	26,230,984	16,247,076	–	53,823,990
Profit rate swaps	478,945	–	351,394	6,438,418	–	7,268,757
	114,127,531	**108,161,880**	**317,209,002**	**24,725,751**	**–**	**564,224,164**

Group and Bank	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	2010 Total £
Due to financial institutions	83,215,777	155,939,235	184,801,461	1,248,013	–	425,204,486
Due to customers	6,314,267	1,717,394	1,811,787	14,410,001	–	24,253,449
Profit rate swaps	–	–	224,943	6,328,876	–	6,553,819
	89,530,044	**157,656,629**	**186,838,191**	**21,986,890**	**–**	**456,011,754**

The table above shows the contractual, undiscounted cash flows of the Group's and Bank's financial liabilities.

c. Market risks

Market risk is the risk that changes in market prices will affect the Group's income. It covers profit rate risk, credit spread risk and foreign exchange risk. In accordance with the Group's Market Risk Management Policy, ALCO is responsible for reviewing all classes of market price risk and positions, sanctioning dealing limits and approving BLME's stress testing program in accordance with BLME's Stress Testing and Scenario Analysis Policy.

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

i. Profit rate risk

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

As at 31 December 2011, 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 £55,236 (2010: £50,176). The impact of an increase or decrease of 100 basis points in profit rates at the statement of financial position date would be to increase or decrease profit and loss by £8,646,621 (2010: £8,438,000) and to increase or decrease equity by £5,523,600 (2010: £5,017,600).

ii. Credit spread risk

BLME operates a Sukuk Trading Book, within which the portfolio size and individual issuer risks are limited to modest proportions since BLME does not have a material appetite for Trading Risk. The value of this Trading Book as at 31 December 2011 was £8,234,027 (2010: £1,302,699). The impact of an increase or decrease of 10 percent in Sukuk trading prices at the statement of financial position date would be to increase or decrease equity and profit or loss by £816,549 (2010: £128,830).

iii. Foreign exchange risk

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

A 10% strengthening or weakening of the net foreign currency positions against Sterling at the statement of financial position date would result in an FX revaluation gain or loss of £481,469 (2010: £106,069). The foreign exchange result for the year to 31 December 2011 was a net gain of £367,447 (2010: £850,762 loss).

d. Operational risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Group's processes, personnel, technology and infrastructure, and from external factors other than credit, market and liquidity risks.

The Group's objective in managing operational risk is to implement an integrated internal control and operating infrastructure that supports process efficiency and customer needs, whilst reducing the risk of error and financial loss in a cost effective manner. The overall operational risk framework is set by the Board and documented within the Group's Operational Risk Policy under the guidance of ALCO. The Bank has undertaken staff training and implemented procedures for operational loss and event forms to be raised where such risks occur. These are evaluated by Risk management, and sanctioned in accordance with an approval matrix that takes account of the severity of the loss.

During the year ended 31 December 2011 the Bank has undertaken a detailed risk assessment by business area as a means of identifying the main operational risks and quantifying the effectiveness of risk mitigants and controls. In addition, it continued to test and refine its Business Continuity Plan including both its businesses and premises in the City of London and the West End of London.

e. Capital adequacy

At 31 December 2011 and throughout the year the Group complied with the capital requirements that were in force as set out by the Financial Services Authority ('the FSA').

The Group's regulatory capital position as at 31 December 2011 was as follows:

Tier 1 capital	2011 £ (unaudited)	2010 £ (unaudited)
Ordinary share capital	48,933,422	48,933,422
Share premium	206,226,328	206,226,328
Retained losses	(16,877,944)	(7,179,954)
Total Tier 1 capital	**238,281,806**	**247,979,796**
Deductions from Tier 1 capital:		
Intangible assets	(474,018)	(419,263)
Total Tier 1 capital after deductions	**237,807,788**	**247,560,533**
Tier 2 capital		
Collective allowances for impairment	460,352	1,468,014
Total Tier 2 capital	**460,352**	**1,468,014**
Total Tier 1 and Tier 2 capital	**238,268,140**	**249,028,547**
Deductions from Tier 1 and Tier 2 capital:		
Investment in BLME Sharia'a Umbrella Fund SICAV SIF	(46,838,983)	(34,121,904)
Investment in DMJ II LLC	(4,451,418)	(1,260,847)
Investment in BLME Umbrella Fund Management Sarl	(16,170)	(16,144)
Investment in BLME (UK) GP Limited	(100)	–
Investment in portfolio of Private Equity investments	(2,359,313)	(1,581,140)
Total regulatory capital	**184,602,156**	**212,048,512**

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

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

BLME's overall minimum capital resource requirement under Pillar 1 is calculated by adding the credit risk charge to that required for operational risk, for market risk and for counterparty credit risk.

The following table shows both the Group's overall minimum capital requirement and capital adequacy position under Pillar 1 at 31 December 2011.

Pillar 1 capital requirements	2011 £ (unaudited)	2010 £ (unaudited)
Credit Risk	47,862,000	41,990,000
Market Risk – Foreign Exchange PRR	227,000	102,000
Counterparty risk capital component	638,000	326,000
Operational Risk	4,941,000	3,383,000
Total Pillar 1 capital requirement	**53,668,000**	**45,801,000**
Total regulatory capital in place	**184,602,156**	**212,048,512**
Excess of capital in place over minimum requirement under Pillar 1	**130,934,156**	**166,247,512**

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

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

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

Notes

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