BANK OF LONDON AND THE MIDDLE EAST

Annual Report and Accounts

31 December 2010

Registered number 05897786

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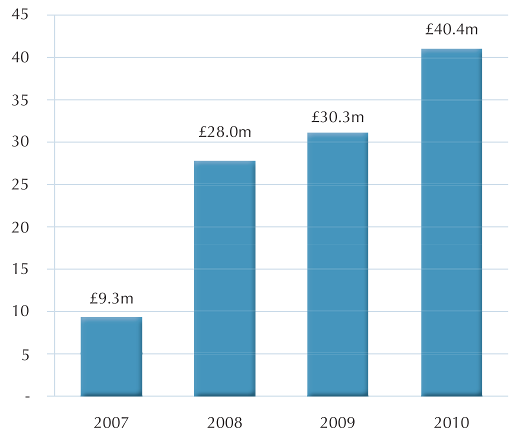
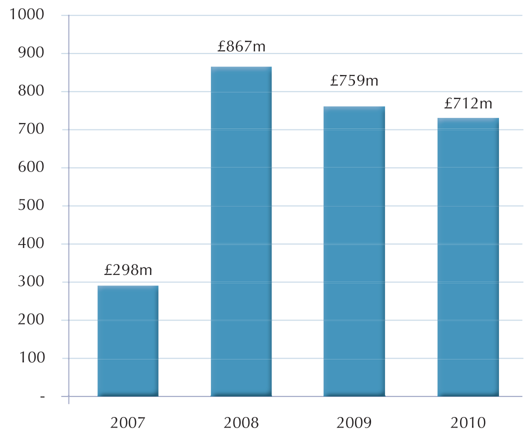
2010 GROUP HIGHLIGHTS FOR BANK OF LONDON AND THE MIDDLE EAST PLC

- BLME reports an 87% increase in Operating Profit before impairment charges
- BLME has continued its focus on innovative product development with the launch of its on-line FX dealing and Premier Deposit Account facilities
- BLME US$ Income Fund continued to deliver top decile investment performance

Consolidated Total Operating Income (£m)

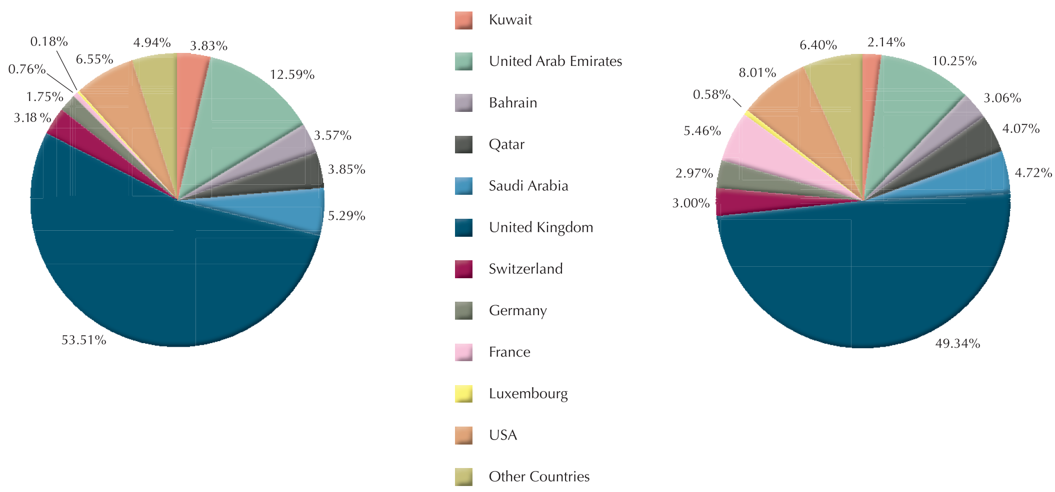


Consolidated Total Assets (£m)



Exposure by Country at 31 December 2009

Exposure by Country at 31 December 2010



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

It is with pleasure that I write to report to our shareholders on the good recovery and return to profitability that Bank of London and The Middle East plc accomplished in the 12 months to 31 December 2010. In a low rates environment, where the pace of economic recovery remained uncertain, the Group was able to report a Net Operating Profit before Tax of £5,015,924.

Your Board can report that Management undertook a number of actions to enhance the governance and the risk management of the Bank in the face of wide ranging regulatory changes, and to ensure that the Bank continued to improve the depth and quality of earnings in all of its businesses without compromising its conservative approach to risk. I draw to your attention the strong performance of the Bank's initial businesses of Markets and Corporate Banking, and take encouragement from the solid foundations being established with our Private Banking customers, and the continued strong performance from the core fund within the Asset Management business.

It is appropriate to reflect on the significant changes that are impacting our regulatory landscape. These include new corporate governance, more stringent liquidity regulation and more exacting stress testing and scenario analysis rules. I can report that Management, under the guidance of your Board, has reviewed the governance framework and risk policies to ensure compliance with these new standards.

I remain pleased with the leading role that BLME plays in pioneering the development of new products, and providing innovative, responsive and flexible solutions to its customers. This emphasis has allowed the Bank to promote an increasing range of products and services to its customers. I would like to take the opportunity to mention that I am extremely grateful for the expertise and support provided by our Sharia'a Supervisory Board.

For the coming year your Board looks forward to BLME being able to capitalise on investments already made in the business, particularly in Wealth Management, such that the Bank's reputation continues to prosper. The strategic goals set before shareholders in the 2006 Private Placement Memorandum to become the leading Islamic bank in Europe and to obtain a listing remain intact.

In the final quarter of 2010 the Board approved the submission of an application to open a representative office in the GCC area which represents a key milestone for the Bank. The establishment of this office will enable the Bank to fulfil the goal of bringing the Bank's products and services to its key customer base in the GCC.

Whilst remaining cautious about the strength of the global economic recovery and the potential impact of the current civil unrest problems in certain areas of the Middle East I am confident that BLME will build on the successes of 2010.

I would lastly like to thank our shareholders, clients and staff for their continued support in what has been a positive and successful year for BLME.

Yacob Al-Muzaini

Chairman

04 March 2011

Business summary and results

In the year to 31 December 2010 Bank of London and The Middle East plc reported a Net Operating Profit before Tax for the Group of £ 5,015,924. It is a testament to the strength of our business model that the Bank was able to return to profitability after the poor results of 2009. The dominant factors behind this achievement were healthy revenue growth in the Bank's core businesses of Markets and Corporate Banking and the development of Private Banking as an important client business. Total Operating Income increased by 34% and Operating Profit before Impairment Charges increased by 87%.

BLME has continued to diversify its earnings. It is very encouraging that in an environment of low market rates and constrained liquidity Net margin increased by 20%. The Group's year-end Balance Sheet reduced from £759 million to £712 million at 31 December 2010. However, this balance sheet reduction represents a closer alignment of liquidity resources with customer financing requirements, and was accompanied by continuing improvements in the diversification and robustness of the Group's liquidity position. In 2010 we saw good development of all our customer facing businesses. Financing arrangements increased 7% to £324 million, Finance lease receivables by 17% to £118 million and our Operating lease assets by 16% to £89 million. At the same time our exposures to banks and other financial institutions reduced, with amounts Due to financial institutions falling by 14% to £424 million. I am also encouraged by the increase in Net fee income and the substantial increase in Net fair value gains on investment securities which reflects the good performance of our investment in the BLME US$ Income Fund.

The rise in Personnel expenses should be seen in context. From the beginning of 2009 staff numbers increased by 42% from 48 to 68. I am pleased to note that the targets which trigger deferred incentivisation payments have been met in 2010.

Credit situation and risk appetite

2010 saw an increased focus on domestic and strongly collateralised financing business with core clients. This included a build up of our Private Banking assets. As a maturing financial institution the larger number of customer relationships has enabled the Bank to improve the diversification of its business by deal size, sector, and tenor. The portfolio effect of the growth of our customer base, together with the improved credit impairment situation, has led to a significantly improved result.

The improved impairment situation is as a result of recoveries of £2,985,273 made during the year on a previously fully provided Sukuk. A charge of £1,937,296 was taken during the year in respect of a defaulted loan to a telecommunications business. Our past due balances have increased significantly with two exposures totalling £12,705,735 becoming past due during the year. We have not made any provision on these exposures based on cash receipts since the year end and current evidence of likely future cash flows.

In the critical area of liquidity management, where the Financial Services Authority (FSA) implemented tighter liquidity regulations, the Asset and Liability Committee adopted the new Individual Liquidity Adequacy Assessment process to strengthen further the Bank's liquidity resources and funding capabilities. Largely due to the successful launch of the on-line Premier Deposit Account, there was a substantial increase in the number of depositors. Furthermore, deposits with maturities of three months or more increased from 48% to 87% of the total. These positive liquidity developments throughout the year enabled the Bank to maintain liquidity reserves beyond its prudential internal guidelines and within the FSA regulatory limits.

Business model and highlights

In a market where conditions continued to prove challenging, the Bank was successful in providing its growing number of Private Banking relationships with a series of innovative and bespoke products and services. Lipper, the industry recognised benchmarking specialist, continued to rank the performance of the BLME US$ Income Fund within the top decile of its peer group. This made an important new contribution to revenues to supplement the strong performance of the Bank’s Markets and Corporate Banking businesses. Economic conditions, including those in the GCC region, have constrained the planned development of the Wealth Management businesses. Despite these challenges, BLME has expanded its product offering and enhanced its market reputation, which has broadened the appeal to investors and customers.

There was strong performance in all areas of the Bank’s Markets division, most notably in the Bank’s investment portfolio and in the effectiveness of managing the Bank’s capital. As regards Asset and Liability Management, the Markets area was able to improve profitability whilst strengthening and diversifying the Bank’s deposit base and stock of primary liquid assets. A positive and related development was the launch, and customer response, to the internet based Premier Deposit Account available to customers in the UK and overseas. This has enabled the Bank to expand the diversity and tenor of its liability base by offering a suite of competitively priced deposit products along with a personalised customer service.

Corporate Banking also demonstrated strong earnings growth, particularly in the area of equipment leasing to UK based corporates and SMEs. This was buoyed by a healthy increase in the number and depth of customer relationships throughout the whole Corporate Banking division; this enabled the Bank to make tangible progress in cross selling BLME products, including fee earning advisory and commission based services. The Corporate Banking real estate team also provided valuable expertise and support to Private Banking clients. These results were achieved in the face of a more competitive market, where a number of key lenders became more active as the global economic situation began to show signs of recovery.

The Bank has focussed on product development and is active in internet banking, where it launched on-line FX dealing and the Premier Deposit Account facilities described previously. In Wealth Management the framework was developed to support the launch of several new Asset Management funds utilising our Luxemburg umbrella fund structure. Overall, it is encouraging that the Bank has been able to deploy its expertise and resources across the full array of BLME businesses and its two London locations. This has allowed it to provide existing and prospective BLME clients in Europe, the Middle East and South East Asia with a wide range of financing, investment and advisory services. Our “One Bank” approach will continue to be pursued so that BLME delivers financial solutions and advice to clients in an expert and responsive manner. As a final point on the Bank’s business model, I am pleased to announce that BLME continues to gain recognition for its commitment and professionalism to developing Islamic Finance. Amongst other awards in 2010, this was recognised by our receiving the Islamic Finance News award for the Best Islamic Bank in Europe.

Our staff

Our staff are our key asset and I am proud that their skill, commitment and professionalism remains of the highest order. BLME maintains its commitment to promote the Islamic Finance Qualification, and continues to provide staff training using the Chartered Institute for Securities and Investment (CISI). The Bank continues to invest in the recruitment of key professionals in the targeted business areas and to ensure that it remains fully compliant with the increasing regulatory requirements.

Outlook for the future

I take encouragement from the solid financial performance and recovery that BLME accomplished in 2010. The continued progress made by the core businesses, together with the expansion and broadening of client relationships provides the Bank with a strong platform to push ahead with developing more Asset Management and Private Banking business. This is supported by a strong liquidity platform and a capital adequacy ratio which remains well in excess of international regulatory standards. Whilst recognising these attributes and accomplishments, the global economic recovery remains fragile, and therefore we approach 2011 with a degree of caution and a conservative attitude to risk.

In the course of 2010 I have undertaken a number of business trips to the GCC and to South East Asia where I, together with my colleagues, have increasingly been invited to speak on the subject of Islamic Finance in general, and on the business of BLME in particular. What is clear is that the name of your Bank is well known and equally clear is that the Bank's business reputation is growing. This has led to a marked increase in interest in BLME and its activities.

Looking ahead, the main challenge is to build on the Bank's core relationships and growing market reputation such that it achieves greater product distribution in the UK, GCC and key South East Asian countries, particularly in the area of Wealth Management. This will further strengthen the diversity and quality of earnings, and enable BLME to achieve growth and increase profitability in all of its business areas.However, the current political unrest in the Middle East and North Africa and the risk of further contagion does give rise to some additional risks in terms of attracting business in the GCC.

Humphrey Percy

Chief Executive Officer

04 March 2011

Yacob Yousef Al-Muzaini – Chairman

Yacob is the non-executive Chairman of the Board of BLME. Until 2008 he was the Chairman and Managing Director of Boubyan Bank, with 26 years of leadership experience in private and public sector financial institutions. Prior to this, Yacob was Chairman and Managing Director of a leading private sector financial services company. 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 of General Investments at the Public Institution for Social Security (PIFSS), Chairman of Housing Finance Company (ISKAN), Board member at Global Investment House and Vice Chairman of Bank of Kuwait and Middle East. 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 banking experience focusing on treasury and global markets. During his career to date 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 Markets

Nigel joined BLME as Director and Head of Markets Division 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 and risk management. 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. Frank worked for ABN Bank NV in a variety of roles, including Head of Corporate Banking, Syndications & International for Saudi Hollandi Bank, Riyadh, before joining Olayan Financing Company, Riyadh in 1992. Frank worked with Olayan Financing Company until his retirement at the end of 2006 holding the positions of Treasurer and CFO and now is an advisor. Frank currently also holds Board positions with Mining & Minerals Opportunity, Inc. and Bolsa Resource Corporation, and advisory positions with Jarir Marketing Company and Mitsubishi Chemical Company.

Masood Akbar

Masood is the Executive Director – International Investments Division with Aref Investment Group. Previously, he was Chief Executive Officer of Jardine Fleming, Pakistan. He began his career in London with a firm of consulting actuaries and then moved to Abu Dhabi as Portfolio Manager, Special Funds, for the Abu Dhabi Investment Authority. Masood later transferred to the Ruler's Officer in Abu Dhabi as Director of the Investment Department. From 1979 until 2004 Masood was on the Board of Genesis Emerging Markets Fund. His areas of specialisation are asset management/allocation, equity portfolios, portfolio performance and attribution analysis. He is a Fellow of the Institute of Actuaries and is a CFA charter holder.

Ibrahim Al Qadhi

Ibrahim is a non-executive member of the Board of BLME. He is Chairman of Boubyan Bank and General Manager of Kuwait Clearing Company. He is also a member of the Kuwait Stock Exchange Committee.

DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2010.

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 2010 are shown on pages 19 to 91. The consolidated Group profit for the year after taxation amounts to £3,517,677 (2009: loss (£13,240,927)). The unconsolidated profit for the Bank for the year after taxation amounts to £3,411,463 (2009: loss (£12,199,678)).

Financial review

In the year to 31 December 2010 BLME continued to build on its established Markets and Corporate Banking businesses and develop its more recently established Asset Management, Private Banking and Corporate Advisory activities.

Dividends

The Directors do not recommend the payment of a dividend.

Risk

The Group and Bank has 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 33.

DIRECTORS AND DIRECTORS' INTERESTS

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

Name	Date of appointment	Committee membership
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
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	Risk Remuneration
Ibrahim Al Qadhi	25 September 2009	Audit Risk

Under the Articles of Association Humphrey Richard Percy, Richard Radway Williams and Nigel Brodie Denison will retire by rotation at the next Annual General Meeting. 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 or charitable donations during the period (2009: 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 2011 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

04 March 2011

The Board considers that good corporate governance is central to achieving the Bank's objectives. During 2010 the Terms of Reference for the Board, the Board Committees and the Bank's Management Committees were reviewed and revised in accordance with best practice and governance.

The following statement describes BLME's structure and processes across 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 2010 the Board of Directors comprised three executive Directors: Humphrey Percy – Chief Executive Officer, Richard Williams-Finance Director, Nigel Denison – Director and Head of Markets, and six 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, Ibrahim Al-Qadhi and Masood Akbar.

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 five times during the year. All Board members attended each meeting, other than the meeting on 3 December, when Yacob Al-Muzaini was absent.

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 2010, non-audit services provided by KPMG comprised advice with regard to taxation and other miscellaneous services.

The Audit Committee met five times during the year; each meeting was attended by all members, other than 2 March, when Ibrahim Al-Qadhi was absent.

Board Risk Committee

The Risk Committee is chaired by Neil Holden and comprises Frank Vermeulen, Ibrahim Al-Qadhi and Masood Akbar.

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 four times during the year; each meeting was attended by all members, other than the meetings on 16 September and 2 December, when Ibrahim Al-Qadhi was absent.

Board Remuneration Committee

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

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 three times during the year; each meeting was attended by all members, other than the meetings on 2 June and 5 November when Sheikh Abdullah Jaber Al-Ahmed Al-Sabah was absent.

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 did not meet during the year.

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 Markets, 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.

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 2010 to 31 December 2010 and have 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 2010 to 31 December 2010 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 2010 to 31 December 2010 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

17 February 2011

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 2010 set out on pages 19 to 91. 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 16, 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 2010 and of the Group's profit 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

04 March 2011

CONSOLIDATED INCOME STATEMENT

For the year 1 January 2010 to 31 December 2010

	Note	2010 £	2009* £
Income			
Income from financing and investing activities	*5*	23,716,697	26,225,147
Returns to financial institutions and customers	6	(7,393,355)	(12,606,005)
Net margin		16,323,342	13,619,142
Fee and commission income		1,066,741	1,618,912
Fee and commission expense		(92,048)	(1,159,224)
Net fee income		974,693	459,688
Net fair value gains on investment securities	*7*	1,665,384	14,480
Net fair value loss on investment property	*19*	–	(702,906)
Other operating income	*8*	21,475,178	16,892,597
Total operating income		**40,438,597**	**30,283,001**
Expenses			
Personnel expenses	*10*	(11,373,644)	(7,433,852)
Depreciation and amortisation	*22,23,24*	(17,168,169)	(12,920,376)
Other operating expenses	*12*	(7,870,338)	(7,808,339)
Change in third party interest in consolidated funds	*31*	(58,499)	2,120
Total operating expenses		**(36,470,650)**	**(28,160,447)**
Operating profit before impairment charges		**3,967,947**	**2,122,554**
Net impairment credit/(charge) on financial assets	*14*	1,047,977	(21,011,494)
Net operating profit/(loss) before tax		**5,015,924**	**(18,888,940)**
Tax	*15*	(1,498,247)	5,648,013
Profit/(loss) for the year		**3,517,677**	**(13,240,927)**

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

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

The notes on pages 30 to 91 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year 1 January 2010 to 31 December 2010

	2010 £	2009 £
Income		
Profit/(loss) for the year	3,517,677	(13,240,927)
Other comprehensive income/(expense)		
Foreign currency translation differences for foreign operations	(111,962)	203,839
Foreign currency translation differences for cash flow hedging reserve	(121,751)	429,520
Changes in fair value of cash flow hedges taken to equity	(2,398,684)	1,457,096
Ineffective portion of change in fair value of cash flow hedges transferred to income statement	33,429	(242,101)
Change in fair value of available for sale financial assets taken to equity	60,568	20,000
Transfer from fair value reserve to income statement in respect of amortisation of reclassified financial assets	291,301	906,878
Income tax on other comprehensive income	1,350,949	(259,526)
Other comprehensive (expense)/income for the year net of income tax	(896,150)	2,515,706
Total comprehensive profit/(loss) for the year	**2,621,527**	**(10,725,221)**

The notes on pages 30 to 91 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2010

	Note	2010 £	2009 £
Assets			
Cash and balances with banks		37,228,323	96,272,364
Due from financial institutions	*17*	94,169,310	133,117,167
Investment securities	*18*	26,774,748	23,225,067
Financing arrangements	*20*	323,998,989	303,970,359
Finance lease receivables	*21*	118,299,503	101,488,523
Operating lease assets	*23*	89,187,818	76,661,303
Profit rate swaps	*9*	–	264,936
Investment property	*19*	7,232,573	6,915,715
Property and equipment	*22*	776,094	1,180,286
Intangible assets	*24*	419,263	792,972
Other assets	*25*	9,659,996	10,610,452
Current tax asset		500,000	–
Deferred tax assets	*15*	3,687,131	4,216,084
Total assets		**711,933,748**	**758,715,228**
Liabilities			
Due to financial institutions	*26*	424,132,046	493,374,983
Due to customers	*27*	24,253,449	8,037,000
Profit rate swaps	*9*	6,553,819	3,109,081
Third party interest in consolidated funds	*31*	1,081,346	791,484
Other liabilities	*28*	8,921,109	9,910,179
Total liabilities		**464,941,769**	**515,222,727**
Equity			
Share capital	*30*	48,933,422	48,928,422
Share premium	*30*	206,226,328	206,206,328
Fair value reserve		(238,645)	(514,550)
Cash flow hedging reserve		(3,717,416)	(2,657,323)
Share based payment reserve		3,044,114	2,191,163
Foreign currency translation reserve		(75,870)	36,092
Retained earnings		(7,179,954)	(10,697,631)
Total equity attributable to equity holders of the Bank		**246,991,979**	**243,492,501**
Total liabilities and equity		**711,933,748**	**758,715,228**

The notes on pages 30 to 91 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on 04 March 2011 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 2010

	Note	2010 £	2009 £
Assets			
Cash and balances with banks		33,385,602	93,651,558
Due from financial institutions	*17*	84,934,865	124,404,573
Investment securities	*18*	38,748,411	33,509,528
Financing arrangements	*20*	420,344,528	417,312,373
Finance lease receivables	*21*	88,454,713	61,628,598
Operating lease assets	*23*	32,934,001	14,885,065
Profit rate swaps	*9*	–	264,936
Property and equipment	*22*	776,094	1,180,286
Intangible assets	*24*	419,263	792,972
Other assets	*25*	9,096,554	9,974,315
Current tax asset		500,000	–
Deferred tax assets	*15*	2,602,234	3,680,837
Total assets		**712,196,265**	**761,285,041**
Liabilities			
Due to financial institutions	*26*	424,132,046	493,374,983
Due to customers	*27*	24,253,449	8,037,000
Profit rate swaps	*9*	6,553,819	3,109,081
Other liabilities	*28*	6,967,156	8,939,956
Total liabilities		**461,906,470**	**513,461,020**
Equity			
Share capital	*30*	48,933,422	48,928,422
Share premium	30	206,226,328	206,206,328
Fair value reserve		(238,645)	(514,550)
Cash flow hedging reserve		(2,407,983)	(308,438)
Share based payment reserve		3,044,114	2,191,163
Retained earnings		(5,267,441)	(8,678,904)
Total equity attributable to equity holders of the Bank		**250,289,795**	**247,824,021**
Total liabilities and equity		**712,196,265**	**761,285,041**

The notes on pages 30 to 91 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on 04 March 2011 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Finance Director

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year 1 January 2010 to 31 December 2010

	2010 £	2009* £
Cash flows from operating activities		
Operating profit/(loss) before tax	5,015,924	(18,888,940)
Adjusted for:		
Exchange differences	(2,653,587)	(821,017)
Fair value loss on investment property	–	702,906
Fair value (gain)/loss on investment securities	(1,199,159)	386,251
Provision for impairment	1,937,296	21,011,494
Depreciation and amortisation	17,168,169	12,920,376
Share based payment awards	877,951	1,815,496
Accretion of instruments held under financing arrangements	(2,004,089)	(1,389,580)
Mark to market movement in profit rate swaps	186,287	(1,158,285)
Amortisation of fair value reserve	291,301	906,878
	19,620,093	**15,485,579**
Net (increase)/decrease in operating assets:		
Due from financial institutions	38,926,444	240,287,787
Financing arrangements	(16,038,063)	6,186,143
Recovery of impaired asset	(2,985,273)	–
Finance lease receivables	(16,819,986)	(39,327,661)
Operating lease assets	(28,693,272)	(15,220,716)
Other assets	1,202,992	663,566
	(24,407,158)	**192,589,119**
Net decrease in operating liabilities:		
Due to financial institutions	(69,348,664)	(100,738,393)
Due to customers	16,207,142	3,308,391
Third party interest in consolidated funds	289,419	791,484
Other liabilities	(1,018,274)	1,681,648
	(53,870,377)	**(94,956,870)**
Corporation tax paid	–	(381,654)
Net cash (outflow)/inflow from operating activities	**(58,657,442)**	**112,736,174**
Purchase of property and equipment	(90,506)	(74,510)
Purchase of intangible assets	(118,417)	(159,360)
Net purchase of investment securities	(1,254,208)	(21,658,143)
Net cash outflow from investing activities	**(1,463,131)**	**(21,892,013)**
Net change in cash and cash equivalents	**(60,120,573)**	**90,844,161**
Cash and cash equivalents at the beginning of the year	96,272,364	5,799,089
Exchange differences in respect of cash and cash equivalents	1,076,532	(370,886)
Cash and cash equivalents at the end of the year	**37,228,323**	**96,272,364**

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

The notes on pages 30 to 91 are an integral part of these consolidated financial statements.

BANK STATEMENT OF CASH FLOWS

For the year 1 January 2010 to 31 December 2010

	2010 £	2009* £
Cash flows from operating activities		
Operating profit/(loss) before tax	4,968,885	(17,728,584)
Adjusted for:		
Exchange differences	(2,469,410)	(1,961,144)
Fair value gain on investment securities	(1,791,117)	(97,621)
Provision for impairment	1,937,296	21,011,494
Depreciation and amortisation	4,789,728	2,740,534
Share based payment awards	877,951	1,815,496
Accretion of instruments held under financing arrangements	(2,004,089)	(1,389,580)
Mark to market movement in profit rate swaps	68,188	(398,214)
Amortisation of future swap present value	(639,881)	(308,438)
Amortisation of fair value reserve	291,301	906,878
	6,028,852	**4,590,821**
Net (increase)/decrease in operating assets:		
Due from financial institutions	39,448,509	249,595,254
Financing arrangements	1,094,005	(4,969,366)
Recovery of impaired asset	(2,985,273)	–
Finance lease receivables	(26,855,804)	(21,221,520)
Operating lease assets	(21,851,841)	(10,331,360)
Other assets	1,129,291	585,685
	(10,021,113)	**213,658,693**
Net decrease in operating liabilities:		
Due to financial institutions	(69,348,664)	(100,738,393)
Due to customers	16,207,142	3,308,391
Other liabilities	(2,000,362)	1,505,765
	(55,141,884)	**(95,924,237)**
Corporation tax paid	–	(381,654)
Net cash (outflow)/inflow from operating activities	**(59,134,145)**	**121,943,623**
Cash flows from investing activities		
Purchase of property and equipment	(90,506)	(74,510)
Purchase of intangible assets	(118,417)	(159,361)
Net purchase of investment securities	(1,880,248)	(32,108,448)
Net cash outflow from investing activities	**(2,089,171)**	**(32,342,319)**
Net change in cash and cash equivalents	**(61,223,316)**	**89,601,304**
Cash and cash equivalents at the beginning of the year	93,651,558	4,268,297
Exchange differences in respect of cash and cash equivalents	957,360	(218,043)
Cash and cash equivalents at the end of the year	**33,385,602**	**93,651,558**

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

The notes on pages 30 to 91 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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, net of tax	–	–	209,737	–	–	–	–	209,737
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

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 £
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**

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. The mark to market loss on available for sale securities is shown net of associated tax. £209,737 of change in fair value reserve (net of tax) transferred to income statement relates to the financial assets reclassified to loans and receivables from financing arrangements 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 30 to 91 are an integral part of these consolidated financial statements.

For the year ended 31 December 2009

	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 2008	48,913,807	206,125,943	(1,181,902)	(4,301,838)	470,667	2,543,296	(167,747)	252,402,226
Loss for the year	–	–	–	–	–	(13,240,927)	–	(13,240,927)
Other comprehensive income/(expense)								
Foreign currency translation	–	–	–	429,520	–	–	203,839	633,359
Changes in fair value of cash flow hedges	–	–	–	1,457,096	–	–	–	1,457,096
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	–	–	–	(242,101)		–	–	(242,101)
Change in fair value of available for sale financial assets taken to equity, net of tax	–	–	14,400	–	–	–	–	14,400
Transfer to income statement in respect of amortisation of reclassified financial assets, net of tax	–	–	652,952	–	–	–	–	652,952
Total other comprehensive income	–	–	667,352	1,644,515	–	–	203,839	2,515,706
Total comprehensive loss for the year	–	–	667,352	1,644,515	–	(13,240,927)	203,839	(10,725,221)
Contributions by and distributions to owners								
Shares issued	14,615	80,385	–	–	–	–	–	95,000
Share based payment awards	–	–	–	–	1,720,496	–	–	1,720,496
Total transactions with owners	14,615	80,385	–	–	1,720,496	–	–	1,815,496
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

The notes on pages 30 to 91 are an integral part of these consolidated financial statements.

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, net of tax	–	–	60,568	–	–	–	60,568
Other movements	–	–	5,600	–	–	–	5,600
Transfer to income statement in respect of amortisation of reclassified financial assets, net of tax	–	–	209,737	–	–	–	209,737
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**

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. The mark to market loss on available for sale securities is shown net of associated tax. £209,737 of change in fair value reserve (net of tax) transferred to income statement relates to the financial assets reclassified to financing arrangements 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 30 to 91 are an integral part of these consolidated financial statements.

For the year ended 31 December 2009

	Share capital	Share premium account	Fair value reserve	Cash flow hedging reserve	Share based payment reserve	Retained earnings	Total
	£	£	£	£	£	£	£
Balance at 31 December 2008	48,913,807	206,125,943	(1,181,902)	–	470,667	3,520,774	257,849,289
Loss for the year	–	–	–	–	–	(12,199,678)	(12,199,678)
Other comprehensive income/(expense)							
Amortisation of future swap present value	–	–	–	(308,438)	–	–	(308,438)
Change in fair value of available for sale financial assets taken to equity, net of tax	–	–	14,400	–	–	–	14,400
Transfer to income statement in respect of amortisation of reclassified financial assets, net of tax	–	–	652,952	–	–	–	652,952
Total other comprehensive income	–	–	667,352	(308,438)	–	–	358,914
Total comprehensive loss for the year	–	–	667,352	(308,438)	–	(12,199,678)	(11,840,764)
Contributions by and distributions to owners							
Shares issued	14,615	80,385	–	–	–	–	95,000
Share based payment awards	–	–	–	–	1,720,496	–	1,720,496
Total transactions with owners	14,615	80,385	–	–	1,720,496	–	1,815,496
Balance at 31 December 2009	**48,928,422**	**206,206,328**	**(514,550)**	**(308,438)**	**2,191,163**	**(8,678,904)**	**247,824,021**

The notes on pages 30 to 91 are an integral part of these 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 2010 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 Special Purpose Vehicle 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 2010. 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 2010 was to increase operating profit before impairment charges and taxes by £962,907 (2009: £972,471). 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 33.

The comparative figures in the Consolidated income statement have been subject to a reclassification of £1,680,268 of income from the "Net fair value gains on investment securities" line to the "Income from financing and investing activities" line to be consistent with the current period presentation. Accordingly the comparative figures in both note 5 and note 7 have also been subject to this reclassification. This reclassification had no impact upon the loss for the period concerned.

b. Standards and interpretations issued but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by IASB and IFRIC with an effective date for periods beginning on or after the commencement date of these financial statements. The Group has not early adopted these standards which are as follows:

- IFRS 9 Financial Instruments – issued and not yet adopted– effective 1 January 2013.
- IFRIC 14 Prepayments of a Minimum Funding Requirement – issued and adopted by the EU – effective 1 January 2011.
- IAS 24 (revised) Related Party Disclosures – issued and adopted by the EU – effective 1 January 2011.
- IAS 27 (amendment) Consolidated and Separate Financial Statements – issued and adopted by the EU – effective 1 January 2011.

The Group anticipates that the accounting pronouncements which have not been early adopted will not have a material effect on the financial statements. However the full impact of IFRS 9 has not been fully evaluated by managementat this time.

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 31).

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 31).

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 14, 19, 32 and 33 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 Umbrella Fund SICAV-SIF have been classified under the fair value option as investment securities at "fair value through profit and loss". Any fair valuation 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 derecognised 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 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 derecognised 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 derecognised 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 derecognised 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 cashflows 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 page 36. 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 derecognised 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 arms 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 funds placed with an Employee Benefit Trust to facilitate loans to employees investing in BLME shares, prepayments associated with legal fees incurred in 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. Net realisable value is the estimated selling price observed at recent auctions less any applicable costs.

j. Operating leases

- **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.

- **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. 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.

o. 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.

p. Cash and cash equivalents

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

q. 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 33a (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 33.

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.

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 cashflow 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 2010 Carrying Value £	At 31 December 2010 Fair Value £	At 31 December 2009 Carrying Value £	At 31 December 2009 Fair Value £	At 1 July 2008 Fair Value £
US Dollar trading assets Sukuk at FV through P&L reclassified to loans and receivables	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	16,370,485	14,357,229	39,170,696	34,776,783	39,925,758
Total financial assets reclassified to loans and receivables	**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 and 1.5485 at 31 December 2010.

Fair value has decreased since 1 July 2008 mainly due to the disposal of an impaired Sukuk issued by a Saudi based company, the maturity of two 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 2010 would have included unrealised fair value profits on the reclassified trading assets of £1,508,231 (2009: £1,210,559 profits, 2008: £2,358,638 profits).

For the year to 31 December 2010, as a result of the reclassification, the Bank made an unrealised fair value gain of £962,907 (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 2010 shareholders' equity would have included unrealised fair value net profits on the reclassified financial assets available for sale of £2,402,096 (2009: £4,355,441 losses, 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 2010.

	12 months to 31 December 2010	12 months to 31 December 2009	6 months to 31 December 2008
Trading Assets Sukuk	**£**	**£**	**£**
Profit share	489,248	225,691	235,194
Provision for credit losses	–	–	–
Income before taxes on reclassified trading assets Sukuk	**489,248**	**225,691**	**235,194**
Available for sale Sukuk			
Profit share	473,659	746,780	47,225
Provision for credit losses	–	(11,322,269)	–
Income before taxes on reclassified financial assets Available for sale Sukuk	**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 1.40% (2009: 2.33%, 2008: 3.05%).

5. Income from financing and investing activities

Income from:	**2010 £**	**2009* £**
Financial institutions		
Wakala income	73,455	346,110
Murabaha income	279,922	535,010
Financing arrangements		
Murabaha income	12,233,827	16,908,818
Mudaraba income	90,084	146,594
Musharaka income	77,181	318,862
Istisna and Ijara income	130,511	711,467
Finance lease income	5,959,025	3,442,342
Sukuk	4,872,692	3,815,944
	23,716,697	**26,225,147**

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

6. Returns to financial institutions and customers

	2010 £	2009 £
Murabaha	3,477,130	10,508,384
Wakala	547,669	356,329
Profit rate swap	3,269,685	1,741,292
Customer deposits	98,871	–
	7,393,355	**12,606,005**

7. Net fair value gains on investment securities

	2010 £	2009* £
Net realised gain on sale of investment securities	469,936	400,459
Net unrealised gain/(loss) on investment securities	1,195,448	(385,979)
	1,665,384	**14,480**

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

8. Other operating income

	2010 £	2009 £
Gain on foreign exchange transactions	–	12,338
Operating lease income	20,289,306	14,773,253
Gain on leased asset sale	88,890	174,372
Rental income from investment property	843,174	929,682
Other	253,808	1,002,952
	21,475,178	**16,892,597**

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	**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**
	2009 Cash flow hedge $	**2009 Cash flow hedge £**	**2009 Fair value hedge $**	**2009 Fair value hedge £**
Profit rate swaps	112,000,000	69,157,147	21,000,000	12,966,965
	112,000,000	**69,157,147**	**21,000,000**	**12,966,965**

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 profit rate swaps 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 continues to be reported as part of the basis of the item and 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.

Fair value of PRSs designated as fair value hedges:

Group and Bank	2010 Fair value assets £	2010 Fair value liabilities £	2009 Fair value assets £	2009 Fair value liabilities £
Profit rate swaps	**–**	**1,117,860**	**23,416**	**8,375**

Gains or losses arising from fair value hedges:

Group	2010 £	2009 £
Net profit rate swap asset as at 1 January	15,041	–
Gains/(losses):		
Exchange translation	689	–
On hedging instruments through the profit and loss	(59,437)	(47,378)
On the hedged items attributable to the hedged risk	(1,074,153)	62,419
Net profit rate swap (liability)/asset as at 31 December	**(1,117,860)**	**15,041**

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 2010 a loss of £59,437 (2009: £47,378) was recognised due to hedge ineffectiveness.

Gains or losses arising from fair value hedges:

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

Bank	2009 £
Net profit rate swap liability as at 1 January	(5,139,664)
Gains:	
Exchange translation	583,504
On hedging instruments through the profit and loss	448,958
On hedge items attributable to the hedge risk	1,450,258
Net profit rate swap liability as at 30 June	(2,656,944)
Re-designated to cashflow hedge for Bank	2,656,944
Net profit rate swap asset/(liability) as at 1 July	–
Gains/(losses):	
On hedging instruments through the profit and loss	(47,378)
On hedge items attributable to the hedge risk	62,419
Net profit rate swap asset as at 31 December	**15,041**

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 2010, a loss of £59,437 (2009: £401,580 gain) was recognised due to hedge ineffectiveness.

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.

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	**2010 Fair value assets £**	**2010 Fair value liabilities £**	**2009 Fair value assets £**	**2009 Fair value liabilities £**
Profit rate swaps	–	5,435,959	235,829	3,100,706

Gains or losses arising from cash flow hedges:

Group	**2010 £**	**2009 £**
Net profit rate swap liability as at 1 January	(2,864,878)	(5,139,664)
Gains/(losses):		
Exchange translation	(130,205)	513,171
On hedging instruments through the profit and loss	(42,193)	304,519
On hedging instruments through reserves	(2,398,683)	1,457,096
Net profit rate swap liability as at 31 December	**(5,435,959)**	**(2,864,878)**

The gains and losses on ineffective portions of such PRSs are recognised immediately in 'Other operating income/expense'. During the year to 31 December 2010, a loss of £42,193 (2009: £304,519 gain) was recognised due to hedge ineffectiveness.

Bank	**2010 Fair value assets £**	**2010 Fair value liabilities £**	**2009 Fair value assets £**	**2009 Fair value liabilities £**
Profit rate swaps	–	5,435,959	235,829	3,077,683

Gains or losses arising from cash flow hedges:

Bank	2010 £
Net profit rate swap liability as at 1 January	(2,864,878)
Losses:	
Exchange translation	(130,205)
On hedging instruments through the profit and loss	(42,193)
On hedging instruments through reserves	(2,398,683)
Net profit rate swap liability as at 31 December	**(5,435,959)**

Bank	2009 £
Net profit rate swap asset/(liability) as at 1 January	–
Re-designated from fair value hedge and designated as cash flow hedge	(2,656,944)
Net profit rate swap liability as at 1 July	(2,656,944)
Gains/(losses):	
Exchange translation	(41,015)
On hedging instruments through the profit and loss	(239,388)
On hedging instruments through reserves	72,469
Net profit rate swap liability as at 31 December	**(2,864,878)**

The gains and losses on ineffective portions of such PRSs are recognised immediately in 'Other operating income/expense'. During the year to 31 December 2010, a loss of £42,193 (2009: £239,388 loss) was recognised due to hedge ineffectiveness.

Contractual principal balances of PRSs designated for hedging purposes

The schedules of contractual principal balances on which the expected profit cash flows arise as at 31 December 2010 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 £	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**

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 £	2009 Total £
Liabilities	58,660,080	–	–	58,660,080
	58,660,080	**–**	**–**	**58,660,080**

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.

Profit rate swaps not held in a hedge relationship

As at 31 December 2010 there were no PRSs awaiting designation as cash flow hedges (2009: two). The two PRSs awaiting designation as at 31 December 2009 were designated as cash flow hedges on 1 January 2010. Changes in the fair value of these PRSs up to the date of designation were reported in the income statement under "Other operating income" (2010: £20,533 loss/2009: £5,691 gain).

10.Personnel expenses

	2010 £	2009 £
Wages and salaries	9,526,530	5,149,641
Social security costs	691,672	577,504
Defined contribution pension scheme costs	620,608	632,632
Sharia'a Supervisory Board fees	78,239	90,750
Recruitment costs	245,506	218,831
Other staff costs	211,089	764,494
	11,373,644	**7,433,852**

The following table summarises the number of employees within the Group as at 31 December 2010 and 31 December 2009 respectively.

	2010 Number	2009 Number
Period end	68	60
Average for the period – management	7	6
Average for the period – non-management	56	49

11.Directors' emoluments

	2010 £	2009 £
Directors' emoluments	2,717,969	992,687
Bank contributions to pension plans	75,000	75,000
	2,792,969	**1,067,687**

The aggregate of emoluments of the highest paid director was £1,307,411 (2009: £314,393), and pension contributions of £30,000 (2009: £30,000) were made on his behalf.

12.Other operating expenses

	2010 £	2009 £
Legal and professional fees	1,478,711	2,324,396
Rent and other occupancy costs	1,409,006	1,336,913
Consultancy	697,368	986,388
Communications and IT costs	610,434	587,913
Advertising and market development	592,350	270,540
Board and SSB related expenses	377,574	405,836
Loss on foreign exchange transactions and translation	850,762	–
Other operating charges	1,854,133	1,896,353
	7,870,338	**7,808,339**

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

	2010 £	2009 £
Auditors remuneration		
Audit of financial statements: Year end	166,000	166,000
Audit of financial statements: Interim report	40,000	35,000
Tax services	33,882	97,327
Other services	134,695	138,811
	374,577	**437,138**

13.Share based payments

During the year £2,058,450 (2009: £325,496) 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:

	2010 £	2009 £
Approved Share Option Plan ("ASOP")	43,757	20,513
Executive Share Option Scheme ("ESOP")	285,193	260,983
Deferred Annual Bonus Scheme ("DABS")	1,729,500	(56,000)
Shares issued under employee incentive schemes	–	100,000
	2,058,450	**325,496**

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 and ESOPs awards, is included in the following tables:

	ASOP 2010	ASOP 2009	Parallel ASOP 2010	Parallel ASOP 2009	DABS 2010	DABS 2009
Fair value (pence)	1.9	1.5	1.9	N/A	N/A	6.5
Share price (pence)	5.0	5.2	5.0	N/A	N/A	6.5
Exercise price (pence)	5.0	6.5	5.0	N/A	N/A	Nil
Expected volatility (% p.a.)	30	30	30	N/A	N/A	N/A
Option life (years)	6.5	6.5	6.5	N/A	N/A	N/A
Expected dividends (% p.a.)	Nil	Nil	Nil	N/A	N/A	Nil
Risk free interest rate (%)	3.25	3.5	3.25	N/A	N/A	N/A

	ESOP Tranche 1 2010	ESOP Tranche 2 2010	ESOP Tranche 3 2010	ESOP Tranche 4 2010	ESOP Tranche 1 2009	ESOP Tranche 2 2009	ESOP Tranche 3 2009	ESOP Tranche 4 2009
Fair value (pence)	1.1	1.2	1.2	1.3	1.4	1.5	1.6	1.7
Share price (pence)	5.0	5.0	5.0	5.0	5.2	5.2	5.2	5.2
Exercise price (pence)	6.5	6.5	6.5	6.5	6.5	6.5	6.5	6.5
Expected volatility (% p.a.)	30	30	30	30	30	30	30	30
Option life (years)	5.35	5.85	6.35	6.85	5.70	6.20	6.70	7.20
Expected dividends (% p.a.)	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Risk free interest rate (%)	2.0	2.0	2.1	2.2	3.5	3.5	3.5	3.5

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.

Approved share options

Share options were first granted in 2008 under the BLME Approved Share Option Plan to employees. The options may vest after three years and are exercisable up to the tenth anniversary of the date of grant, after which they lapse.

	Number of options 2010	Weighted average excercise price (pence) 2010	Number of options 2009	Weighted average excercise price (pence) 2009
Outstanding at 1 January	4,153,846	6.5	1,230,769	6.5
Granted in the year	3,500,000	5.0	3,230,769	6.5
Forfeited in the year	(615,388)	6.5	(307,692)	6.5
Outstanding at 31 December	**7,038,458**	**5.8**	**4,153,846**	**6.5**

The weighted average remaining contractual life of the above approved options outstanding at the balance sheet date was 8.5 years (2009: 8.9 years). The weighted average exercise price was 5.8 pence (2009: 6.5 pence). None of these options were exercisable at the balance sheet date.

During the year 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.

	Number of parallel options 2010	**Number of parallel options 2009**
Outstanding at 1 January	–	–
Granted in the year	4,000,000	–
Forfeited in the year	(615,388)	–
Outstanding at 31 December	**3,384,612**	**–**

The weighted average remaining contractual life of the above parallel options outstanding at the balance sheet date was 9.2 years. The weighted average exercise price was 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.

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 vesting date being three years following the award date.

During the year 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.

	Number of nil cost options 2010	Number of nil cost options 2009
Outstanding at 1 January	29,215,384	7,076,923
Awarded and deferred	–	22,138,461
Awarded under matched award	8,876,923	–
Forfeited in the year	–	–
Settled in the year	(815,386)	–
Outstanding at 31 December	**37,276,921**	**29,215,384**

Conditions were met in 2010 in respect of the 2007 and 2008 Deferred Annual Bonus scheme matching awards.

The weighted average remaining contractual life of the above nil cost options outstanding at the balance sheet date was 7.9 years (2009: 8.9 years). The weighted average exercise price was Nil. None of these options were exercisable at the balance sheet date.

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.

	Number of options 2010	Number of options 2009
Outstanding at 1 January	85,599,163	–
Granted in the year	25,500,000	97,827,615
Forfeited in the year	–	(12,228,452)
Outstanding at 31 December	**111,099,163**	**85,599,163**

The options forfeited in 2009 related to performance options where the target criteria were not met in 2009.

The weighted average remaining contractual life of the above executive share options outstanding at the balance sheet date was 8.5 years (2009: 9.2 years). The weighted average exercise price was 6.5 pence. None of these options were exercisable at the balance sheet date.

Share purchase plan

BLME launched a 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) Ltd. Financing is scheduled to be repaid by 30 June 2013.

14. Impairment of financial assets

Group			2010
Impairments of financial assets:	**Individual £**	**Collective £**	**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	–	6,222,326
Finance lease receivables	513,177	1,468,014	1,981,191
	6,735,503	**1,468,014**	**8,203,517**

Group			2009
Impairments of financial assets:	**Individual £**	**Collective £**	**Total £**
Balance at 1 January 2009	754,562	188,640	943,202
Exchange translation and other movements	272,323	(39,697)	232,626
Gross Impairment charge	18,834,539	2,176,955	21,011,494
Amounts written off during the year	(3,974,160)	(484,788)	(4,458,948)
	14,860,379	1,692,167	16,552,546
Balance as at 31 December 2009	**15,887,264**	**1,841,110**	**17,728,374**
Being impairments against:			
Financing arrangements	15,887,264	–	15,887,264
Finance lease receivables	–	1,841,110	1,841,110
	15,887,264	**1,841,110**	**17,728,374**

Bank			**2010**
	Individual	**Collective**	**Total**
Impairments of financial assets:	**£**	**£**	**£**
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**

Bank			**2009**
	Individual	**Collective**	**Total**
Impairments of financial assets:	**£**	**£**	**£**
Balance at 1 January 2009	754,562	188,640	943,202
Exchange translation and other movements	272,323	(39,697)	232,626
Gross Impairment charge	18,834,539	2,176,955	21,011,494
Amounts written off during the year	(3,974,160)	(484,788)	(4,458,948)
	14,860,379	1,692,167	16,552,546
Balance as at 31 December 2009	**15,887,264**	**1,841,110**	**17,728,374**
Being impairments against:			
Financing arrangements	15,887,264	1,841,110	17,728,374
	15,887,264	**1,841,110**	**17,728,374**

As at 31 December 2010, four facilities (3 individual and 1 collective) comprising amounts due to the Group of £20.8 million (2009: £37.2 million) were determined to be impaired.

As at 31 December 2010, the individual provisions are £2.6 million ($4 million) against the transportation sector (2009: £2.5 million/$4 million), £1.9 million ($3 million) against the telecommunications sector (2009 £nil/$nil) and £2.2 million (€2.5 million) in respect of a European manufacturing business (2009: £2.2 million/€2.5 million). The collective provision of £1.5 million ($2.3 million) is against a US finance lease portfolio in the transportation sector (2009: £1.8 million/$3 million).

15. Taxation

Group	2010 £	2009 £
Current tax for the year	860,474	(1,500,138)
Prior year adjustment to current tax	(381,655)	(211,278)
Current tax	478,819	(1,711,416)
Deferred tax for the year	1,019,428	(3,936,597)
Tax charge/(credit) in income statement	**1,498,247**	**(5,648,013)**

The charge for tax on the profit during the year was based on the average UK corporation tax rate of 28% (2009: 28%). The tax charge for the year is higher than the standard rate of corporation tax as explained below.

Reconciliation of effective tax rate		
Profit/(loss) on ordinary activities	5,015,924	(18,888,940)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009: 28%)	1,404,459	(5,288,903)
Expenses not deductible for tax purposes	54,733	56,052
Tax exempt (income)/loss	(61,608)	202,433
Share based payment transactions	204,955	(3,359)
Change in temporary differences	199,743	(402,958)
Effect of change in tax rates	77,620	–
Prior year adjustment to current tax	(381,655)	(211,278)
Tax charge/(credit) in income statement	**1,498,247**	**(5,648,013)**

Following the enactment of the Finance (No 2) Act 2010, the main UK Corporation Tax rate will reduce from 28% to 27% with effect from 1st April 2011. Accordingly the deferred tax assets and liabilities recognised below have been calculated using a corporation tax rate of 27%.

It was also announced in the Budget on 22 June 2010 that the main UK Corporation Tax rate would be reduced further from 27% to 24% over the following three tax years. These proposed changes have not yet been enacted into UK law. It has not been possible to quantify with certainty what the effect of all four rate changes would be.

Tax recognised in other comprehensive income

Group	2010 £	2009 £
Cash flow hedging reserve	1,426,913	–
Fair value reserve	(75,964)	(259,526)
	1,350,949	**(259,526)**

Bank	2010 £	2009 £
Cash flow hedging reserve	936,438	–
Fair value reserve	(75,964)	(259,526)
	860,474	**(259,526)**

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.

Deferred tax has not been recognised on losses in a Group entity consolidated under IAS 27 (SIC-12) which does not qualify as a subsidiary under UK law. There is an unrecognised deferred tax asset of £126,592 (2009: £103,117) arising on losses of £468,858 (2009: £368, 276) in TP Funding Company LLC.

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/(liabilities) at 31 December 2010	**5,307,259**	**(1,620,128)**	**3,687,131**

Recognised deferred tax assets and liabilities at 31 December 2009

Group	Assets £	Liabilities £	Net £
Property, equipment and software	–	(993,001)	(993,001)
Tax loss carry forwards	4,396,995	–	4,396,995
Cash flow hedges	–	(44,471)	(44,471)
Share based payment transactions	719,852	–	719,852
Other expenses	136,709	–	136,709
Net tax assets/(liabilities) at 31 December 2009	**5,253,556**	**(1,037,472)**	**4,216,084**

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
Other expenses	–	–	–
Net tax assets/(liabilities) at 31 December 2010	**4,222,362**	**(1,620,128)**	**2,602,234**

Recognised deferred tax assets and liabilities at 31 December 2009

Bank	Assets £	Liabilities £	Net £
Property, equipment and software	–	(993,001)	(993,001)
Tax loss carry forwards	3,927,538	–	3,927,538
Share based payment transactions	719,852	–	719,852
Other expenses	26,448	–	26,448
Net tax assets/(liabilities) at 31 December 2009	**4,673,838**	**(993,001)**	**3,680,837**

16. Profit attributable to equity shareholders of the Bank

£3,517,677 of the consolidated profit for the financial year (2009: loss of £12,199,678) has been dealt with in the accounts of the Bank.

As permitted by 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 or less £	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**

Group

	0-3 months or less £	4-12 months £	1-5 years £	2009 Total £
Murabaha	117,852,206	6,000,000	–	123,852,206
Wakala	9,264,961	–	–	9,264,961
	127,117,167	**6,000,000**	**–**	**133,117,167**

Bank

	0-3 months or less £	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**

Bank

	0-3 months or less £	4-12 months £	1-5 years £	2009 Total £
Murabaha	109,139,612	6,000,000	–	115,139,612
Wakala	9,264,961	–	–	9,264,961
	118,404,573	**6,000,000**	**–**	**124,404,573**

18. Investment securities

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**

Group	Listed £	Unlisted £	2009 Total £
Fair value through profit and loss			
Sukuk	20,570,072	–	20,570,072
Designated as fair value through profit and loss			
Sharia'a compliant fund	–	1,721,849	1,721,849
Available for sale			
Equity	–	933,146	933,146
	20,570,072	**2,654,995**	**23,225,067**

Bank	Listed £	Unlisted £	2010 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**

Bank	Listed £	Unlisted £	2009 Total £
Designated as fair value through profit and loss			
Sukuk	–	–	–
Sharia'a compliant funds	–	32,560,945	32,560,945
Available for sale			
Equity	–	933,146	933,146
Investment in subsidiary	–	15,437	15,437
	–	**33,509,528**	**33,509,528**

As at 31 December 2009 and 2010 the investment in subsidiary consisted of $25,000 equivalent invested in one subsidiary company, BLME Umbrella Fund Management Sarl.

19. Investment property

The Group purchased a leasehold interest in a US commercial real estate property in Bettendorf, Iowa through the SPV 'TP Funding Company LLC' (see note 31) on 22 August 2008. The property was purchased with the intention of transferring it to a property fund (Mercury Fund) that was initially to be launched in 2008, but due to prevailing market conditions, launch has been postponed.

The property is accounted for under IAS 40 "Investment property" and was initially recognised at cost and re-measured using the fair value model as at 31 December 2010 and at 31 December 2009.

Group	2010 £	2010 $	2009 £	2009 $
Opening balance	6,915,715	11,200,000	8,437,371	12,300,000
Additions	–	–	–	–
Net exchange differences	316,858	–	(818,750)	–
Net fair value loss	–	–	(702,906)	(1,100,000)
Closing balance	**7,232,573**	**11,200,000**	**6,915,715**	**11,200,000**

The Group's investment property was valued as at 31 December 2010 by an independent external professionally qualified valuation agent, CB Richard Ellis. The valuation was based on current prices in an active market.

The income statement includes rental income from the investment property of £843,174 (2009: £929,682) in the line "Other operating income" and direct operating expenses of £478,525 (2009: £579,769) including repairs and maintenance in the line "Other operating expenses".

20. Financing arrangements

Group	Less than 1year £	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

Group	Less than 1year £	1-5 years £	Over 5 years £	2009 Total £
Murabaha	79,300,643	96,750,267	–	176,050,910
Mudaraba	–	4,349,988	–	4,349,988
Musharaka	–	–	12,043,593	12,043,593
Istisna and Ijara	–	11,231,290	9,956,930	21,188,220
Sukuk	9,194,836	97,030,076	–	106,224,912
	88,495,479	**209,361,621**	**22,000,523**	**319,857,623**
Provision for impairment				(15,887,264)
				303,970,359

These tables represent contractual maturities.

Bank	Less than 1year £	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

Bank	Less than 1year £	1-5 years £	Over 5 years £	2009 Total £
Murabaha	79,300,643	96,750,267	–	176,050,910
Mudaraba	–	4,349,988	–	4,349,988
Musharaka	–	–	12,043,593	12,043,593
Istisna and Ijara	–	11,231,290	9,956,930	21,188,220
Participation agreement	7,884,607	90,699,137	14,469,352	113,053,096
Profit rate swaps	–	2,101,244	28,784	2,130,028
Sukuk	9,194,836	97,030,076	–	106,224,912
	96,380,086	**302,162,002**	**36,498,659**	**435,040,747**
Provision for impairment				(17,728,374)
				417,312,373

These tables represent contractual maturities.

21. Finance leases

Group	2010 £	2009* £
Gross investment in finance leases receivables		
Within one year	45,434,893	31,667,626
One to five years	86,866,873	78,827,675
Over five years	2,530,214	7,799,313
	134,831,980	118,294,614
Unearned future income on finance leases	(14,551,286)	(14,964,981)
Provision for impairment	(1,981,191)	(1,841,110)
Net investment in finance leases	**118,299,503**	**101,488,523**
The net investment in finance leases comprises:		
Within one year	39,481,916	22,850,072
One to five years	76,713,111	76,561,341
Over five years	2,104,476	2,077,110
	118,299,503	**101,488,523**

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

These tables represent contractual maturities.

Bank	**2010** **£**	**2009*** **£**
Gross investment in finance leases receivables		
Within one year	31,262,235	17,256,835
One to five years	67,894,759	51,161,468
Over five years	568,678	1,798,556
	99,725,672	70,216,859
Unearned future income on finance leases	(10,757,782)	(8,588,261)
Provision for impairment	(513,177)	–
Net investment in finance leases	**88,454,713**	**61,628,598**
The net investment in finance leases comprises:		
Within one year	27,637,533	14,196,451
One to five years	60,361,017	47,372,641
Over five years	456,163	59,506
	88,454,713	**61,628,598**

* Certain prior year number shave been reclassified to be consistent with current year presentation.

These tables represent contractual maturities.

22. Property and equipment

Group and Bank	**Computer Equipment £**	**Office Equipment £**	**Fixtures & Fittings £**	**2010 Total £**
Cost				
At 1 January 2009	311,880	83,562	1,694,013	2,089,455
Additions	40,707	17,573	16,230	74,510
At 31 December 2009	352,587	101,135	1,710,243	2,163,965
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
Depreciation and impairment losses				
At 1 January 2009	118,851	13,074	331,864	463,789
Charge for the year	111,689	31,925	376,276	519,890
At 31 December 2009	230,540	44,999	708,140	983,679
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**
Net Book Value				
At 1 January 2009	193,029	70,488	1,362,149	1,625,666
At 31 December 2009	122,047	56,136	1,002,103	1,180,286
At 31 December 2010	**79,994**	**30,214**	**665,886**	**776,094**

23. Operating lease assets

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**

Group	At 31 December 2008 £	Additions 2009 £	Disposals 2009 £	Depreciation 2009 £	Translation differences 2009 £	At 31 December 2009 £
Gross carrying amount	81,127,472	23,644,488	(2,899,136)	–	(7,467,663)	94,405,161
Less depreciation	(7,806,515)	–	783,985	(11,831,250)	1,109,922	(17,743,858)
	73,320,957	**23,644,488**	**(2,115,151)**	**(11,831,250)**	**(6,357,741)**	**76,661,303**

Rental receipts under operating leases	2010 £	2009 £
Future rentals are as follows:		
Less than one year	28,517,210	19,416,874
Between one and five years	74,636,185	65,351,797
More than five years	422,000	9,614,051
	103,575,395	**94,382,722**

Bank	At 31 December 2009 £	Additions 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**

Bank	At 31 December 2008 £	Additions 2009 £	Depreciation 2009 £	At 31 December 2009 £
Gross carrying amount	6,335,383	10,329,796	–	16,665,179
Less depreciation	(128,707)	–	(1,651,407)	(1,780,114)
	6,206,676	**10,329,796**	**(1,651,407)**	**14,885,065**

Rental receipts under operating leases	2010 £	2009 £
Future rentals are as follows:		
Less than one year	10,226,514	3,595,331
Between one and five years	27,387,731	11,009,868
More than five years	336,065	2,822,248
	37,950,310	**17,427,447**

24. Intangible assets

Group and Bank	2010	2009
Cost	**£**	**£**
Opening balance	1,893,371	1,734,011
Acquisitions	118,417	159,360
Closing balance	**2,011,788**	**1,893,371**
Depreciation and impairment losses		
Opening balance	1,100,399	531,163
Charge for the year	492,126	569,236
Closing balance	**1,592,525**	**1,100,399**
Net Book Value	**419,263**	**792,972**

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

25. Other assets

Group	2010 £	2009 £
VAT recoverable	2,490,238	3,194,131
Accrued income	340,581	490,301
Collateral deposits*	891,997	775,633
Prepayments	1,143,122	944,412
Operating lease accrued income	65,589	86,334
Other receivables**	4,620,027	4,723,746
Returned leased assets***	108,442	395,895
	9,659,996	**10,610,452**

Bank	2010 £	2009 £
VAT recoverable	2,490,238	3,194,131
Accrued income	334,067	437,619
Collateral deposits*	891,997	775,633
Prepayments	849,770	918,096
Other receivables**	4,530,482	4,648,836
	9,096,554	**9,974,315**

* The Bank has pledged cash collateral deposits of £891,997 (2009: £775,633) including £775,633 (2009: £775,633) as security against rental payments on its premises.

**Other receivables include £4,350,000 (2009: £4,350,000) of funds placed with an Employee Benefit Trust-Appleby Trust (Jersey) Ltd to facilitate loans to employees investing in BLME shares. This has been included within 'other receivables' as a discounted interest free loan with an amortised cost of £4,160,830 (2009: £4,253,043) and an outstanding linked prepayment of £189,170 (2009: £96,957). The interest free loan is discounted at 1.8%.

***Represents leased assets repossessed or returned by the customer. This is net of a £244,977 (2009: £484,788) 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 £398,113 (2009: £772,549) has been recognised in the income statement in respect of items sold during the year. The related costs incurred to maintain the returned lease assets during the year were £281,334 (2009: £209,392).

26. Due to financial institutions

Group and Bank	2010 £	2009 £
Reverse Murabaha	364,207,554	486,145,730
Wakala	59,924,492	7,229,253
	424,132,046	**493,374,983**

27. Due to customers

Group and Bank	2010 £	2009 £
Security deposits	3,180,000	2,500,000
Customer deposits	21,073,449	5,537,000
	24,253,449	**8,037,000**

28. Other liabilities

Group	2010 £	2009 £
Trade payables	949,085	941,578
Deferred income	2,019,179	1,231,743
Social security and income tax	223,711	406,266
Accruals	4,375,331	2,066,628
Other creditors	1,353,803	5,263,964
	8,921,109	**9,910,179**

Bank	2010 £	2009 £
Trade payables	275,658	546,525
Deferred income	1,074,910	1,196,140
Social security and income tax	223,711	406,266
Accruals	4,357,719	1,646,112
Other creditors	1,035,158	5,144,913
	6,967,156	**8,939,956**

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

	2010	2009
Future minimum rentals are as follows:	£	£
More than five years	2,028,525	2,353,089
	2,028,525	**2,353,089**

During the year £275,880 (2009: £279,506) 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

	2010	2009
Future minimum rentals are as follows:	£	£
More than five years	7,888,792	8,341,737
	7,888,792	**8,341,737**

During the year £490,685 (2009: £416,964) was recognised as an expense in the income statement in respect of this operating lease.

30. Share capital and share premium

Group and Bank

	2010 £	2009 £
Authorised		
6,000,000,000 ordinary shares of £0.01 each	60,000,000	60,000,000

	No. of shares	Share capital £	Share premium £
Allotted, called up and fully paid			
At 31 December 2008	4,891,380,692	48,913,807	206,125,943
Share issue at 20 January 2009	384,616	3,846	21,154
Share issue at 16 February 2009	1,076,924	10,769	59,231
At 31 December 2009	**4,892,842,232**	**48,928,422**	**206,206,328**
Allotted, called up and fully paid			
At 31 December 2009	4,892,842,232	48,928,422	206,206,328
Share issue at 28 February 2010	500,049	5,000	20,000
At 31 December 2010	**4,893,342,281**	**48,933,422**	**206,226,328**

On 28 February 2010 the Bank issued a total of 500,049 new ordinary shares with a nominal value of £0.01 per share under employee incentive schemes for a deemed value of £0.05 per share.

31. Subsidiaries and other entities

Subsidiary	Country of incorporation	BLME interest in equity capital %	Issued equity capital $
BLME Umbrella Fund Management Sarl	Luxembourg	100	25,000

In addition, BLME holds 1 Class M share and 49,733.531 Class B shares in the BLME US$ Income Fund compartment of the BLME Umbrella Fund SICAV SIF. BLME's interest is 97% of the shares issued; therefore this entity is deemed to be controlled by the Bank and is consolidated into the Group's results. The Group recognised an expense of £58,499 (2009: income of £2,120) 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% has been reported in the Group's balance sheet liabilities line "third party interest in consolidated funds".

There are seven entities 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 seven entities are as follows:

- Kalakane Transatlantic Investors II, Inc. (USA) – Operating leases
- BLX13 Inc (USA) – Operating leases and Finance leases
- SC-BL LP (USA) – Finance leases
- DMJ I LLC (USA) – Finance leases
- DMJ II LLC (USA) – Finance 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 £56,253,817 (2009: £61,776,238).

Finance leases owned by the SPVs amount to £29,844,790 (2009: £39,859,925).

32. Related parties

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

	2010 £	2009 £
Boubyan Bank		
Wakala deposit taking	–	3,000,000
Commodity Murabaha	6,000,000	36,500,000
Wakala placement	5,000,000	–
Reverse Murabaha	6,802,952	33,961,099
Foreign exchange transactions	37,513	399,093
SGM-FX		
Foreign exchange transactions	55,153,601	3,187,174

The amounts outstanding with Boubyan Bank as at 31 December 2010 were as follows:

Included within:	2010 £	2009 £
Cash and balances with banks		
Nostros	116,549	39,572
Due from financial institutions		
Wakala placement	5,000,000	–
Murabaha	–	6,000,000
Due to financial institutions		
Reverse Murabaha	–	(6,174,745)

The maximum outstanding on balance sheet and off balance sheet amounts with Boubyan Bank during the year ended 31 December 2010 were £12,809,304 and £nil respectively (2009: £49,464,032 and £10,768,870)

The maximum outstanding amount with SGM-FX during the year ended 31 December 2010 was £17,810,221 (2009: £1,691,564). As at 31 December 2010 the Bank had the following outstanding foreign currency forward contracts with SGM-FX: £6,105,004 (sell GBP / buy USD) and £624,212 (buy USD / sell ZAR). The fair value of these contracts as at 31 December 2010 was £12,289. There were no outstanding foreign currency forward contracts with SGM-FX at 31 December 2009.

On 22nd 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 £1,033,294 at the balance sheet date, annually in arrears for the services with the first payment due on 30th 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".

As at 31 December 2010, Boubyan Bank held 14.96% and Boubyan Capital held 1.02% 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 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:

	2010 £	2009 £
Key management emoluments	2,437,969	712,687
Bank contributions to pension plans	75,000	75,000
	2,512,969	**787,687**

33. 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, 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. The Group has a rigorous 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 monitoring credit exposures, limiting transactions with specific counterparties, countries or sectors and continually assessing the creditworthiness of counterparties. It also ensures that credit capacities are properly diversified across the Bank's businesses to ensure an appropriate allocation of risk capital and to avoid undue 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 (Counterparty Credit Risk Committee). 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.
- Limiting concentrations of exposure to 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 to promote best practice 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 2010, 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

	2010 £	2009 £
Cash and balances with banks	37,228,323	96,272,364
Due from financial institutions		
Murabaha	81,833,216	123,852,207
Wakala	12,336,094	9,264,960
Investment securities	26,774,748	23,225,067
Financing arrangements	323,998,989	303,970,359
Finance lease receivables	118,299,503	101,488,523
Total credit exposure	**600,470,873**	**658,073,480**

There were no off balance sheet letters of guarantee outstanding at 31 December 2010 (2009: £150,000).

Bank

	2010 £	2009 £
Cash and balances with banks	33,385,602	93,651,558
Due from financial institutions		
Murabaha	73,438,265	115,139,612
Wakala	11,496,600	9,264,961
Investment securities	38,748,411	33,509,528
Financing arrangements	420,344,528	417,312,373
Finance lease receivables	88,454,713	61,628,598
Total credit exposure	**665,868,119**	**730,506,630**

There were no off balance sheet letters of guarantee outstanding at 31 December 2010 (2009: £150,000).

iii. Exposure by Country

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

Group

	2010 £	2009 £
GCC countries		
Bahrain	18,378,562	23,520,079
Kuwait	12,846,584	25,186,125
Qatar	24,435,503	25,342,363
Saudi Arabia	28,332,838	34,796,596
United Arab Emirates	61,549,334	82,884,305
EEA countries		
France	32,808,119	5,023,891
Germany	17,825,143	11,486,390
Luxembourg	3,487,311	1,181,291
Switzerland	18,040,004	20,912,205
United Kingdom	296,257,507	352,130,362
Other countries		
Bermuda	10,103,904	–
Chile	1,253,928	1,966,592
Djibouti	4,910,661	12,043,593
Hong Kong	492,820	–
Japan	2,901,897	–
Malaysia	1,675,567	5,764,070
South Africa	–	12,719,975
Turkey	17,055,230	–
USA	48,115,961	43,115,643
Total credit exposure	**600,470,873**	**658,073,480**

Bank

	2010 £	2009 £
GCC countries		
Bahrain	16,061,413	22,269,245
Kuwait	10,673,041	22,945,204
Qatar	19,345,225	22,308,170
Saudi Arabia	26,949,446	29,665,857
United Arab Emirates	49,758,330	73,351,986
EEA countries		
France	32,808,119	5,023,890
Germany	16,146,153	9,880,759
Luxembourg	34,122,750	30,854,532
Switzerland	18,040,004	20,912,205
United Kingdom	296,048,157	350,246,204
Other countries		
Bermuda	10,103,904	–
Chile	1,260,442	1,979,830
Djibouti	4,910,661	12,043,593
Hong Kong	492,820	–
Japan	1,302,699	–
Malaysia	–	4,500,666
South Africa	–	12,719,975
Turkey	17,055,230	–
USA	110,789,725	111,804,514
Total credit exposure	**665,868,119**	**730,506,630**

iv. Exposure by economic sector

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

Group

	2010 £	2009 £
Financial services		
GCC financial institutions	121,124,329	116,738,936
UK financial institutions	59,306,643	157,549,002
European financial institutions	46,653,054	12,667,681
Other financial institutions	14,908,980	5,940,181
Mining and quarrying	26,497,639	17,245,900
Manufacturing	19,923,226	23,484,030
Real estate	176,063,618	141,030,584
Transportation and storage	80,548,800	93,264,036
Government	13,933,292	36,169,023
Healthcare	635,078	2,665,663
Sharia'a compliant funds	5,229,134	1,721,849
Wholesale/Retail	15,360,011	18,138,211
Others	20,287,067	31,458,384
Total credit exposure	**600,470,871**	**658,073,480**

Bank

	2010 £	2009 £
Financial services		
GCC financial institutions	104,895,613	104,696,770
UK financial institutions	59,097,293	155,664,844
European financial institutions	44,974,064	9,880,759
Other financial institutions	10,958,951	4,500,665
Mining and quarrying	26,504,153	31,952,425
Manufacturing	39,694,602	44,148,207
Real estate	180,695,150	142,144,993
Transportation and storage	80,431,600	91,705,236
Government	10,919,844	33,876,165
Healthcare	9,120,429	12,573,617
Sharia'a compliant funds	35,848,428	32,560,945
Wholesale/Retail	32,860,076	37,997,506
Others	29,867,916	28,804,498
Total credit exposure	**665,868,119**	**730,506,630**

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 2010. Of the total portfolio 47% was directly rated by a least one of the ECAI, with 53% 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

	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**

Group

	2009 Investment Grade £	2009 Sub Investment Grade £	2009 BLME Internal Rating £	2009 Total £
Cash and balances with banks	96,272,364	–	–	96,272,364
Due from financial institutions	126,640,440	–	6,476,727	133,117,167
Financing arrangements	126,200,136	22,344,803	155,425,420	303,970,359
Investment securities	15,204,571	4,671,644	3,348,852	23,225,067
Finance lease receivables	28,711,747	411,782	72,364,994	101,488,523
Total credit exposure	**393,029,258**	**27,428,229**	**237,615,993**	**658,073,480**

The Group cash balances, due from financial institutions and investment securities were neither past due nor impaired as at 31 December 2010. In 2009 a write down of £19,360 was recognised in respect of an unlisted equity investment.

Analysis of past due amounts and impairments

Group	Financing arrangements 2010 £	Financing arrangements 2009 £	Finance leases 2010 £	Finance leases 2009 £
Neither past due nor impaired	307,641,984	294,776,180	114,403,563	92,397,928
Past due but not impaired	12,742,263	63,200	–	–
Gross exposure associated with impairment provision	9,837,068	25,018,243	5,877,131	10,931,705
Less: allowance for impairment	(6,222,326)	(15,887,264)	(1,981,191)	(1,841,110)
Total	**323,998,989**	**303,970,359**	**118,299,503**	**101,488,523**

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	3,982,885	63,200	–	–
Total	**12,742,263**	**63,200**	**–**	**–**

The past due but not impaired balance disclosed above includes £8,814,928 relating to a credit which the Bank has been negotiating with the client since 31 December 2010. It is the Bank's belief that the client's business remains solvent and that the client is both willing and able to service the facility. In addition the Bank is in receipt of a corporate guarantee from a significant affiliate of the client and a personal guarantee from the majority shareholder of the client.

The "past due over 90 days" category disclosed above includes £3,890,807 relating to a syndicated facility. Since the year end date the syndicate agent has requested a temporary standstill agreement with creditors pending completion of a business plan and restructuring proposal. The syndicate agent anticipates the imminent clearance of the principal arrears as well as receipt of current profit servicing prior to rescheduling the outstanding debt.

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**

Bank	2009 Investment Grade £	2009 Sub- Investment Grade £	2009 BLME Internal Rating £	2009 Total £
Cash and balances with banks	93,651,558	–	–	93,651,558
Due from financial institutions	117,927,846	–	6,476,727	124,404,573
Financing arrangements	204,624,043	37,418,928	175,269,402	417,312,373
Investment securities	–	–	33,509,528	33,509,528
Finance lease receivables	–	411,781	61,216,817	61,628,598
Total credit exposure	**416,203,447**	**37,830,709**	**276,472,474**	**730,506,630**

The Bank cash balances, due from financial institutions and investment securities were neither past due nor impaired as at 31 December 2010. In 2009 a write down of £19,360 was recognised in respect of an unlisted equity investment.

Analysis of past due amounts and impairments

Bank	Financing arrangements		Finance leases	
	2010 £	2009 £	2010 £	2009 £
Neither past due nor impaired	400,782,699	401,192,147	87,763,598	59,464,051
Past due but not impaired	12,742,263	63,200	–	–
Gross exposure associated with impairment provision	14,509,906	33,785,400	1,204,292	2,164,547
Less: allowance for impairment	(7,690,340)	(17,728,374)	(513,177)	–
Total	**420,344,528**	**417,312,373**	**88,454,713**	**61,628,598**

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	3,982,885	63,200	–	–
Total	**12,742,263**	**63,200**	**–**	**–**

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 78.

- ### 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. For the year ended 31 December 2010 BLME, whilst maintaining an overall robust asset book, considered it prudent to take an impairment charge on another asset (see note 14).

vi. Collateral

Within its financing activities, which spans working capital finance provision to term real estate financing, BLME ensures 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 2010, collateral represented 52% (2009: 44%) of BLME assets.

During the year, BLME obtained assets by taking possession of collateral with a value of £538,101 (2009; £840,573). This represented plant and equipment and the carrying amount at 31 December 2010 was £108,442 (2009: £395,895) and is classified as returned leased assets in "Other Assets" (see note 25).

Group	**2010 Exposure £**	**2010 Collateral £**	**2009 Exposure £**	**2009* Collateral £**
Cash and balances with banks	37,228,323	–	96,272,364	–
Due from financial institutions	94,169,310	–	133,117,167	–
Investment securities	26,774,748		23,225,067	
Financing arrangements	323,998,989	191,444,406	303,970,359	161,153,938
Finance lease receivables	118,299,503	119,767,517	101,488,523	128,781,055
Total credit exposure	**600,470,873**	**311,211,923**	**658,073,480**	**289,934,993**

Analysis of collateral	**2010 £**	**2009* £**
Plant and equipment	127,000,089	149,537,012
Property	172,904,631	130,147,675
Raw materials/ finished stock	7,294,002	5,393,743
Financial guarantee	4,013,201	4,856,563
Total credit exposure	**311,211,923**	**289,934,993**

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

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	2010 Exposure £	2010 Collateral £	2009 Exposure £	2009* Collateral £
Cash and balances with banks	33,385,602	–	93,651,558	–
Due from financial institutions	84,934,865	–	124,404,573	–
Investment securities	38,748,411	–	33,509,528	–
Financing arrangements	420,344,528	287,230,377	417,312,373	272,365,923
Finance lease receivables	88,454,713	88,454,713	61,628,598	79,703,771
Total credit exposure	**665,868,119**	**375,685,090**	**730,506,630**	**352,069,694**

Analysis of collateral	2010 £	2009* £
Plant and equipment	184,240,684	204,243,924
Property	180,137,203	137,575,464
Raw materials/ finished stock	7,294,002	5,393,743
Financial guarantee	4,013,201	4,856,563
Total credit exposure	**375,685,090**	**352,069,694**

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

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	2010 Carrying value £	2010 Fair value £	2009 Carrying value £	2009 Fair value £
Due from financial institutions	i	94,169,310	94,169,310	133,117,167	133,117,167
Investment securities	ii	26,774,748	26,774,748	23,225,067	23,019,884
Financing arrangements	iii	323,998,989	317,768,820	303,970,359	299,653,750
Finance lease receivables	iv	118,299,503	116,515,213	101,488,523	105,422,237
Profit rate swaps asset	v	–	–	264,936	264,936
Due to financial institutions	iv	424,132,046	423,425,155	493,374,983	493,715,453
Profit rate swaps liability	v	6,553,819	6,553,819	3,109,081	3,109,081
Due to customers	iv	24,253,449	24,253,449	8,037,000	8,037,000

Bank	Note	2010 Carrying value £	2010 Fair value £	2009 Carrying value £	2009 Fair value £
Due from financial institutions	i	84,934,865	84,934,865	124,404,573	124,404,573
Investment securities	ii	38,748,411	38,748,411	33,509,528	33,509,528
Financing arrangements	iii	420,344,528	413,849,452	417,312,373	416,982,242
Finance lease receivables	iv	88,454,713	88,026,747	61,628,598	63,927,038
Profit rate swaps asset	v	–	–	264,936	264,936
Due to financial institutions	iv	424,132,046	423,425,155	493,374,983	493,715,453
Profit rate swaps liability	v	6,553,819	6,553,819	3,109,081	3,109,081
Due to customers	iv	24,253,449	24,253,449	8,037,000	8,037,000

Notes

i. Apart from the £5 million Wakala placement with Boubyan Bank, which is disclosed in further detail in Note 32, these assets represent short term liquidity with an average residual life of 1 week for the Bank and 5 weeks for the Group and a maximum individual residual maturity of 9 months for both Bank and Group. The assets are placed with banks with an average credit rating of BBB+ for both Bank and 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 or 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.

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	**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 asset	–	–	–	–
Profit rate swaps liability	–	6,553,819	–	6,553,819

Group	**2009 Level 1 £**	**2009 Level 2 £**	**2009 Level 3 £**	**2009 Total £**
Investment securities	18,738,383	3,553,538	948,583	23,240,504
Profit rate swaps asset	–	264,936	–	264,936
Profit rate swaps liability	–	3,109,081	–	3,109,081

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

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 asset	–	–	–	–
Profit rate swaps liability	–	6,553,819	–	6,553,819

Bank	**2010 Level 1 £**	**2010 Level 2 £**	**2010 Level 3 £**	**2010 Total £**
Investment securities	–	32,560,945	948,583	33,509,528
Profit rate swaps asset	–	264,936	–	264,936
Profit rate swaps liability	–	3,109,081	–	3,109,081

viii. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2010.

Group	2010 Fair value through profit and loss	2010 Designated at fair value through profit and loss upon initial recognition	2010 Available for sale	2010 Profit Rate Swaps designated as fair value hedging instruments	2010 Profit Rate Swaps designated as cash flow hedging instruments	2010 Financial assets at amortised cost	2010 Total
Assets	**£**	**£**	**£**	**£**	**£**	**£**	**£**
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
Profit rate swaps	–	–	–	–	–	–	–
Total assets	**23,451,780**	**1,741,828**	**1,581,140**	**–**	**–**	**573,696,125**	**600,470,873**

	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
Liabilities	**£**	**£**	**£**	**£**
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**

Group	2009 Fair value through profit and loss	2009 Designated at fair value through profit and loss upon initial recognition	2009 Available for sale	2009 Profit Rate Swaps designated as fair value hedging instruments	2009 Profit Rate Swaps designated as cash flow hedging instruments	2009 Financial assets at amortised cost	2009 Total
Assets	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Cash and balances with banks	–	–	–	–	–	96,272,364	96,272,364
Due from financial institutions	–	–	–	–	–	133,117,167	133,117,167
Investment securities							
Sukuk	20,570,072	–	–	–	–	–	20,570,072
Unlisted sharia'a compliant fund	–	1,721,849	–	–	–	–	1,721,849
Equity	–	–	933,146	–	–	–	933,146
Financing arrangements	–	–	–	–	–	303,970,359	303,970,359
Finance lease receivables	–	–	–	–	–	101,488,523	101,488,523
Profit Rate Swaps	5,691	–	–	23,416	235,829	–	264,936
Total assets	**20,575,763**	**1,721,849**	**933,146**	**23,416**	**235,829**	**634,848,413**	**658,338,416**

	Profit Rate Swaps designated as fair value hedging instruments	Profit Rate Swaps designated as cash flow hedging instruments	Financial liabilities at amortised cost	2009 Total
Liabilities	**£**	**£**	**£**	**£**
Due to financial institutions	–	–	493,374,983	493,374,983
Due to customers	–	–	8,037,000	8,037,000
Profit rate swaps	8,375	3,100,706	–	3,109,081
Total liabilities	**8,375**	**3,100,706**	**501,411,983**	**504,521,064**

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

	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
Liabilities	**£**	**£**	**£**	**£**
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	2009 Fair value through profit and loss	2009 Designated at fair value through profit and loss upon initial recognition	2009 Available for sale	2009 Profit Rate Swaps designated as fair value hedging instruments	2009 Profit Rate Swaps designated as cash flow hedging instruments	2009 Financial assets at amortised cost	2009 Total
Assets	**£**	**£**	**£**	**£**	**£**	**£**	**£**
Cash and balances with banks	–	–	–	–	–	93,651,558	93,651,558
Due from financial institutions	–	–	–	–	–	124,404,573	124,404,573
Investment securities:							
Unlisted sharia'a compliant fund	–	32,560,945	–	–	–	–	32,560,945
Equity	–	–	933,146	–	–	–	933,146
Investment in subsidiary	–	–	–	–	–	15,437	15,437
Financing arrangements	–	–	–	–	–	417,312,373	417,312,373
Finance lease receivables	–	–	–	–	–	61,628,598	61,628,598
Profit Rate Swaps	5,691	–	–	23,416	235,829	–	264,936
Total assets	**5,691**	**32,560,945**	**933,146**	**23,416**	**235,829**	**697,012,539**	**730,771,566**

Liabilities	Profit Rate Swaps designated as fair value hedging instruments	Profit Rate Swaps designated as cash flow hedging instruments	Financial liabilities at amortised cost	2009 Total
	£	**£**	**£**	**£**
Due to financial institutions	–	–	493,374,983	493,374,983
Due to customers	–	–	8,037,000	8,037,000
Profit rate swaps	8,375	3,100,706	–	3,109,081
Total liabilities	**8,375**	**3,100,706**	**501,411,983**	**504,521,064**

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 Markets 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).

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 2010, the Bank had acquired £435,646,200 (2009: £493,374,983) of term deposits and held £86,130,499 (2009: £106,224,912) 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 £	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**

Group and Bank	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	2009 Total £
Due to financial institutions	270,408,292	119,906,607	104,214,161	–	–	494,529,060
Due to customers	4,057,000	–	–	3,980,000	–	8,037,000
Profit rate swaps	–	–	–	2,438,790	670,291	3,109,081
	274,465,292	**119,906,607**	**104,214,161**	**6,418,790**	**670,291**	**505,675,141**

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 Bank's income. It covers profit rate risk and foreign exchange risk. 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 rates 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 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 2010, BLME'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 £50,176 (2009: £57,860). 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 £8,438,000 (2009: £5,786,000) and to increase or decrease equity by £5,017,600 (2009: £5,786,000).

ii. Credit spread risk

Following the 13 October 2008 revisions to IAS 39, and in common with market practice, the Bank's Sukuk assets have remained as accrual items under an IAS 'Loans and Receivables' designation. These assets are mainly higher rated bank obligations across a range of GCC countries, and are principally held as long term investment assets. As a result, the risk associated with these assets is deemed to be credit default risk as opposed to the credit spread risk that relates to Trading Book assets.

During the year a Sukuk Trading Book was launched. The portfolio size and individual issuer risks were 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 2010 was £1,302,699 (2009: £nil). 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 £128,830 (2009: £Nil).

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. 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 £106,069 (2009: £974). 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.

The foreign exchange result for the period to 31 December 2010 was a loss of £850,762 (2009: £12,338 profit). The loss for 2010 predominantly relates to the revaluation of impairment provisions booked in currency during 2010 in respect of the 2009 financial statements.

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 effectively 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 2010 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. During the year there were no operational risk items that resulted in financial loss.

e. Capital adequacy

At 31 December 2010 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 2010 was as follows:

	2010 £ (unaudited)	2009 £ (unaudited)
Tier 1 capital		
Ordinary share capital	48,933,422	48,928,422
Share premium	206,226,328	206,206,328
Retained earnings	(7,179,954)	(10,697,631)
Total Tier 1 capital	**247,979,796**	**244,437,119**
Deductions from Tier 1 capital:		
Intangible assets	(419,263)	(792,972)
Total Tier 1 capital after deductions	**247,560,533**	**243,644,147**
Tier 2 capital		
Collective allowances for impairment	1,468,014	1,841,110
Total Tier 2 capital before deductions	**1,468,014**	**1,841,110**
Total Tier 1 and Tier 2 capital	**249,028,547**	**245,485,257**
Deductions from Tier 1 and Tier 2 capital:		
Investment in BLME US$ Income Fund	(34,121,904)	(30,851,071)
Investment in DMJ II LLC	(1,260,847)	(1,976,804)
Investment in BLME Umbrella Fund Management Sarl	(16,144)	(15,347)
Investment in portfolio of Private Equity investments	(1,581,140)	(933,146)
Total regulatory capital	**212,048,512**	**211,708,889**

The amounts of regulatory capital shown above differ from the balances shown in the Group's statement of financial position in light of adjustments in respect of certain reserves, which arise on the application of IFRS. They also differ from the amounts reported to the FSA as at 31 December 2010 as the total above includes the retained profits for 2010 which cannot be included in the amounts reported to the FSA until such time as the financial statements for the subject year are approved.

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 2010.

	2010 £ (unaudited)	2009 £ (unaudited)
Pillar 1 capital requirements		
Credit Risk	41,990,000	38,309,000
Market Risk – Foreign Exchange PRR	102,000	769,000
Counterparty risk capital component	326,000	685,000
Operational Risk	3,383,000	3,515,000
Total Pillar 1 capital requirement	**45,801,000**	**43,278,000**
Total regulatory capital in place	**212,048,512**	**211,461,269**
Excess of capital in place over minimum requirement under Pillar 1	**166,247,512**	**168,183,269**

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.

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