BLME

BANK OF LONDON AND THE MIDDLE EAST

Annual Report and Accounts

31 December 2009

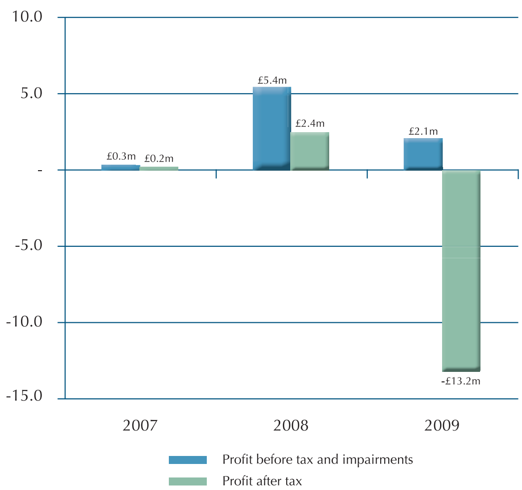
Registered number 05897786

CONTENTS

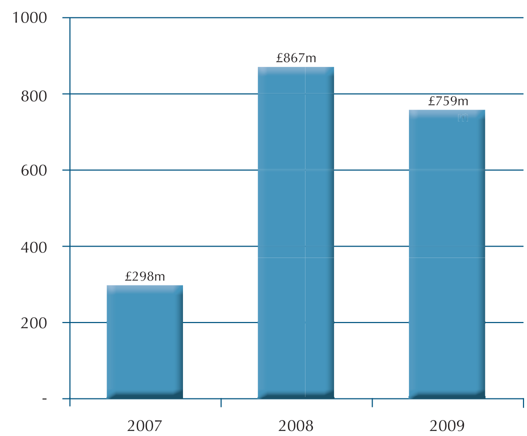
2009 GROUP HIGHLIGHTS FOR BANK OF LONDON AND THE MIDDLE EAST PLC

- BLME has significant increased its range of product offerings in the Treasury, Corporate Banking, Private Banking, Asset Management and Corporate Advisory divisions, thus fulfilling its strategy outlined in the 2006 Private Placement Memorandum.
- BLME reports a reduced Operating Profit of £2.1million in 2009 before impairment charges due to continuing low market rates and a sharper focus on liquidity preservation.
- BLME has taken impairment charges of £21million, equivalent to less than 3% of total assets, as a result of the global economic downturn.

Consolidated Income Statement

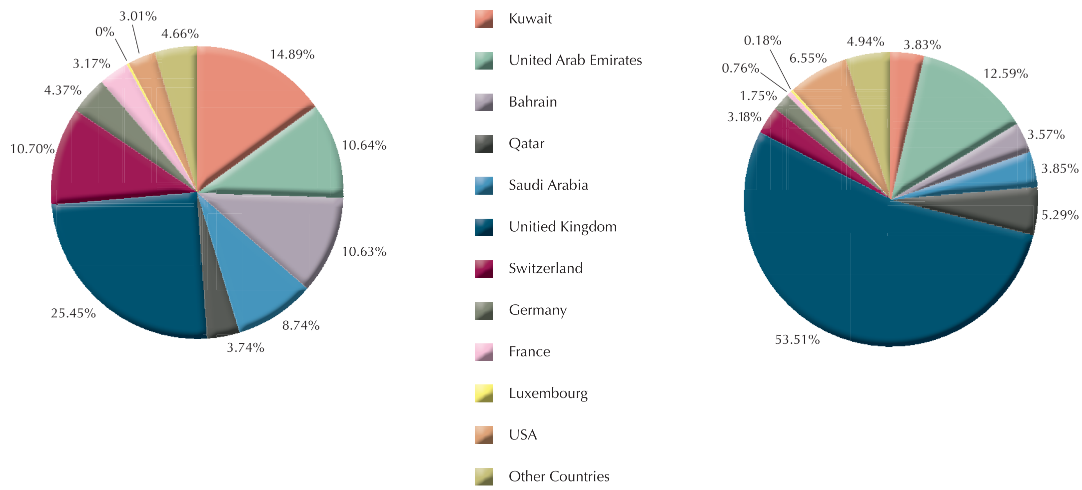


Consolidated Balance Statement



Exposures by Country at 31 December 2008

Exposures by Country at 31 December 2009



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

CHAIRMAN'S STATEMENT

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

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

I write to report to our shareholders on the continued development of the Bank of London and The Middle East plc in the 12 months to 31 December 2009. Despite the extremely difficult market situation, I note that the Group was able to report a pre-tax Operating Profit before Impairment Charges of £2,122,554. However, while it is understandable that economic circumstances have led to BLME taking several credit impairment charges and provisions, I am nevertheless disappointed that these resulted in a Net Operating Loss after Tax of £13,240,927.

Your Board is confident that Management has taken the necessary actions to preserve capital, and to focus the business on core client relationships and appropriate business opportunities. Indeed, I take encouragement from the timely implementation of the Bank's Asset Management, Private Banking and Corporate Advisory businesses which complete the main parts of the strategic plan laid down in the 2006 Private Placement Memorandum, and which enable BLME to offer a diverse and unrivalled range of products and services to its customers.

I take note of the leading role that BLME continues to play in the pioneering development of new Islamic products, and I am extremely grateful for the expertise and support provided by our Sharia'a Supervisory Board. It is particularly pleasing that BLME received four prestigious awards during the year. These are strong evidence of BLME's growing market reputation and the brand identity that it has established in less than three years of operation.

Looking forward your Board remains cautious about the prospects for a meaningful market recovery and a return in investor confidence for the year ahead. Nevertheless, the increasing value of trusted relationships and growing interest in ethical banking bodes well for BLME's prospects in 2010. I am therefore confident that BLME will recover from the disappointments of 2009, and continue to build upon its expanding customer franchise and its diverse product offering.

Your Board, in line with the long term strategy for the Bank, will continue to examine the opportunity for BLME to seek a London market listing.

I would lastly like to thank our shareholders in particular for their continued support in what has been an extremely challenging year for BLME.

Yacob Al-Muzaini

Chairman

29 March 2010

Business summary and results

In the year to 31 December 2009 Bank of London and The Middle East reported an Operating Profit before Impairment Charges for the Group of £2,122,554. The dominant factors behind the reduction from the £5,389,424 Operating Profit before Impairment Charges reported for the previous year were the lower Treasury income on money market assets caused by the sustained global fall in yields, and the non-renewal of the Restricted Investment Account activity that was prevalent in 2008. The reduced balance sheet earnings resulted from the Bank's commitment to maintain longer dated funding to support customer financing needs while retaining prudential levels of liquidity throughout a period of tighter credit and turbulent economic conditions. In seeking to achieve a sensible balance between liquidity and profitability, the Group's year-end 2009 Balance Sheet reduced to £758,715,228 from £867,275,741 at 31 December 2008.

I am disappointed to report that the continued business building and momentum that were achieved in 2009 were overshadowed by several exposures that required sizeable credit impairment provisions to be taken. These provisions and charges to profit and loss totalled £21,011,494. As a result the Group reported a Net Operating Loss after Tax of £13,240,927. Although most regrettable at this stage in the Bank's development, BLME's capital position remains strong with the provisions amounting to 2.8% of Total Assets.

Credit situation and risk appetite

By way of introduction, ahead of commenting on the specific credit losses, it is appropriate to mention that three of the four items are highly correlated to trading and commodity factors resulting from the ongoing global economic crisis.

Firstly, a charge of £5,685,280 was taken in respect of a European manufacturing business that was adversely impacted by the downturn in aluminium prices and a loss of a number of its contracts with the auto industry. (The Bank is awaiting a court decision regarding its claim for recoveries against part of this charge.) The second charge of £2,176,954 relates to a portfolio of US leases where the performance and level of recovery from the underlying assets have deteriorated as a consequence of the US domestic economic environment. A third charge of £1,678,000 is in respect of a shipping asset where the borrower became unable to service his obligations due to the severe falls in global charter rates. Since this default the syndicate banks have taken over management of the vessel and put it back on charter. The largest provision of £11,322,269 relates to a Sukuk where the obligor's debts to the international community are the subject of an investigation that commenced in May 2009.

In the face of the continued deterioration in the global economy, the Executive re-examined the Bank's risk appetite. This resulted in the exiting of several credits that had become higher risk in the light of the unfolding downturn in the global market place. It also prompted an increased focus on domestic, higher rated, shorter term, and better collateralised business within a framework of reduced concentration risk.

Elsewhere, ahead of tighter regulatory liquidity rules, the Asset and Liability Committee took steps to strengthen the Bank's liquidity profile and stress testing standards, and to diversify further the Bank's funding capabilities. The emphasis on maintaining a healthy liquidity position throughout the year, even at a cost to profitability, meant that the Bank was able to maintain suitable buffers beyond its prudential guidelines and regulatory limits. This strategic decision resulted in the Bank seeking and achieving longer term funding, albeit at higher rates.

Business model and highlights

Despite the challenges of operating in difficult market conditions, I am pleased to report that BLME continued to show healthy growth in its customer businesses and, in keeping with its stated strategy, established Wealth Management and Corporate Advisory activities in its premises in the West End of London. These businesses offer a diverse and leading range of investment, financing and advisory solutions to existing and prospective BLME clients in Europe and The Middle East.

Although economic conditions, particularly those in the GCC region, have resulted in these businesses developing more slowly than originally planned it is encouraging to report that BLME was able to implement these businesses, including the necessary staff and infrastructure investments, on schedule and within budget. Already the US $ Income Fund that was launched in March 2009 has achieved a top quartile position in its peer sector (source Thomson Reuters LIPPER Fund Performance). Elsewhere in its Asset Management business, BLME continued to develop bespoke Islamic investment structures across a varied range of asset classes.

In the more recently established businesses of Private Banking and Corporate Advisory, 2009 saw the expansion of the Bank's product offering and the recruitment of professionals following the launch of these businesses at the beginning of the year.

In the Markets Division the principal objective was to strengthen further the Bank's management of liquidity, including the diversification of its depositor base, and to increase the Bank's reserve of liquid assets in the lead up to stricter regulatory guidelines in 2010. Despite a far tougher credit market, BLME was successful in increasing its number of interbank lines. It also expanded its deposit base from Corporate Banking and Private Banking customers.

Corporate Banking continued to strengthen its focus on key relationship customers and business lines. This saw an expansion in the UK leasing business, continued progress in property finance and an emphasis on short term revolving trade finance facilities. Separately, the US leasing business has grown through the acquisition of several high quality assets and lessees.

Having completed the establishment of its 5 business lines BLME adopted a "One Bank" approach to ensure that clients are offered the full range of the Bank's services and financial solutions. This client led approach operates with a framework that takes full account of regulatory and client confidentiality considerations.

Our staff and expertise

I am pleased to announce that BLME's commitment and professionalism to developing Islamic Finance in the United Kingdom was rewarded with a number of prestigious awards, notably the 2009 World Islamic Banking Conference Institutional Excellence Award; the 2009 Islamic Finance News Awards for Best Islamic Leasing Provider; Best UK Islamic Bank and Best UK Leasing Deal.

In the area of product development the Bank was active in the pioneering of new Islamic products and structures. Notable amongst these achievements was the establishment of a range of Trade Finance products that has already opened up access to this large and mature market. The Bank has also developed new forms of Islamic floating rate finance, and agreed with the UK Taxation Authorities a framework that permits BLME to create more flexible and liquid Ijara based structures.

Elsewhere, BLME continued to promote the Islamic Finance Qualification, and to work closely with the Chartered Institute for Securities and Investment (CISI). It is also pleasing to report that staff turnover has remained below 5%, significantly less than the market norm.

Outlook for the future

Despite 2009 being a disappointing year, I am confident that the meaningful progress made by BLME in developing key client relationships and new product offerings augur well for 2010. In our more established businesses there is strong evidence that customers value the Bank's relationship credentials. This is evidenced by the number of industry awards gained in 2009 that demonstrate the brand identity and market reputation that BLME has already achieved.

While 2010 financial performance will largely depend on BLME's own efforts, it should be remembered that there is a significant dependency on an improved economic environment. Although I anticipate market conditions in 2010 to remain challenging, I take confidence from the achievements made in 2009 under the most difficult set of circumstances in which BLME retained its position as the largest, most diversified and best capitalised Sharia'a based bank in the European time zone.

Humphrey Percy

Chief Executive Officer

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 24 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. 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. 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, and 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. 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 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 recent executive roles include 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.

Frank Willem Vermeulen

Frank is Chairman of BLME's Audit Committee. He has a Master's Degree in Dutch law and he has spent more than 20 years in banking, mostly 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 until his retirement at the end of 2006 where he held the positions of Treasurer and CFO. Frank currently also holds Board positions with Optitune plc 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. He was 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, BLME's largest shareholder and General Manager of Kuwait Clearing Company. He is also a member of both the National Committee for Resource Exhaustion Prevention and the Kuwait Stock Exchange.

DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2009.

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 2009 are shown on pages 18 to 84. The consolidated Group loss for the year after taxation amounts to (£13,240,927) (2008: profit £2,372,059). The unconsolidated loss for the Bank for the year after taxation amounts to (£12,199,678) (2008: profit £3,345,117).

Financial review

In the year to 31 December 2009 BLME continued to build on its Markets and Corporate Banking businesses and set up its 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

Note 34 provides a full description of how the Group and Bank manages these risks.

DIRECTORS AND DIRECTORS' INTERESTS

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

Name	Date of appointment	Date of resignation	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
Fuad Saleh Al-Shehab	7 August 2006	25 September 2009	Nominations Audit Risk Remuneration

Under the Articles of Association Sheikh Abdullah Al Sabah and Massood Akbar will retire by rotation at the next Annual General Meeting and Ibrahim Al Qadhi who was appointed by the Board in the year will also retire. They intend to offer themselves for re-appointment at the next Annual General Meeting.

The Directors who held office at 31 December 2009 had the following beneficial interests in the ordinary shares of BLME.

Name	Class of share end of the year	Interest at the start of the year	Interest at the
Yacob Yousef Al-Muzaini	Ordinary 1p	36,500,000	36,500,000
Humphrey Richard Percy	Ordinary 1p	16,342,306	16,342,306
Nigel Brodie Denison	Ordinary 1p	8,846,152	8,846,152
Richard Radway Williams	Ordinary 1p	7,346,152	7,346,152
Sheikh Abdullah Jaber Al-Ahmed Al-Sabah	Ordinary 1p	2,000,000	2,000,000
Neil Jonathan Holden	Ordinary 1p	750,000	750,000
Frank Willem Vermeulen	Ordinary 1p	263,051	263,051

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.

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 2010 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

29 March 2010

The Board considers that good corporate governance is central to achieving the Bank's objectives.

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 2009 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. Fuad Al-Shehab resigned as a non-executive Director of BLME effective from the 25 September 2009 and Ibrahim Al-Qadhi replaced him on the Audit and Risk Committees.

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 24 March, when Yacob Al-Muzaini and Masood Akbar were absent and 25 September, when Masood Akbar 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 2009, non-audit services provided by KPMG comprised advice with regard to taxation, International Financial Reporting Standards compliance and other miscellaneous services.

The Audit Committee met seven times during the year; each meeting was attended by all members, other than 7 September, when Fuad Al-Shehab and Sheikh Abdullah Jaber Al-Ahmed Al-Sabah were absent and 14 September, when Fuad Al-Shehab 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 recommend to the Board the principles of BLME's risk policy and risk management, and to oversee the management of the risk structure and financing portfolios.

The Risk Committee met four times during the year; each meeting was attended by all members, other than the meeting on 25 September, when Masood Akbar 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 five times during the year; each meeting was attended by all members, other than the meeting on 20 January, when Fuad Al-Shehab was absent and 24 September when Masood Akbar 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 Committee is also responsible for overseeing the annual performance evaluation of the Board, its principal Committees and the Chairman.

The Nominations Committee met twice during the year and was attended by all members.

Chairman and Chief Executive

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

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

b. Executive management is led by the Chief Executive Officer, Humphrey Percy, who has been delegated responsibility by the Board for the day-to-day management of the Bank within the control and authority framework set by the Board. The Finance Director, Richard Williams, and Head of 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 2009 to 31 December 2009 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 2009 to 31 December 2009 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 generated by BLME during the year 1 January 2009 to 31 December 2009 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

29 March 2010

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 ("IFRSs") 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 IFRSs 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.

To the members of the 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 2009 set out on pages 18 to 84. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) 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 15, 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 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 website at www.frc.org.uk/apb/scope/UKNP.

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 2009 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent company's financial statements have been properly prepared in accordance with IFRSs 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

29 March 2010

For the year 1 January 2009 to 31 December 2009

	Note	2009 £	2008* £
Income			
Income from financing and investing activities	*6*	24,544,879	28,751,197
Returns to financial institutions and customers	*7*	(12,606,005)	(12,697,354)
Net margin		11,938,874	16,053,843
Fee and commission income		1,618,912	7,484,382
Fee and commission expense		(1,159,224)	(5,359,489)
Net fee income		459,688	2,124,893
Net fair value gains on investment securities	8	1,694,748	489,806
Net fair value (losses)/gains on investment property	*20*	(702,906)	213,973
Other operating income	*9*	16,892,597	9,081,407
Total operating income		**30,283,001**	**27,963,922**
Expenses			
Personnel expenses	*11*	(7,433,852)	(9,001,510)
Depreciation and amortisation	23,24,25	(12,920,376)	(7,071,316)
Other operating expenses	*13*	(7,808,339)	(6,501,672)
Change in third party interest in consolidated funds	32	2,120	–
Total operating expenses		**(28,160,447)**	**(22,574,498)**
Operating profit before impairment charges		**2,122,554**	**5,389,424**
Net impairment charge on financial assets	*15*	(21,011,494)	(943,202)
Net operating (loss)/profit before tax		**(18,888,940)**	**4,446,222**
Tax	*16*	5,648,013	(2,074,163)
(Loss)/profit for the year		**(13,240,927)**	**2,372,059**

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

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

The notes on pages 30 to 84 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year 1 January 2009 to 31 December 2009

	2009 £	2008 £
Income		
(Loss)/profit for the year	(13,240,927)	2,372,059
Other comprehensive income/(expense)		
Foreign currency translation differences for foreign operations	203,839	(167,747)
Foreign currency translation differences for cash flow hedging reserve	429,520	–
Changes in fair value of cash flow hedges taken to equity	1,457,096	(5,100,570)
Ineffective portion of change in fair value of cash flow hedges transferred to income statement	(242,101)	798,732
Change in fair value of available for sale financial assets taken to equity	20,000	(1,565,690)
Change in fair value of available for sale financial assets transferred to income statement	906,878	290,144
Income tax on other comprehensive income	(259,526)	363,531
Other comprehensive income/(expense) for the year net of income tax	2,515,706	(5,381,600)
Total comprehensive (loss) for the year	**(10,725,221)**	**(3,009,541)**

The notes on pages 30 to 84 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2009

	Note	2009 £	2008 £
Assets			
Cash and balances with banks		96,272,364	5,799,089
Due from financial institutions	*18*	133,117,167	371,453,122
Investment securities	*19*	23,225,067	2,364,108
Financing arrangements	*21*	303,970,359	328,530,815
Finance lease receivables	*22*	101,488,523	62,690,280
Operating lease assets	*24*	76,661,303	73,320,957
Profit rate swaps	*10*	264,936	–
Investment property	*20*	6,915,715	8,437,371
Property and equipment	23	1,180,286	1,625,666
Intangible assets	25	792,972	1,202,848
Other assets	26	10,610,452	11,571,998
Deferred tax assets	16	4,216,084	279,487
Total assets		**758,715,228**	**867,275,741**
Liabilities			
Due to financial institutions	*27*	493,374,983	594,377,061
Due to customers	*28*	8,037,000	4,700,000
Profit rate swaps	*10*	3,109,081	5,139,664
Third party interests in consolidated funds	*32*	791,484	–
Other liabilities	29	9,910,179	8,823,246
Current tax liability		–	1,833,544
Total liabilities		**515,222,727**	**614,873,515**
Equity			
Share capital	*31*	48,928,422	48,913,807
Share premium	*31*	206,206,328	206,125,943
Fair value reserve		(514,550)	(1,181,902)
Cash flow hedging reserve		(2,657,323)	(4,301,838)
Share based payment reserve		2,191,163	470,667
Foreign currency translation reserve		36,092	(167,747)
Retained earnings		(10,697,631)	2,543,296
Total equity attributable to equity holders of the Bank		**243,492,501**	**252,402,226**
Total liabilities and equity		**758,715,228**	**867,275,741**

The notes on pages 30 to 84 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on 29 March 2010 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 2009

	Note	2009 £	2008 £
Assets			
Cash and balances with banks		93,651,558	4,268,297
Due from financial institutions	*18*	124,404,573	371,453,122
Investment securities	*19*	33,509,528	2,364,108
Financing arrangements	*21*	417,312,373	433,702,664
Finance lease receivables	*22*	61,628,598	40,256,271
Operating lease assets	*24*	14,885,065	6,206,676
Profit rate swaps	*10*	264,936	–
Property and equipment	*23*	1,180,286	1,625,666
Intangible assets	*25*	792,972	1,202,848
Other assets	*26*	9,974,315	10,852,801
Deferred tax assets	*16*	3,680,837	–
Total assets		**761,285,041**	**871,932,453**
Liabilities			
Due to financial institutions	*27*	493,374,983	594,377,061
Due to customers	*28*	8,037,000	4,700,000
Profit rate swaps	*10*	3,109,081	5,139,664
Other liabilities	*29*	8,939,956	7,896,243
Current tax liability		–	1,833,544
Deferred tax liability		–	136,652
Total liabilities		**513,461,020**	**614,083,164**
Equity			
Share capital	*31*	48,928,422	48,913,807
Share premium	*31*	206,206,328	206,125,943
Fair value reserve		(514,550)	(1,181,902)
Cash flow hedging reserve		(308,438)	–
Share based payment reserve		2,191,163	470,667
Retained earnings		(8,678,904)	3,520,774
Total equity attributable to equity holders of the Bank		**247,824,021**	**257,849,289**
Total liabilities and equity		**761,285,041**	**871,932,453**

The notes on pages 30 to 84 are an integral part of these consolidated financial statements.

These financial statements were approved by the Board of Directors on 29 March 2010 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 2009 to 31 December 2009

	2009	2008*
	£	£
Cash flows from operating activities		
Operating (loss)/profit before tax	(18,888,940)	4,446,222
Adjusted for:		
Exchange differences	1,393,479	(1,998,197)
Fair value loss/(gain) on investment property	702,906	(213,973)
Provision for impairment	21,011,494	943,202
Depreciation and amortisation	12,920,376	7,071,316
Share awards	95,000	1,645,607
Mark to market gain adjusted in equity	20,000	251,672
Amortisation of fair value reserve	906,878	(1,527,218)
Income from financing and investing activities	(24,544,879)	(28,751,197)
Returns to financial institutions and customers	12,606,005	12,559,184
	6,222,319	**(5,573,382)**
Net decrease/(increase) in operating assets:		
Due from financial institutions	238,335,955	(190,921,189)
Financing arrangements	5,193,477	(247,546,734)
Finance lease receivables	(38,798,243)	(63,047,475)
Operating lease assets	(15,171,596)	(67,756,453)
Other assets	(1,367,961)	(8,360,327)
	188,191,632	**(577,632,178)**
Net (decrease)/increase in operating liabilities:		
Due to financial institutions	(101,002,078)	485,727,780
Due to customers	3,337,000	(901,432)
Profit rate swaps	(2,030,583)	5,139,664
Other liabilities	10,138,219	4,353,843
	(89,557,442)	**494,319,855**
Income from financing and investing activities received	26,609,450	25,471,617
Returns to financial institutions and customers paid	(19,145,315)	(6,474,089)
Corporation tax paid	(381,654)	(275,000)
Net cash inflow/(outflow) from operating activities	**111,938,990**	**(70,163,177)**
Cash flows from investing activities		
Purchase of property and equipment	(74,510)	(974,207)
Purchase of intangible assets	(159,360)	(690,776)
Purchase of investment property	–	(6,451,442)
(Purchase)/sale of investment securities	(20,860,959)	8,322,411
Net cash (outflow)/inflow from investing activities	**(21,094,829)**	**205,986**

(Continued on next page)

For the year 1 January 2009 to 31 December 2009 continued

	2009	2008*
	£	£
Cash flows from financing activities		
Net proceeds from issue of share capital	–	75,000,000
Net change in cash and cash equivalents	**90,844,161**	**5,042,809**
Cash and cash equivalents at the beginning of the year	5,799,089	697,786
Exchange differences in respect of cash and cash equivalents	(370,886)	58,494
Cash and balances with banks at the end of the year	**96,272,364**	**5,799,089**

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

The notes on pages 30 to 84 are an integral part of these consolidated financial statements.

BANK STATEMENT OF CASH FLOWS

For the year 1 January 2009 to 31 December 2009

	2009 £	2008* £
Cash flows from operating activities		
Operating (loss)/profit before tax	(17,728,584)	5,833,524
Adjusted for:		
Exchange differences	355,365	(147,926)
Provision for impairment	21,011,494	943,202
Depreciation and amortisation	2,740,534	830,807
Share awards	95,000	1,645,607
Mark to market gain adjusted in equity	20,000	–
Amortisation of fair value reserve	906,878	(1,275,546)
Income from financing and investing activities	(28,180,920)	(31,370,132)
Returns to financial institutions and customers	12,606,005	12,559,184
	(8,174,228)	**(10,981,280)**
Net decrease/(increase) in operating assets:		
Due from financial institutions	247,048,549	(190,921,189)
Financing arrangements	(4,929,641)	(336,417,498)
Finance lease receivables	(21,372,327)	(40,256,271)
Operating lease assets	(10,329,796)	(6,335,383)
Other assets	(1,451,021)	(8,061,957)
	208,965,764	**(581,992,298)**
Net (decrease)/increase in operating liabilities:		
Due to financial institutions	(101,002,078)	485,727,780
Due to customers	3,337,000	(901,432)
Profit rate swaps	(2,030,583)	5,139,664
Other liabilities	9,166,197	3,520,691
	(90,529,464)	**493,486,703**
Income from financing and investing activities received	30,245,491	28,090,553
Returns to financial institutions and customers paid	(19,145,315)	(6,474,089)
Corporation tax paid	(381,654)	(275,000)
Net cash inflow/(outflow) from operating activities	**120,980,594**	**(78,145,411)**
Cash flows from investing activities		
Purchase of property and equipment	(74,510)	(974,207)
Purchase of intangible assets	(159,360)	(690,776)
(Purchase)/sale of investment securities	(31,145,420)	8,322,411
Net cash (outflow)/inflow from investing activities	**(31,379,290)**	**6,657,428**

(Continued on next page)

For the year 1 January 2009 to 31 December 2009 continued

	2009	2008*
	£	£
Cash flows from financing activities		
Net proceeds from issue of share capital	–	75,000,000
Net change in cash and cash equivalents	**89,601,304**	**3,512,017**
Cash and cash equivalents at the beginning of the year	4,268,297	697,786
Exchange differences in respect of cash and cash equivalents	(218,043)	58,494
Cash and balances with banks at the end of the year	**93,651,558**	**4,268,297**

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

The notes on pages 30 to 84 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
Change in fair value of available for sale financial assets transferred to income statement, net of tax	–	–	652,952	–	–	–	–	652,952
Total other comprehensive income	–	–	667,352	1,644,515	–	–	203,839	2,515,706
Total comprehensive income/(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 award	–	–	–	–	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**

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 current tax. £652,952 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.

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 as well as from the translation of liabilities that hedge the Bank's net investment in foreign operations.

The notes on pages 30 to 84 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 31December 2007	37,291,730	142,204,520	(269,887)	–	–	171,237	–	179,397,600
Profit for the year	–	–	–	–	–	2,372,059	–	2,372,059
Other comprehensive income/(expense) Foreign currency translation	–	–	–	–	–	–	(167,747)	(167,747)
Changes in fair value of cash flow hedges	–	–	–	(5,100,570)	–	–	–	(5,100,570)
Changes in fair value of cash flow hedges transferred to income statement	–	–	–	798,732	–	–	–	798,732
Change in fair value of available for sale financial assets taken to equity, net of tax	–	–	(1,202,159)	–	–	–	–	(1,202,159)
Change in fair value of available for sale financial assets transferred to income statement, net of tax	–	–	290,144	–	–	–	–	290,144
Total other comprehensive expense	–	–	(912,015)	(4,301,838)	–	–	(167,747)	(5,381,600)
Total comprehensive income/(loss) for the year	–	–	(912,015)	(4,301,838)	–	2,372,059	(167,747)	(3,009,541)
Contributions by and distributions to owners								
Shares issued	11,622,077	63,921,423	–	–	–	–	–	75,543,500
Share based payment award	–	–	–	–	470,667	–	–	470,667
Total transactions with owners	11,622,077	63,921,423	–	–	470,667	–	–	76,014,167
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**

The notes on pages 30 to 84 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
Change in fair value of assets available for sale financial assets transferred to income statement, net of tax	–	–	652,952	–	–	–	652,952
Total other comprehensive income/(expense)	–	–	667,352	(308,438)	–	–	358,914
Total comprehensive income/(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 award	–	–	–	–	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**

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 current tax. £652,952 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.

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 as well as from the translation of liabilities that hedge the Bank's net investment in foreign operations.

The notes on pages 30 to 84 are an integral part of these consolidated financial statements.

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For the year ended 31 December 2009

	Share capital	Share premium account	Fair value reserve	Share based payment reserve	Retained earnings	Total
	£	£	£	£	£	£
Balance at 31 December 2007	37,291,730	142,204,520	(269,887)	–	175,657	179,402,020
Profit for the year	–	–	–	–	3,345,117	3,345,117
Other comprehensive income/(expense)						
Change in fair value of available for sale financial assets taken to equity, net of tax	–	–	(1,202,159)	–	–	(1,202,159)
Change in fair value of available for sale financial assets transferred to income statement, net of tax	–	–	290,144	–	–	290,144
Total other comprehensive expense	–	–	(912,015)	–	–	(912,015)
Total comprehensive income/ (loss) for the year	–	–	(912,015)	–	3,345,117	2,433,102
Contributions by and distributions to owners						
Shares issued	11,622,077	63,921,423	–	–	–	75,543,500
Share based payment award	–	–	–	470,667	–	470,667
Total transactions with owners	11,622,077	63,921,423	–	470,667	–	76,014,167
Balance at 31 December 2008	**48,913,807**	**206,125,943**	**(1,181,902)**	**470,667**	**3,520,774**	**257,849,289**

The notes on pages 30 to 84 are an integral part of these consolidated financial statements.

1. 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 2009 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 are 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.

Musharakah

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 issued by Special Purpose Vehicles 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 is a contract for the acquisition of a product or property. 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 ("SPV") and the Bank. The main objective of this agreement is to facilitate the required funding to enable the SPV to acquire the leased assets and to convey the beneficial ownership of the leased equipment 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 transaction it enters into except in cases where it misappropriates any funds.

2. 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 2009. 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 permit (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 allow 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 introduce additional disclosure requirements if an entity has 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 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 category loans and receivables.

The impact of the reclassifications in the year ended 31 December 2009 was to increase operating profit before impairment charges and taxes by £972,471 (2008: £282,419). For further information, please refer to note 5 below.

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.

Comparative information has been re-presented so that it is also in conformity with the revised standard. The change in accounting policy only impacts presentation aspects.

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 4 and 34.

Certain figures in the presented comparatives have been reclassified to conform to the current period's presentation. This has been noted throughout the accounts where applicable.

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 3 (revised) Business Combinations – issued and adopted by the EU – effective 1 July 2009.
- IFRS 9 Financial Instruments – issued and adopted by the EU – effective 1 January 2013.
- IFRIC 14 Prepayments of a Minimum Funding Requirement – issued and adopted by the EU – Amendment effective 1 January 2011
- IAS 24 (revised) Related Party Disclosures – issued and adopted by the EU – effective 1 January 2011.
- IAS 27 (revised) Consolidated and Separate Financial Statements – issued and adopted by the EU – effective 1 July 2009.
- IAS 32 (amendment) Classification of Rights Issues – issued but not yet adopted by the EU – effective 1st February 2010.

The Group anticipates that the accounting pronouncements which have not been early adopted will not have a material effect on the financial statements.

c. Basis of consolidation

i Subsidiaries

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

ii Special Purpose Vehicles (SPV)

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

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 as 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.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are recorded in the relevant functional currency of the foreign entity and are translated using the period end exchange rate.

e. Basis of measurement

The financial statements have been prepared on the historical cost basis, except where financial instruments are stated at their fair value, specifically investment securities. Financial instruments are recognised on a trade date basis.

f. Functional and presentation currency

The financial statements are presented in Sterling, which is also BLME's functional currency.

3. 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 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 and Istisna 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.

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-SI are classified as Investment securities under "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/(losses) on investment securities".

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 non-derivative financial assets that are designated as available for sale and are not classified into the categories described above. 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 fair value are included as a separate component of equity until sale when the cumulative gain or loss is transferred to the income statement. Income is determined using the effective profit share rate. 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 proft or principal payments;

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

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

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

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

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

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

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

Once a financial asset or portfolio of similar assets has been written down as a result of an impairment loss, profit income is thereafter recognised using the rate of profit used to discount the future cash flows for the purpose of measuring the loss.

- **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 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 financial assets, the cumulative loss, measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset 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. 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 plus 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 4b).

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 interest 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 compliant derivatives (hereafter known 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. 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.

Returned leased assets are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price observed at recent auctions.

h. 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.

i. 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.

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, measured at the date of modification, over the remaining vesting period.

A cancellation that occurs during the vesting period is treated as an acceleration of vesting, and recognised immediately for the amount that would otherwise have been recognised for services over the 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-profit earning accounts.

q. Other receivables

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

4. 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 3c(v) and 34a(v). In determining whether an impairment loss should be recorded in the income statement, the Group makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from individual financing arrangements. This evidence may include observable data indicating that there has been an adverse change in the payment status of counterparties in a portfolio, or national or local economic conditions that correlate with defaults on assets in the portfolio. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. Each impaired asset is assessed on its merits, and the estimates of cash flows considered recoverable are 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 discussed in Note 34.

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

Level 1: Quoted market price (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category comprises instruments valued using reference to quoted market data such as yield curves.

Level 3: Valuation techniques using significant unobservable inputs. This category comprises unlisted equity investments valued by reference to published accounts or 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.

Valuation techniques include net present value and discounted cashflow models, comparison to similar instruments for which market observable prices exist, Black-Scholes 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. 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.

5. 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 1 July 2008 Fair Value £	At 31 December 2008 Carrying Value £	At 31 December 2008 Fair Value £	At 31 December 2009 Carrying Value £	At 31 December 2009 Fair Value £
US Dollar trading assets (Sukuk) reclassified to loans and	11,861,841	16,319,458	13,050,487	14,915,723	12,958,012
US Dollar financial assets available for sale Sukuk reclassified as loans and receivables	39,925,758	55,046,318	43,473,042	39,170,696	34,776,783
Total financial assets reclassified to loans and receivables	**51,787,599**	**71,365,776**	**56,523,529**	**54,086,419**	**47,734,795**

$/£ exchange rates were 1.9901 at 1 July 2008, 1.4578 at 31 December 2008 and 1.6195 at 31 December 2009.

Fair value has decreased from 1 July 2008 to 31 December 2009 due to the exchange rate movements detailed above and to impairment provisions raised against a Sukuk issued by a Saudi based company as at 31 December 2009.

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 2009 would have included unrealised fair value losses on the reclassified trading assets of £3,145,107 (2008: £1,188,646).

For the year to 31 December 2009, as a result of the reclassification, the Bank made an unrealized fair value gain of £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 unrealized 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 2009 shareholders' equity would have included unrealised fair value net losses on the reclassified financial assets available for sale of £4,355,441 (2008: £3,547,284).

After reclassification, the reclassified financial assets contributed the following amounts to income before taxes for the year to 31 December 2009.

	31 December 2009	6 months to 31 December 2008
Trading Assets (Sukuk)	**£**	**£**
Profit share	225,691	235,194
Provision for credit losses	–	–
Income before taxes on reclassified trading assets Sukuk	**225,691**	**235,194**
Available for Sale (Sukuk)		
Profit share	746,780	47,225
Provision for credit losses	(11,322,269)	–
Income before taxes on reclassified financial assets available for sale Sukuk	**(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. The balance of £271,481 on the fair value reserve, related to the impaired sukuk, has been recycled to the Income Statement. The average effective profit rate on the reclassified Sukuk is 2.33%. (2008: 3.05%).

6. Income from financing and investing activities

Income from:	**2009**	**2008**
	£	**£**
Financial institutions		
Wakala income	346,110	2,670,799
Murabaha income	535,010	2,077,916
Financing arrangements		
Murabaha income	16,908,818	17,653,600
Mudaraba income	146,594	264,629
Musharaka income	318,862	162,055
Istisna and Ijara income	711,467	1,416,517
Finance lease income	3,442,342	1,848,445
Sukuk	2,135,676	2,657,236
	24,544,879	**28,751,197**

7. Returns to financial institutions and customers

	2009 £	2008* £
Murabaha	10,508,384	12,021,604
Wakala	356,329	537,580
Profit rate swap	1,741,292	138,170
	12,606,005	**12,697,354**

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

8. Net fair value gains on investment securities

	2009 £	2008 £
Money market fund and Sharia'a compliant fund	110,180	477,908
Sukuk	1,584,568	11,898
	1,694,748	**489,806**

9. Other operating income

	2009 £	2008* £
Gain on foreign exchange transactions	12,338	492,257
Operating lease income	14,773,253	7,952,616
Gain on leased asset sale	174,372	–
Rental income from investment property	929,682	295,734
Other	1,002,952	340,800
	16,892,597	**9,081,407**

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

10. 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

	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**

	Group		Bank	
	2008 Cash flow hedge $	2008 Cash flow hedge £	2008 Fair value hedge $	2008 Fair value hedge £
Profit rate swaps	95,000,000	65,166,690	95,000,000	65,166,690
	95,000,000	**65,166,690**	**95,000,000**	**65,166,690**

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:

Bank	2009 Fair value assets £	2009 Fair value liabilities £	2008 Fair value assets £	2008 Fair value liabilities £
Profit rate swaps	23,416	8,375	–	5,139,664

Gains or losses arising from fair value hedges:

Bank	2009 £	2008 £
Net profit rate swap asset/(liability) as at 1 January	(5,139,664)	–
Gains/(losses):		
Exchange translation	583,504	–
On hedging instrument through the profit and loss	448,958	–
On hedge item attributable to the hedge risk	1,450,258	–
Net profit rate swap asset/(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 instrument through the profit and loss	(47,378)	(236,580)
On hedge item attributable to the hedge risk	62,419	(4,903,084)
Net profit rate swap asset/(liability) as at 31 December	15,041	(5,139,664)

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 2009, a gain of £401,580 (2008: £236,580 loss) 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.

Group	2009 Fair value assets £	2009 Fair value liabilities £	2008 Fair value assets £	2008 Fair value liabilities £
Profit rate swaps	23,416	8,375	–	–

Gains or losses arising from fair value hedges:

	2009 £	2008 £
Net profit rate swap asset/(liability) as at 1 January	–	–
Gains/(losses):		
On hedging instruments through the profit and loss	(47,378)	–
On the hedged items attributable to the hedged risk	62,419	–
Net profit rate swap asset at 31 December	**15,041**	**–**

The gains and losses on ineffective portions of fair value hedges are recognised immediately in the "Other operating income/expense". During the year to 31 December 2009 a loss of £47,378 (2008: nil) was recognised due to hedge ineffectiveness.

Cash flow hedges

The Group's cash flow hedges consist of profit rate swaps that are used to protect against exposures to variability in future cash flows on selected 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 F.6.2 and F.6.3 and the hedge 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	**2009 Fair value assets £**	**2009 Fair value liabilities £**	**2008 Fair value assets £**	**2008 Fair value liabilities £**
Profit rate swaps	235,829	3,100,706	–	5,139,664

Gains or losses arising from cash flow hedges:

Group	**2009 £**	**2008 £**
Net profit rate swap asset/(liability) as at 1 January	(5,139,664)	–
Gains/(losses):		
Exchange translation	513,171	–
On hedging instrument through the profit and loss	304,519	(837,826)
On hedging instruments through reserves	1,457,096	(4,301,838)
Net profit rate swap liability as at 31 December	(2,864,878)	(5,139,664)

The gains and losses on ineffective portions of such PRSs are recognised immediately in 'Other operating income/expense'. During the year to 31 December 2009, a gain of £304,519 (2008: £837,826 loss) was recognised due to hedge ineffectiveness.

Bank	**2009 Fair value assets £**	**2009 Fair value liabilities £**	**2008 Fair value assets £**	**2008 Fair value liabilities £**
Profit rate swaps	235,830	3,077,683	–	–

Gains or losses arising from cash flow hedges:

Bank	**2009** **£**
Net profit rate swap asset/(liability) as at 1 January	–
Re-designated from fair value and designated as cash flow hedge	(2,656,944)
Net profit rate swap asset/(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 asset/(liability) as at 31 December	(2,864,878)

The gains and losses on ineffectiveness portions of such PRSs are recognised immediately in ‘Other operating income/expense’. During the year to 31 December 2009, a loss of £239,388 (2008: nil) were recognised due to hedge ineffectiveness.

There were no cash flow hedges in the Bank in 2008.

Profit rate swaps not held in a hedge relationship

As at 31 December 2009 the Bank and Group held two PRSs that were awaiting designation as cash flow hedges. These PRSs were designated in January 2010. Changes in the fair value of these PRSs were reported in the income statement under “Other operating income” (2009: £5,691 / 2008: £nil).

The schedules of contractual principal balances on which the expected profit cash flows arise as at 31 December 2009 are as follows:

Group and Bank	**Less than 3 months** **£**	**More than 3 months but less than 1 year** **£**	**5 years or less but more than 1 year** **£**	**2009 Total** **£**
Liabilities	58,660,080	–	–	58,660,080
	58,660,080	**–**	**–**	**58,660,080**

Group	**Less than 3 months** **£**	**More than 3 months but less than 1year** **£**	**5 years or less but more than 1 year** **£**	**2008 Total** **£**
Liabilities	21,336,458	4,993,895	–	26,330,353
	21,336,458	**4,993,895**	**–**	**26,330,353**

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.

11. Personnel expenses

	2009 £	2008 £
Wages and salaries	5,149,641	6,596,864
Social security costs	577,504	889,798
Defined contribution pension scheme costs	632,632	495,927
Sharia'a Supervisory Board fees	90,750	63,376
Recruitment costs	218,831	304,817
Other staff costs	764,494	650,728
	7,433,852	**9,001,510**

	2009 Number	2008 Number
Number of employees at period end	60	48
Average number of employees during the period	55	40

12. Directors' emoluments

	2009 £	2008* £
Directors' emoluments	992,687	2,480,000
Bank contributions to pension plans	75,000	75,000
	1,067,687	**2,555,000**

The aggregate of emoluments of the highest paid director was £314,393 (2008: £1,210,000), and pension contributions of £30,000 (2008: £30,000) were made on his behalf.

13. Other operating expenses

	2009 £	2008* £
Legal and professional fees	2,324,396	1,343,391
Rent and other occupancy costs	1,336,913	535,322
Consultancy	986,388	1,108,973
Communications and IT costs	587,913	306,498
Advertising and market development	270,540	278,077
Board and SSB related expenses	405,836	170,693
Other operating charges	1,896,353	2,758,718
	7,808,339	**6,501,672**

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

Included within other operating expenses are fees paid to the Group auditors. These can be categorised as follows:-

	2009 £	2008 £
Auditors remuneration		
Audit of financial statements: Year end	166,000	130,000
Audit of financial statements: Interim report	35,000	22,500
Tax services	97,327	204,955
Other services	138,811	58,630
	437,138	**416,085**

14. Share based payments

During 2009, £325,496 was charged to the profit and loss in respect of share-based payment transactions settled in equity (2008: £1,645,607). This expense, which was computed from the fair values of the share based payments transaction when contracted, arose under employee share awards made in accordance with the Group's reward structures.

Calculation of fair values

Fair values of share options/awards, measured at the date of grant of the option/award, are calculated using an adjusted Black-Scholes model. Expected dividends are incorporated into the valuation model for options and shares where applicable. The expected life of options depends on the behaviour of option holders, which is incorporated into the option model on the basis of best estimate.

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 Shares 2009	Number of Shares 2008
Outstanding at 1 January	1,230,769	–
Granted in the year	3,230,769	1,230,769
Forfeited in the year	(307,692)	–
Outstanding at 31 December	**4,153,846**	**1,230,769**

The remaining contractual life of options outstanding at the balance sheet date was 8.9 years. The exercise price was £0.065. None of these options were exercisable at the balance sheet date.

Deferred annual bonus scheme

Shares were awarded in 2008 to employees under the "BLME Deferred Annual Bonus Scheme". The Group has introduced the scheme to ensure that the long term interests of certain employees are aligned with the interests of shareholders. Under the scheme the employee is required to surrender a percentage of bonus in return for a conditional right to receive shares in the Bank at vesting date. The vesting date is three years following award date.

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 Shares 2009	Number of Shares 2008
Outstanding at 1 January	7,076,923	–
Shares awarded and deferred	22,138,461	5,307,692
Shares forfeited	–	–
Shares awarded under matched award	–	1,769,231
Outstanding at 31 December	**29,215,384**	**7,076,923**

Conditions were not met in 2009 in respect of the 2008 Deferred Annual Bonus scheme matching award.

Executive share option plan

Share options were granted to senior management related to the Executive Share Option Scheme launched 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 Net Asset Value. Both categories of options only vest upon BLME being listed on a recognised exchange.

	Number of Shares 2009
Outstanding at 1 January	–
Granted in the year	97,827,615
Forfeited in the year	(12,228,452)
Outstanding at 31 December	**85,599,163**

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

Share purchase plan

BLME launched a Share Purchase Plan in December 2007 to enable certain employees to purchase shares in the Bank. Profit free financing is provided by Appleby Trust (Jersey) Ltd. Financing is to be repaid within three years of grant.

15. Impairment of financial assets

Group Impairments of financial assets:	Individual £	Collective £	2009 Total £
Balance at 1 January	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	**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**

Group Impairments of financial assets:	Individual £	Collective £	2008 Total £
Balance at 1 January	–	–	–
Impairment charge	754,562	188,640	943,202
Balance as at 31 December	**754,562**	**188,640**	**943,202**
Being impairments against:			
Financing arrangements	754,562	188,640	943,202
	754,562	**188,640**	**943,202**

Bank Impairments of financial assets:	Individual £	Collective £	2009 Total £
Balance at 1 January	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	**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**

Bank

Impairments of financial assets:	Individual £	Collective £	2008 Total £
Balance at 1 January	–	–	–-
Impairment charge	754,562	188,640	943,202
Balance as at 31 December	**754,562**	**188,640**	**943,202**
Being impairments against:			
Financing arrangements	754,562	188,640	943,202
	754,562	**188,640**	**943,202**

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

As at 31 December 2009, the individual provisions are against the transportation sector ($4 million /2008: $1.2 million), Sukuk issued by a Saudi based company ($18.5 millon) and a European manufacturing business (€2.5 million).

The collective provision of $3 million (2008: $0.27 millon) is against a US finance lease portfolio in the transportation sector.

16. Taxation

Group

	2009 £	2008 £
Current tax for the year	–	2,197,075
Adjustments to prior period tax		
- 2009 tax losses carried back against 2008 profits	(1,500,138)	–
- Prior year's current tax adjustment	(211,278)	(21,553)
Current tax	(1,711,416)	2,175,522
Deferred tax for the year	(3,936,597)	(101,359)
Tax (credit)/charge in income statement	**(5,648,013)**	**2,074,163**

The credit for tax on losses during the year is based on the average UK corporation tax rate of 28% (2008: 28.5%). The tax credit for the period is higher than the standard rate of corporation tax as explained below:

Reconciliation of effective tax rate

(Loss)/profit on ordinary activities	(18,888,940)	4,446,222
(Loss)/profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 28.5%)	(5,288,903)	1,267,173
Expenses not deductible for tax purposes	56,052	254,789
Tax exempt loss /(income)	202,433	(25,799)
Prior year adjustment to deferred tax – tax losses	–	161,514
Prior year adjustment to deferred tax – fixed assets	(406,317)	417,991
Effect of change in tax rates	–	20,048
Prior year adjustment to current tax	(211,278)	(21,553)
Tax (credit)/charge in income statement	**(5,648,013)**	**2,074,163**

Deferred income taxes are calculated on all temporary differences at the taxable rate applicable to the jurisdiction in which the timing differences arise.

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)
Deferred bonus settled in shares	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**

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 £203,896 (2008: £34,114) arising on losses of £728,199 (2008: £121,835) in TP Funding Company LLC.

Recognised deferred tax assets and liabilities at 31 December 2008

Group	Assets £	Liabilities £	Net £
Property, equipment and software	-	(788,454)	(788,454)
Tax loss carry forwards	245,894	–	245,894
Cash flow hedges	168,349	–	168,349
Deferred bonus settled in shares	627,250	–	627,250
Other expenses	26,448	–	26,448
Net tax assets/(liabilities) at 31 December 2008	**1,067,941**	**(788,454)**	**279,487**

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
Deferred bonus settled in shares	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**

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable.

Recognised deferred tax assets and liabilities at 31 December 2008

Bank	Assets £	Liabilities £	Net £
Property, equipment and software	–	(788,454)	(788,454)
Deferred bonus settled in shares	625,354	–	625,354
Other expenses	26,448	–	26,448
Net tax assets/(liabilities) at 31 December 2008	**651,802**	**(788,454)**	**(136,652)**

17. Profit attributable to equity shareholders of the Bank

	2009 £	2008 £
(Losses)/profits before taxation dealt with in the accounts of the Bank	(17,728,583)	5,833,524
Corporation tax credit/(charge)	5,528,905	(2,488,407)
(Losses)/profits after taxation dealt with in the accounts of the Bank	**(12,199,678)**	**3,345,117**
Reconciliation to Group profits after taxation:		
(Losses) / profits before taxation dealt with in the accounts of the Bank	(12,199,678)	3,345,117
Cashflow hedging	366,280	(601,247)
Operating leases	(792,384)	(878,193)
Net loss in investment property	(728,198)	92,138
BLME Umbrella Fund Management Sarl	(6,055)	–
Group tax movement	119,108	414,244
(Losses)/profits after taxation dealt with in the accounts of the Group	**(13,240,927)**	**2,372,059**

Cash flow hedging represents the additional gain in the Group results for the year ended 31 December 2009 arising from implementing cash flow hedge accounting for the Group compared with fair value hedge accounting in the Bank for the 6 month period to 30 June 2009 (note 10).

Operating leases represents the additional loss in the Group results for the year ended 31 December 2009 arising from the different income recognition for operating leases in the Group income statement, compared to income from participation agreements in the Bank's income statement.

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

18. Due from financial institutions

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 £	2008 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**

Group and Bank

	0-3 months or less £	4-12 months £	1-5 years £	2008 Total £
Murabaha	233,232,802	84,802,622	–	318,035,424
Wakala	53,417,698	–	–	53,417,698
	286,650,500	**84,802,622**	**–**	**371,453,122**

19. Investment securities

	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**

Equity investment consists of 2,500 category B shares in LME Holding Ltd (purchased December 2007), 70,423 shares in NanoSight Ltd (purchased October 2008), 12,821 shares in Pets Kitchen Ltd (purchased February 2008), 47,619 shares in Hallmarq Veterinary Imaging Ltd (purchased December 2008), 48,077 shares in White Springs Co Ltd (purchased July 2009) and 66,668 shares in Miller Harris (purchased October 2009).

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

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

Group and Bank	**2008 Unlisted £**
Designated as fair value through profit and loss	
Sharia'a compliant fund	1,731,531
Available for sale	
Equity	582,502
Investment in subsidiaries	50,075
	2,364,108

These subsidiaries were not consolidated as at 31 December 2008 on the grounds that it was not material to the Group's financial statements. They have been consolidated in the Group's financial statements as at 31 December 2009.

20. 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 32) 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 2009 and at 31 December 2008.

	2009 £	**2009 $**	**2008 £**	**2008 $**
Opening balance	8,437,371	12,300,000	–	–
Additions	–	–	6,451,442	11,988,070
Net exchange differences	(818,750)	–	1,771,956	–
Net fair value (loss)/gain	(702,906)	(1,100,000)	213,973	311,930
Closing balance	**6,915,715**	**11,200,000**	**8,437,371**	**12,300,000**

The Group's investment property was valued at the end of December 2009 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 £929,682 (2008: £295,734) in the line "Other operating income" and direct operating expenses of £579,769 (2008: £207,557) including repairs and maintenance in the line "Other operating expenses".

21. Financing arrangements

Group	Less than 1 year £	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

Group	Less than 1 year £	1-5 years £	Over 5 years £	2008 Total £
Murabaha	121,215,339	65,645,556	–	186,860,895
Mudaraba	–	6,262,698	–	6,262,698
Musharaka	–	–	8,688,074	8,688,074
Istisna and Ijara	13,720,769	12,417,098	9,480,002	35,617,869
Sukuk	3,369,919	78,996,943	9,677,619	92,044,481
	138,306,027	**163,322,295**	**27,845,695**	**329,474,017**
Provision for impairment				(943,202)
				328,530,815

These tables represent contractual maturities.

Bank	Less than 1 year £	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

Bank	Less than 1 year £	1-5 years £	Over 5 years £	2008 Total £
Murabaha	129,981,017	65,645,558	–	195,626,575
Mudaraba	–	6,262,698	–	6,262,698
Musharaka	–	–	8,688,074	8,688,074
Istisna and Ijara	13,720,765	12,417,098	9,480,002	35,617,865
Participation agreement	–	56,649,143	34,853,946	91,503,089
Profit rate swaps	–	3,120,411	1,782,673	4,903,084
Sukuk	3,369,919	78,996,943	9,677,619	92,044,481
	147,071,701	**223,091,851**	**64,482,314**	**434,645,866**
Provision for impairment				(943,202)
				433,702,664

These tables represent contractual maturities.

22. Finance leases

Group	2009 £	2008 £
Gross investment in finance leases receivables		
Within one year	32,540,829	18,660,681
One to five years	87,731,835	48,018,718
Over five years	7,799,312	6,371,508
	128,071,976	73,050,907
Unearned future income on finance leases	(24,742,343)	(10,360,627)
Provision for impairment	(1,841,110)	–
Net investment in finance leases	**101,488,523**	**62,690,280**
The net investment in finance leases comprises:		
Within one year	22,850,072	14,572,960
One to five years	76,561,341	42,008,667
Over five years	2,077,110	6,108,653
	101,488,523	**62,690,280**

Bank	2009 £	2008 £
Gross investment in finance leases receivables		
Within one year	18,744,693	9,852,268
One to five years	58,451,442	31,098,044
Over five years	1,798,557	6,371,508
	78,994,692	47,321,820
Unearned future income on finance leases	(17,366,094)	(7,065,549)
Net investment in finance leases	**61,628,598**	**40,256,271**
The net investment in finance leases comprises:		
Within one year	14,196,451	7,609,524
One to five years	47,372,641	26,538,094
Over five years	59,506	6,108,653
	61,628,598	**40,256,271**

23. Property and equipment

Group and Bank	Computer Equipment £	Office Equipment £	Fixtures & Fittings £	2009 Total £
Cost				
At beginning of year	311,880	83,562	1,694,013	2,089,455
Additions	40,707	17,573	16,230	74,510
At end of year	**352,587**	**101,135**	**1,710,243**	**2,163,965**
Depreciation and impairment losses				
At beginning of year	118,851	13,074	331,864	463,789
Charge for the year	111,689	31,925	376,276	519,890
At end of year	**230,540**	**44,999**	**708,140**	**983,679**
Net Book Value				
At 31 December 2009	**122,047**	**56,136**	**1,002,103**	**1,180,286**
At 31 December 2008	**193,029**	**70,488**	**1,362,149**	**1,625,666**

24. Operating lease assets

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**

Group	At 31 December 2007 £	Additions 2008 £	Depreciation 2008 £	Translation differences 2008 £	At 31 December 2008 £
Gross carrying amount	12,106,216	64,496,248	–	4,525,008	81,127,472
Less depreciation	(172,496)	–	(6,369,216)	(1,264,803)	(7,806,515)
	11,933,720	**64,496,248**	**(6,369,216)**	**3,260,205**	**73,320,957**

Rental receipts under operating leases	2009 £	2008 £
Future rentals are as follows:		
Less than one year	19,416,874	17,090,573
Between one and five years	65,351,797	61,070,432
More than five years	9,614,051	17,236,137
	94,382,722	**95,397,142**

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**

	At 31 December 2007 £	Additions 2008 £	Depreciation 2008 £	At 31 December 2008 £
Gross carrying amount	–	6,335,383	–	6,335,383
Less depreciation	–	–	(128,707)	(128,707)
	–	**6,335,383**	**(128,707)**	**6,206,676**

Rental receipts under operating leases	2009 £	2008 £
Future rentals are as follows:		
Less than one year	3,595,331	2,721,704
Between one and five years	11,009,868	4,555,341
More than five years	2,822,248	–
	17,427,447	**7,277,045**

25. Intangible assets

Group and Bank	2009 £	2008 £
Cost		
Opening balance	1,734,011	1,043,235
Acquisitions	159,360	690,776
Closing balance	**1,893,371**	**1,734,011**
Depreciation and impairment losses		
Opening balance	531,163	148,704
Charge for the year	569,236	382,459
Closing balance	**1,100,399**	**531,163**
Net Book Value	**792,972**	**1,202,848**

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

26. Other assets

Group	**2009** £	**2008** £
VAT recoverable	3,194,131	4,100,512
Accrued income	490,301	165,666
Collateral deposits*	775,633	775,633
Prepayments	944,412	1,357,061
Operating lease accrued income	86,334	190,007
Other receivables**	4,723,746	4,625,924
Returned leased assets***	395,895	357,195
	10,610,452	**11,571,998**

Bank	**2009** £	**2008** £
VAT recoverable	3,194,131	4,100,512
Accrued income	437,619	63,390
Collateral deposits*	775,633	775,633
Prepayments	918,096	1,285,446
Other receivables**	4,648,836	4,627,820
	9,974,315	**10,852,801**

* The Bank has pledged cash collateral of £775,633 (Sherborne House £243,423 and Manchester Square £532,210) as security against rental payments on its premises.

**Other receivables include £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 £4,253,043 and an outstanding linked prepayment of £96,957. The interest free loan is discounted at 5.2%.

***Represents leased assets repossessed or returned by the customer. This is net of a £484,788 (2008: £214,263) write down in inventory value. The returned leased assets are carried at net realisable value (estimated selling price based on recent auctions). A loss of £772,549 (2008: £297,461) 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 £209,392 (2008: £38,625).

27. Due to financial institutions

Group and Bank	2009 £	2008 £
Reverse Murabaha	486,145,730	587,517,409
Wakala	7,229,253	6,859,652
	493,374,983	**594,377,061**

28. Due to customers

Group and Bank	2009 £	2008 £
Wakala	–	1,200,000
Security deposit	2,500,000	3,500,000
Customer deposits	5,537,000	–
	8,037,000	**4,700,000**

29. Other liabilities

Group	2009 £	2008 £
Trade payables	941,578	732,427
Deferred income	1,231,743	1,540,280
Social security and income tax	406,266	164,801
Accruals	2,066,628	5,208,339
Other creditors	5,263,964	1,177,399
	9,910,179	**8,823,246**

Bank	2009 £	2008 £
Trade payables	546,525	215,819
Deferred income	1,196,140	1,540,280
Social security and income tax	406,266	164,801
Accruals	1,646,112	5,180,890
Other creditors	5,144,913	794,453
	8,939,956	**7,896,243**

30. 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

	2009 £	2008* £
Future minimum rentals are as follows:		
More than five years	2,353,089	2,677,653
	2,353,089	**2,677,653**

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

During the year £279,506 (2008: £277,320) was recognised as an expense in the income statement in respect of this operating lease.

During 2008 the Group and Bank entered an additional commitment under a non-cancellable operating lease for the Bank's Wealth Management Division 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

	2009 £	2008* £
Future minimum rentals are as follows:		
More than five years	8,341,737	8,794,682
	8,341,737	**8,794,682**

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

During the year £416,964 (2008: £nil) was recognised as an expense in the income statement in respect of this operating lease.

31. Share capital and share premium

Group and Bank

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

	No. of shares	Share capital £	Share premium £
Allotted, called up and fully paid			
At 31 December 2007	3,729,173,000	37,291,730	142,204,520
Share issue at 8 February 2008	8,361,538	83,615	459,885
Share issue at 19 February 2008	1,153,846,154	11,538,462	63,461,538
At 31 December 2008	**4,891,380,692**	**48,913,807**	**206,125,943**
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**

On 20 January and 16 February 2009 the Bank issued a total of 1,461,540 new ordinary shares with a nominal value of £0.01 under employee incentive schemes for a deemed value of £0.065 per share.

32. 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 Umbrella Fund. 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 a gain 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 six 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 as the relationships give rise to benefits that are in substance no different from those that would arise were the entities subsidiaries of the Bank.

The six entities are as follows:

- Kalakane Transatlantic Investors II, Inc. (USA) – Operating leases
- BLX13 Inc (USA) – Operating leases and Finance Leases
- 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

Lease assets owned by the SPVs are reported as Group operating lease assets amounting to £61,776,238 (2008: £67,114,281). Finance leases owned by the SPVs amount to £39,859,925 (2008: £22,434,009).

33. Related parties

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

	2009 £	2008 £
Boubyan Bank		
Wakala borrowing	3,000,000	66,631,702
Commodity Murabaha	36,500,000	22,000,000
Wakala placement	–	48,883,453
Reverse Murabaha	33,961,099	23,795,912
Foreign exchange transactions	399,093	10,969,308
Placed under Exchange of deposit	–	16,942,000
Received under Exchange of deposit	–	26,267,349
Money market fund sale	–	13,575,767
Off balance sheet		
Restricted investment Asset Management	–	437,998,921
SGM-FX		
Foreign exchange transactions	3,187,174	315,627

The amounts outstanding with Boubyan Bank as at 31 December 2009 were as follows:

Included within:	2009 £	2008 £
Cash and balances with banks		
Nostros	39,572	379,002
Due from financial institutions		
Wakala placement	–	23,125,089
Murabaha	6,000,000	4,775,182
Due to financial institutions		
Reverse Murabaha	(6,174,745)	(5,158,244)

The maximum outstanding with Boubyan Bank during the period ending 31 December 2009 was:
On balance sheet £49,464,032 (2008: £51,092,195)
Off balance sheet £10,768,870 (2008: £174,555,791)

The maximum outstanding with SGM-FX during the period ending 31 December 2009 was £1,691,564 (2008: £315,627)

There were no outstanding amounts with SGM-FX as at 31 December 2009.

As at 31 December 2009, Boubyan Bank held 14.97% and Boubyan Capital held 0.50% 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:

	2009 £	2008 £
Key management emoluments including social security costs	712,687	2,330,000
Bank contributions to pension plans	75,000	75,000
	787,687	**2,405,000**

34. Financial risk management

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

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Bank's risk management framework, which it exercises through the Risk Committee. Day to day management of risk is undertaken by the Executive Committee, 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 credit worthiness 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 are 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 shows the components of the Group and Bank balance sheets that are exposed to credit risk:

Group

	2009	**2008**
	£	**£**
Cash and balances with banks	96,272,364	5,799,089
Due from financial institutions		
Murabaha	123,852,207	318,035,424
Wakala	9,264,960	53,417,698
Investment securities	23,225,067	2,314,033
Financing arrangements	303,970,359	328,530,815
Finance lease receivables	101,488,523	62,690,280
Total credit exposure	**658,073,480**	**770,787,339**

On 3 December 2008 the Bank issued an off balance sheet letter of guarantee for £150,000 which was still in place as at 31 December 2009.

Within financing arrangements, BLME has provided financing of $20.6 millon to an SPV secured upon a vessel. The syndicate of banks managing the ship, has provided indemnities to the Bank totaling $12.36 million.

Bank

	2009 £	2008 £
Cash and balances with banks	93,651,558	4,268,297
Due from financial institutions		
Murabaha	115,139,612	318,035,424
Wakala	9,264,961	53,417,698
Investment securities	33,509,528	2,314,033
Financing arrangements	417,312,373	433,702,664
Finance lease receivables	61,628,598	40,256,271
Total credit exposure	**730,506,630**	**851,994,387**

On 3 December 2008 the Bank issued an off balance sheet letter of guarantee for £150,000 which was still in place as at 31 December 2009.

Within financing arrangements, Bank has provided financing of $20.6 millon to an SPV secured upon a vessel. The syndicate of banks managing the ship, has provided indemnities to the Bank totaling $12.36 million.

iii. Exposure by Country

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

Group

	2009 £	2008 £
GCC countries		
Bahrain	23,520,079	81,952,052
Kuwait	25,186,125	114,741,174
Qatar	25,342,363	67,342,362
Saudi Arabia	34,796,596	28,814,697
United Arab Emirates	82,884,305	81,996,902
EEA countries		
France	5,023,891	24,460,577
Germany	11,486,390	33,693,447
Luxembourg	1,181,291	–
Switzerland	20,912,205	82,467,352
United Kingdom	352,130,362	196,176,854
Other countries		
Bangladesh	–	6,979,519
Chile	1,966,592	–
Djibouti	12,043,593	8,690,223
Malaysia	5,764,070	–
South Africa	12,719,975	–
Turkey	–	17,399,235
Ukraine	–	2,880,705
USA	43,115,643	23,192,240
Total credit exposure	**658,073,480**	**770,787,339**

Bank

	2009 £	2008 £
GCC countries		
Bahrain	22,269,245	81,952,052
Kuwait	22,945,204	114,741,174
Qatar	22,308,170	67,342,362
Saudi Arabia	29,665,857	28,814,697
United Arab Emirates	73,351,986	81,996,902
EEA countries		
France	5,023,890	24,460,577
Germany	9,880,759	33,693,447
Luxembourg	30,854,532	–
Switzerland	20,912,205	82,467,352
United Kingdom	350,246,204	196,176,854
Other countries		
Bangladesh	–	6,979,519
Chile	1,979,830	–
Djibouti	12,043,593	8,690,223
Malaysia	4,500,666	–
South Africa	12,719,975	–
Turkey	–	17,399,235
Ukraine	–	2,880,705
USA	111,804,514	104,399,288
Total credit exposure	**730,506,630**	**851,994,387**

iv. Exposure by economic sector

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

Group

	2009 £	2008* £
Financial services		
GCC financial institutions	116,738,936	292,486,134
UK financial institutions	157,549,002	45,454,460
European financial institutions	12,667,681	94,068,935
Other financial institutions	5,940,181	6,979,519
Mining & quarrying	17,245,900	23,202,476
Manufacturing	23,484,030	60,582,320
Real estate	141,030,584	135,552,437
Agriculture	–	2,880,705
Transportation & storage	93,264,036	70,234,241
Government	36,169,023	16,926,959
Healthcare	2,665,663	372,874
Sharia'a Compliant Fund	1,721,849	1,731,531
Others	49,596,595	20,314,748
Total credit exposure	**658,073,480**	**770,787,339**

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

Bank

	2009 £	2008* £
Financial services		
GCC financial institutions	104,696,770	292,486,134
UK financial institutions	155,664,844	50,357,545
European financial institutions	9,880,759	94,068,935
Other financial institutions	4,500,665	6,979,518
Mining & quarrying	31,952,425	49,757,167
Manufacturing	44,148,207	67,624,582
Real estate	142,144,993	143,771,687
Agriculture	–	2,880,705
Transportation & storage	91,705,236	92,891,672
Government	33,876,165	16,926,959
Healthcare	12,573,617	12,103,877
Sharia'a Compliant Funds	32,560,945	1,731,531
Others	66,802,004	20,414,074
Total credit exposure	**730,506,630**	**851,994,386**

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

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 2009. Of the total portfolio 64% was directly rated by a least one of the ECAI, with 36% 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, 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

	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**

Group

	2008 Investment Grade £	2008 Sub Investment Grade £	2008 BLME Internal Rating £	2008 Total £
Cash and balances with banks	5,799,089	–	–	5,799,089
Due from financial institutions	282,496,494	–	88,956,628	371,453,122
Financing arrangements	78,147,072	10,450,825	239,932,918	328,530,815
Investment securities	–	–	2,314,033	2,314,033
Finance lease receivables	–	–	62,690,280	62,690,280
Total credit exposure	**366,442,655**	**10,450,825**	**393,893,859**	**770,787,339**

Analysis of past due amounts and impairments

Group	Financing arrangements		Finance Leases	
	2009	2008	2009	2008
	£	£	£	£
Neither past due nor impaired	294,776,180	316,937,893	92,397,929	62,209,112
Past due but not impaired	63,200	916,583	–	334,904
Gross exposure associated with impairment provision	25,018,243	11,430,901	10,931,705	334,904
Less: allowance for impairment	(15,887,264)	(754,562)	(1,841,110)	(188,640)
Total	**303,970,359**	**328,530,815**	**101,488,524**	**62,690,280**

Past due but not impaired	**£**	**£**	**£**	**£**
Past due up to 30 days	–	916,583	–	188,249
Past due 30 to 60 day	–	–	–	83,285
Past due 60 to 90 days	–	–	–	32,873
Past due over 90 days	63,200	–	–	30,497
Total	**63,200**	**916,583**	**–**	**334,904**

The Group cash balances and due from financial institutions are neither past due or impaired as at 31 December 2009. Investment securities include the Siraj fund, unlisted equities of which £19,360 have been written down and recognised in the income statement line “Net fair value gains/(losses) on investment securities”. BLME Umbrella Fund Sukuks, of which $315,000 (£194,504) have been written down through the income statement in line “Net fair value gains / (losses) on investment securities”.

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**

Bank

	2008 Investment Grade	2008 Sub-Investment Grade	2008 BLME Internal Rating	2008 Total
	£	£	£	£
Cash and balances with banks	4,268,297	–	–	4,268,297
Due from financial institutions	282,496,494	–	88,956,628	371,453,122
Financing arrangements	138,933,286	27,908,409	266,860,969	433,702,664
Inves tment securities	–	–	2,314,033	2,314,033
Finance lease receivables	–	–	40,256,271	40,256,271
Total credit exposure	**425,698,077**	**27,908,409**	**398,387,901**	**851,994,387**

Analysis of past due amounts and impairments

Bank	Financing arrangements		Finance Leases	
	2009	2008	2009	2008
	£	£	£	£
Neither past due nor impaired	401,192,147	422,298,382	59,464,051	40,256,271
Past due but not impaired	63,200	916,583	–	–
Gross exposure associated with impairment provision	33,785,400	11,430,901	2,164,547	–
Less: allowance for impairment	(17,728,374)	(943,202)	–	–
Total	**417,312,373**	**433,702,664**	**61,628,598**	**40,256,271**

Past due but not impaired	**£**	**£**	**£**	**£**
Past due up to 30 days	–	916,583	–	–
Past due 30 to 60 days	–	–	–	–
Past due 60 to 90 days	–	–	–	–
Past due over 90 days	63,200	–	–	–
Total	**63,200**	**916,583**	**–**	**–**

The Bank cash balances, due from financial institutions and finance lease receivables are neither past due or impaired as at 31 December 2009. Investment Securities include the units invested in the BLME Umbrella Fund, Siraj fund and unlisted equities of which £19,360 have been written down and recognised in the income statement line "Net fair value gains/(losses) on investment securities".

- **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 period ending 31 December 2009 BLME, whilst maintaining an overall robust asset book, considered it prudent to take an impairment charge on several assets as detailed in Note 15.

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 2009, collateral represented 63% (2008: 49%) of BLME assets.

Group

	2009 Exposure £	2009 Collateral £	2008 Exposure £	2008 Collateral £
Cash and balances with banks	96,272,364	–	5,799,089	–
Due from financial institutions	133,117,167	–	371,453,122	–
Investment securities	23,225,067	20,570,072	2,314,033	–
Financing arrangements	303,970,359	268,349,616	328,530,815	300,619,030
Finance lease receivables	101,488,523	128,781,055	62,690,280	75,473,703
Total credit exposure	**658,073,480**	**417,700,743**	**770,787,339**	**376,092,733**

Analysis of collateral	2009 £	2008 £
Plant and equipment	149,537,012	103,277,286
Property	130,147,675	135,157,129
Raw materials/finished stock	5,393,743	52,563,084
Various Sukuk collateral	115,722,157	85,095,234
Financial guarantee	16,900,156	–
Total credit exposure	**417,700,743**	**376,092,733**

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

	2009 Exposure £	2009 Collateral £	2008 Exposure £	2008 Collateral £
Cash and balances with banks	93,651,558	–	4,268,297	–
Due from financial institutions	124,404,573	–	371,453,122	–
Investment securities	33,509,528	–	2,314,033	–
Financing arrangements	417,312,373	379,561,601	433,702,664	400,381,856
Finance lease receivables	61,628,598	79,703,771	40,256,271	47,568,522
Total credit exposure	**730,506,630**	**459,265,372**	**851,994,387**	**447,950,378**

Analysis of collateral	2009 £	2008 £
Plant and equipment	204,243,924	175,134,930
Property	137,575,464	135,157,129
Raw materials/finished stock	5,393,743	52,563,085
Various Sukuk collateral	95,152,085	85,095,234
Financial guarantee	16,900,156	–
Total credit exposure	**459,265,372**	**447,950,378**

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	2009 Carrying value £	2009 Fair value £	2008 Carrying value £	2008 Fair value £
Due from financial institutions	i	133,117,167	133,117,167	371,453,122	371,453,122
Investment securities	ii	23,225,067	23,225,067	2,314,033	2,329,032
Financing arrangements	iii	303,970,359	299,653,750	328,530,815	316,996,480
Finance lease receivables	iv	101,488,523	105,422,237	62,690,280	65,909,544
Profit rate swaps asset	v	264,936	264,936	–	–
Due to financial institutions	iv	493,374,983	493,715,453	594,377,061	596,656,643
Profit rate swaps liability	v	3,109,081	3,109,081	5,139,664	5,139,664
Due to customers	iv	8,037,000	8,037,000	4,700,000	4,700,406

Bank

	Note	2009 Carrying value £	2009 Fair value £	2008 Carrying value £	2008 Fair value £
Due from financial institutions	i	124,404,573	124,404,573	371,453,122	371,453,122
Investment securities	ii	33,509,528	33,509,528	2,314,033	2,329,032
Financing arrangements	iii	417,312,373	416,982,242	433,702,664	422,560,055
Finance lease receivables	iv	61,628,598	63,927,038	40,256,271	42,505,208
Profit rate swaps asset	v	264,936	264,936	–	–
Due to financial institutions	iv	493,374,983	493,715,453	594,377,061	596,656,643
Profit rate swaps liability	v	3,109,081	3,109,081	5,139,664	5,139,664
Due to customers	iv	8,037,000	8,037,000	4,700,000	4,700,406

Notes

i. These assets represent short term liquidity with an average residual life of 3 weeks for the Bank and 4 weeks for the Group and a maximum individual residual maturity of 5 months for both Bank and Group. The assets are placed with banks with an average credit rating of A- 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: Quoted market price in an active market for an identical instrument

Level 2: Valuation techniques based on observable inputs, either directly (i.e., as prices) or indirectly (i.e., derived from prices)

Level 3: Valuation techniques using significant unobservable inputs. This category comprises unlisted equity investments valued by reference to published accounts or 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

	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

Group

	2008 Level 1 £	2008 Level 2 £	2008 Level 3 £	2008 Total £
Investment securities	–	1,731,530	597,502	2,329,032
Profit rate swaps liability	–	5,139,664	–	5,139,664

Bank

	2009 Level 1 £	2009 Level 2 £	2009 Level 3 £	2009 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

Bank

	2008 Level 1 £	2008 Level 2 £	2008 Level 3 £	2008 Total £
Investment securities	–	1,731,530	597,502	2,329,032
Profit rate swaps liability	–	5,139,664	–	5,139,664

viii. Financial assets and liabilities

The following table details the carrying value by category of financial assets and liabilities as at 31 December 2009.

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**

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**

Group	2008 Designated at fair value through profit and loss upon initial recognition £	2008 Available for sale £	2008 Financial assets at amortised costs £	2008 Total £
Cash and balances with banks	–	–	5,799,089	5,799,089
Due from financial institutions	–	–	371,453,122	371,453,122
Investment securities				
Unlisted sharia'a compliant fund	1,731,531	–	–	1,731,531
Equity	–	582,502	–	582,502
Financing arrangements	–	–	328,530,815	328,530,815
Finance lease receivables	–	–	62,690,280	62,690,280
Total assets	**1,731,531**	**582,502**	**768,473,306**	**770,787,339**

Liabilities	Profit rate swaps designated as fair value hedging instruments £	Financial liabilities at amortised cost £	2008 Total £
Due to financial institutions	–	594,377,061	594,377,061
Due to customers	–	4,700,000	4,700,000
Profit rate swaps	5,139,664	–	5,139,664
Total liabilities	**5,139,664**	**599,077,061**	**604,216,725**

Bank

Assets	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 £
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**

Bank	2008 Designated at fair value through profit and loss upon initial recognition £	2008 Available for sale £	2008 Financial assets at amortised cost £	2008 Total £
Cash and balances with banks	–	–	4,268,297	4,268,297
Due from financial institutions	–	–	371,453,122	371,453,122
Investment securities				
Unlisted sharia'a compliant fund	1,731,531	–	–	1,731,531
Equity	–	582,502	–	582,502
Investments in subsidiaries	–	–	50,075	50,075
Financing arrangements	–	–	433,702,664	433,702,664
Finance lease receivables	–	–	40,256,271	40,256,271
Total assets	**1,731,531**	**582,502**	**849,730,429**	**852,044,462**

Liabilities	Profit rate swaps designated as fair value hedging instruments £	Financial liabilities at amortised cost £	2008 Total £
Due to financial institutions	–	594,377,061	594,377,061
Due to customers	–	4,700,000	4,700,000
Profit rate swap	5,139,664	–	5,139,664
Total liabilities	**5,139,664**	**599,077,061**	**604,216,725**

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 2009, the Bank had acquired £501,411,983 (2008: £599,077,061) of term deposits and held £106,224,912 (2008: £93,776,012) 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 £**	**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**

Group and Bank	**Less than 1 month £**	**1-3 months £**	**3-12 months £**	**1-5 years £**	**5+ years £**	**2008 Total £**
Due to financial institutions	143,323,026	275,968,092	179,062,507	–	–	598,353,625
Due to customers	1,201,611	–	–	3,500,000	–	4,701,611
Profit rate swaps	–	–	–	2,954,408	2,185,256	5,139,664
	144,524,637	**275,968,092**	**179,062,507**	**6,454,408**	**2,185,256**	**608,194,900**

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, and sanctioning dealing limits.

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. During the past 12 months the Group has expanded the number of counterparties with whom it can execute Islamic profit rate swaps to hedge fixed rate risk.

As at 31 December 2009, 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 £57,860 (2008: £62,306). This would result in a £5,786,000 (2008: £6,230,600) loss from a 100 basis point parallel, downward shift in profit rates and a £5,786,000 (2008: £6,230,600) profit from a 100 basis point parallel upward shift in profit rates.

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.

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 liabilities. A 5% strengthening of the foreign currency positions against Sterling would result in an FX revaluation gain of £487 (2008: £52,591). 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 2009 was a profit of £12,338 (2008: £492,257).

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 2009 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 to include its new businesses and premises in the West End of London. During the year there were no operational risk items that resulted in financial loss.

e. Capital management

The Group's capital requirements are set and monitored by the FSA. Regulatory capital is analysed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium and retained earnings.
- Tier 2 capital, which includes collective impairment allowances and subordinated debt restricted to a maximum amount.

The level of total capital is matched against the risk weighted assets which are determined according to specified requirements that seek to reflect varying levels of risk attached to assets. The Group has put in place processes to monitor and manage capital adequacy. The Group reports capital on a daily basis and this is under the governance of ALCO.

The Group's regulatory capital position as at 31 December 2009 was as follows:

Tier 1 capital

	2009 £	2008 £
Ordinary share capital	48,928,422	48,913,807
Share premium	206,206,328	206,125,943
Retained reserves	(10,697,631)	2,543,296
Fair value reserve	(514,550)	(1,181,902)
Intangible assets	(792,972)	(1,202,848)
	243,129,597	**255,198,296**

Tier 2 capital

	2009 £	2008 £
Collective allowances for impairment	1,841,110	188,640
Total qualifying tier 2 capital before deductions	**244,970,707**	**255,386,936**
Unconsolidated investments	–	(50,075)
Total deductions other than from tier 1 capital	**–**	**(50,075)**
Total regulatory capital	**244,970,707**	**255,336,861**

The level of total regulatory capital is monitored against the FSA Individual Capital Guidance. Individual capital guidance comprises Pillar 1 capital using the Standardised Approach and a Pillar 2 add-on as required by the FSA. The Bank has complied with all capital requirements throughout the period.

The Bank has adopted the provisions of the EU Capital Requirements Directives to calculate its minimum capital requirement as at 31 December 2009.

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