Interim Report

For the six months ended 30 June 2013

Contents

Interim Report

Notes to the condensed consolidated financial statements

Group Highlights for Bank of London and The Middle East plc for 6 months to 30 June 2013

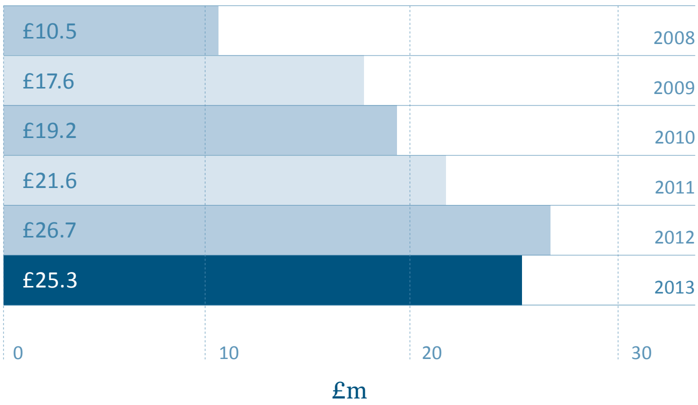
BLME has delivered a solid profitable performance…

- Income from financing and investment activities rose by 33% from £14.7million to £19.5million
- Net fee income rose by 74% from £0.7 million to £1.2 million
- Total assets increased 42% from £0.8 billion to £1.14 billion

Consolidated Total Operating Income

For 6 month periods ending on 30th June

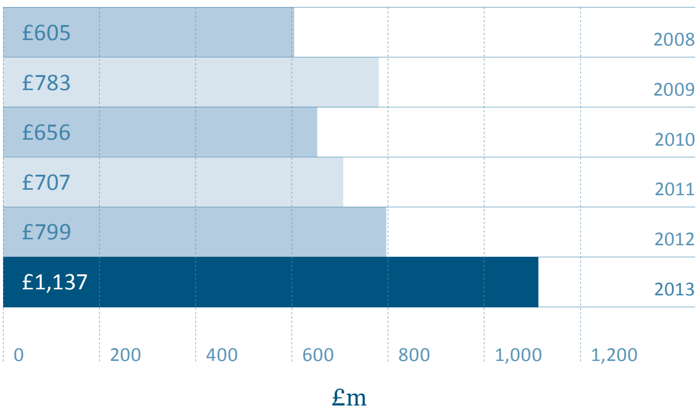
£25.3m



Consolidated Total Assets as at 30th June

As at 30th June

£1,137m



…in the face of challenging fixed income market conditions:

- BLME Asset Management was awarded Best Islamic Asset Manager in Europe by Islamic Finance News
- BLME opened a representative office in Dubai

Exposure by Country

(as at 30 June 2013)

	%
Kuwait	1.87
United Arab Emirates	9.66
Bahrain	1.87
Qatar	6.26
Saudi Arabia	7.76
United Kingdom	57.72
Switzerland	1.21
China	1.20
Malaysia	1.68
Turkey	2.10
USA	4.37
Other Countries	4.30

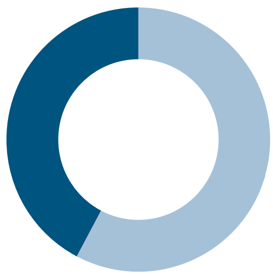
Exposure by Sector

(as at 30 June 2013)

	%
GCC financial institutions	20.02
UK financial institutions	4.23
European financial institutions	0.75
Other financial institutions	4.76
Manufacturing	1.53
Real estate	28.44
Transportation and storage	13.21
Government	2.37
Telecoms	1.23
Energy	1.04
Wholesale / Retail	8.81
Oil and Gas	2.25
Commodities	3.82
Others	7.54

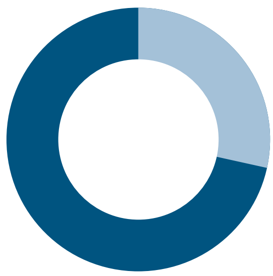
57.72%

Exposure to UK



28.44%

Exposure to Real Estate



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

BLME has continued to deliver growth in total assets during the first half of 2013. The balance sheet stands at £1.14 billion at 30 June 2013 compared with £0.8 billion at 30 June 2012. Despite mark-to-market losses in the Group's Sukuk investment portfolio, BLME has reported £2.47 million of operating profit before impairment charges in the six months to 30 June 2013 compared with £3.79 million in the first half of 2012.

In line with the business strategy, BLME has increased both the numbers of corporate clients and individual depositors over the past six months. I am also delighted that BLME has opened a representative office in Dubai that will broaden the Bank's distribution channels and provide further opportunities to form closer relationships with key partners in the region. BLME will use the representative office to gain greater access to clients in the GCC and in particular to further our ambitions for the Wealth Management Division.

BLME's Corporate Banking Division continues to grow and establish itself as one of the leading providers of finance to UK mid-market customers. BLME is now recognised as having leading market positions in both property development finance and mid-ticket leasing finance. Now having established Asset Based Lending ('ABL Finance') and Acquisition Finance, BLME is one of the few banks in the UK that provides a full range of products and services for the mid-market sector.

I am pleased that the Wealth Management Division continues to make progress. Despite being affected by the Sukuk market conditions, BLME Asset Management has been awarded Best Islamic Asset Manager in Europe by Islamic Finance News. There has been growth in Islamic Capital Markets and steady earnings from Private Banking.

It is important to note that in the past six months BLME's Treasury Division has been operating in a challenging market environment. In particular, the uncertainty surrounding the tapering of the US quantitative easing programme and political unrest in parts of the Middle East have had a negative impact on the Sukuk market. These factors have constrained BLME's operating income and profit growth for the period.

I would like to extend my thanks to the staff at BLME, whose hard work and commitment to the Bank is key to its success and growth. BLME's Sharia'a Supervisory Board have both my own and the Board's gratitude for their continued support and guidance.

Yacob Al-Muzaini
Chairman
28 August 2013

> *I am pleased that the Wealth Management Division continues to make progress. Despite being affected by the Sukuk market conditions, BLME Asset Management has been awarded Best Islamic Asset Manager in Europe by Islamic Finance News.*

Chief Executive Officer's statement

I am pleased to report that during the first six months of 2013, BLME's customer financing businesses have continued to grow. Total assets have increased by 42% to £1.14 billion since 30 June 2012 and Income from financing and investment activities is 33% higher at £19.5 million. During the period, expenses were tightly controlled and remained steady at £22.8 million.

Over the past six months the Sukuk market has been significantly affected by the challenging fixed income market conditions and political unrest in parts of the Middle East. This negatively impacted BLME's Net fair value gains on investment securities with a reversal of £3.2 million from the comparable period in 2012. Due to this, Total operating income was down 5% in the first half of 2013 to £25.3 million with Net operating profit before tax decreasing to £1.45 million.

These results demonstrate that in the current market environment BLME is continuing to grow its business and remain profitable whilst containing expenses.

Corporate Banking

Corporate Banking Division has been the main engine of growth for BLME in the period with its Net segment contribution increasing by 42% compared to the first half of 2012, from £3.71 million to £5.28 million. It is pleasing to note that the investments made in new staff are already making an increasing contribution. The well established Property Finance business was the key contributor to this divisional growth and continued to expand its client base and healthy pipeline of new business. The new teams within Corporate Banking, ABL Finance and Acquisition Finance, have started to build significant momentum with both now making positive contributions to BLME's income and profit margins.

Wealth Management

BLME's Wealth Management offering comprises the Bank's Asset Management, Private Banking and Islamic Capital Markets businesses. BLME's representative office in Dubai now provides a presence in the Gulf for the Bank to develop its distribution network and to promote its Wealth Management products and services to a wider market. BLME's profile in the GCC region has been further enhanced by the Bank's appointment as co-Manager of the June 2013 issue of Islamic Development Bank Sukuk.

Despite difficult market conditions, Asset Management's fixed income funds continue to exhibit relative outperformance compared to their peers. The US $ Income fund maintained its top percentile ranking from Lipper Hindsight on a rolling 3 year performance basis and the Global Sukuk Fund achieved a top 3 ranking on a rolling 1 year performance basis from Zawya.

Private Banking income remains stable and the department continues to build its client base and form strategic partnerships in the London residential property market.

Islamic Capital Markets is now part of the Wealth Management Division where it is able to access BLME's non-bank distribution channels. It is already exhibiting healthy growth from this closer alignment with other GCC facing business units.

Treasury

In order to finance the increase in total assets, BLME's Treasury Division continued to grow and diversify the Bank's liability base. This has resulted in amounts due to financial institutions and customers increasing by 63% to £869 million at 30 June 2013 compared with £535 million at 30 June 2012. Treasury's financial performance has been affected by the negative impact on the Sukuk market from a combination of political unrest in parts of the Middle East together with the announcement by the US Federal Reserve of the tapering of the quantitative easing programme. These events have put pressure on global foreign exchange and fixed income markets leading to higher global rates.

Risk Management, Regulatory Environment and Corporate Governance

As a stand-alone UK bank, BLME is now authorised by the Prudential Regulation Authority ('PRA') and is regulated by both the PRA and the Financial Conduct Authority ('FCA'). BLME seeks to maintain a robust risk-management framework to ensure the continuance of prudent liquidity and capital adequacy ratios. The Bank has continued to enhance its risk management culture and governance framework in order to attain the highest standards of corporate governance. BLME is strongly capitalised and well positioned to be compliant with new and forthcoming UK and European regulatory developments.

In the first half of 2013, BLME continued to grow and develop its business despite the challenging market environment. The Bank has much to be proud of, and our business is well positioned for the future as we continue to build a first class Islamic financial institution for the long-term.

Humphrey Percy
Chief Executive Officer
28 August 2013

"BLME's profile in the GCC region has been further enhanced by the Bank's appointment as co-Manager of the June 2013 issue of Islamic Development Bank Sukuk."

Condensed consolidated income statement

For the six months ended 30 June 2013 (unaudited)

Income	*Note*	6 months to 30 June 2013 £	6 months to 30 June 2012 £	Year to 31 December 2012 £
Income from financing and investing activities		19,512,807	14,661,630	30,779,337
Returns to financial institutions and customers		(10,136,170)	(5,869,304)	(13,637,879)
Net margin		**9,376,637**	**8,792,326**	**17,141,458**
Fee and commission income		1,543,319	694,805	2,007,364
Fee and commission expense		(347,226)	(7,628)	(229,940)
Net fee income		**1,196,053**	**687,177**	**1,777,424**
Net fair value (losses) / gains on investment securities		(1,092,545)	2,079,020	3,601,119
Net fair value gains / (losses) on investment properties	*10*	178,426	(321,041)	(1,049,455)
Operating lease income		13,525,098	13,877,030	27,250,053
Other operating income	*5*	2,112,300	1,546,516	3,746,636
Total operating income		**25,295,969**	**26,661,028**	**52,467,235**
Expenses				
Personnel expenses	*6*	(6,127,061)	(6,238,948)	(12,145,670)
Operating lease depreciation	*13*	(10,758,982)	(11,119,687)	(21,646,350)
Other depreciation and amortisation		(117,886)	(189,269)	(383,660)
Other operating expenses		(5,673,784)	(5,092,277)	(10,174,384)
Change in third party interest in consolidated funds		(148,553)	(234,907)	(840,720)
Total operating expenses		**(22,826,266)**	**(22,875,088)**	**(45,190,784)**
Operating profit before impairment charges		**2,469,703**	**3,785,940**	**7,276,451**
Net impairment charge on financial assets	*7*	(1,019,375)	(927,014)	(1,761,293)
Net operating profit before tax		**1,450,328**	**2,858,926**	**5,515,158**
Tax expense	*8*	(458,479)	(697,613)	(1,674,403)
Profit for the period		**991,849**	**2,161,313**	**3,840,755**

The notes on pages 22 to 50 are an integral part of the condensed consolidated financial statements.

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2013 (unaudited)

Income	6 months to 30 June 2013 £	6 months to 30 June 2012 £	Year to 31 December 2012 £
Profit for the period	**991,849**	**2,161,313**	**3,840,755**

Other comprehensive income / (expense)

Items that may be reclassified subsequently to profit or loss if specific conditions are met:

Foreign currency translation differences for foreign operations	(47,142)	22,744	10,932
Foreign currency translation differences for cash flow hedging reserve	(295,183)	81,067	252,175
Changes in fair value of cash flow hedges taken to equity	513,211	328,180	761,896
Ineffective portion of change in fair value of cash flow hedges transferred to income statement	720,444	94,880	271,001
Change in fair value of available-for-sale financial assets taken to equity	(1,585,233)	(214,843)	(393,849)
Transfer from fair value reserve to income statement in respect of amortisation of reclassified financial assets	–	74,324	74,324
Income tax on other comprehensive income	158,365	(96,876)	(273,700)
Other comprehensive (expense) / income for the period, net of related tax	**(535,538)**	**289,476**	**702,779**
Total comprehensive profit for the period	**456,311**	**2,450,789**	**4,543,534**

The notes on pages 22 to 50 are an integral part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 30 June 2013 (unaudited)

Assets	*Note*	30 June 2013 £	30 June 2012 £	31 December 2012 £
Cash and balances with banks		49,000,076	73,618,431	159,600,938
Due from financial institutions		113,136,579	62,621,474	132,413,746
Investment securities	*9*	152,937,070	49,824,934	104,840,753
Financing arrangements	*11*	514,053,102	327,371,462	359,379,248
Finance lease receivables	*12*	187,261,311	156,549,455	151,925,014
Operating lease assets	*13*	76,498,915	88,691,148	84,930,433
Investment properties	*10*	20,500,000	22,574,311	27,816,788
Property and equipment		433,702	450,971	406,353
Intangible assets		1,106,018	568,912	734,532
Other assets		18,688,929	11,312,537	13,217,372
Current tax asset		–	500,000	–
Deferred tax assets	*8*	3,500,773	4,846,482	3,693,000
Total assets		**1,137,116,475**	**798,930,117**	**1,038,958,177**

Liabilities				
Due to financial institutions		581,109,175	442,591,007	512,113,261
Due to customers		287,637,215	91,985,708	257,747,298
Profit rate swaps		2,373,140	6,545,293	5,308,045
Third party interest in consolidated funds		13,365,198	8,218,527	11,235,024
Other liabilities		15,797,912	11,960,154	12,905,427
Total liabilities		**900,282,640**	**561,300,689**	**799,309,055**

Equity

	Note	30 June 2013 £	30 June 2012 £	31 December 2012 £
Share capital		48,933,422	48,933,422	48,933,422
Share premium		206,226,328	206,226,328	206,226,328
Fair value reserve		(1,258,664)	110,771	(49,624)
Cash flow hedging reserve		(2,510,402)	(3,816,556)	(3,231,046)
Share-based payment reserve		1,147,458	1,042,107	1,069,056
Foreign currency translation reserve		(108,967)	(50,013)	(61,825)
Retained earnings		(15,595,340)	(14,816,631)	(13,237,189)
Total equity attributable to equity holders of the Bank		**236,833,835**	**237,629,428**	**239,649,122**
Total liabilities and equity		**1,137,116,475**	**798,930,117**	**1,038,958,177**

The notes on pages 22 to 50 are an integral part of the condensed consolidated financial statements.

These financial statements were approved by the Board of Directors on 28 August 2013 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Chief Financial Officer

Condensed consolidated statement of cash flows

For the six months ended 30 June 2013 (unaudited)

Cash flows from operating activities	6 months to 30 June 2013 £	6 months to 30 June 2012* £	Year to 31 December 2012* £
Net operating profit before tax	1,450,328	2,858,926	5,515,158
Adjusted for:			
Exchange differences	199,853	(225,892)	(285,156)
Fair value (gains) / losses on investment properties	(178,426)	321,041	1,049,455
Fair value losses / (gains) on investment securities	1,238,898	(67,585)	(1,059,288)
Provision for impairment	1,019,375	942,452	1,844,621
Depreciation and amortisation	10,876,868	11,308,956	22,030,009
Share-based payment awards	78,402	108,678	135,627
Accretion of instruments held under financing arrangements	(9,649)	(71,353)	(80,926)
Mark to market movement in profit rate swaps	(647,591)	137,634	(284,946)
Amortisation of fair value reserve	–	74,324	74,324
	14,028,058	**15,387,181**	**28,938,878**

Net increase in operating assets:			
Due from financial institutions	19,277,167	14,050,075	(55,742,196)
Financing arrangements	(155,598,494)	(29,566,562)	(62,501,220)
Recovery of impaired assets	–	(15,438)	(83,328)
Finance lease receivables	(35,009,759)	(25,863,428)	(20,852,751)
Operating lease assets	(466,755)	(6,527,574)	(15,187,032)
Other assets	(9,353,742)	(2,324,437)	(5,279,800)
	(181,151,583)	**(50,247,364)**	**(159,646,327)**

Net increase / (decrease) in operating liabilities:

Due to financial institutions	56,127,618	(55,180,411)	19,317,439
Due to customers	29,908,885	40,956,117	206,698,151
Third party interest in consolidated funds	186,563	(319,895)	528,760
Other liabilities	2,976,890	566,430	1,244,063
	89,199,956	**(13,977,759)**	**227,788,413**
Corporation tax paid	(107,909)	(669)	499,219
Net cash (outflow) / inflow from operating activities	**(78,031,478)**	**(48,838,611)**	**97,580,183**

Purchase of property and equipment	(82,277)	(114,727)	(187,200)
Purchase of intangible assets	(434,443)	(168,764)	(410,981)
Purchase of investment properties	(27,450)	(10,138,076)	(16,334,859)
Sale of investment properties	8,006,182	–	–
Purchase of investment securities	(166,217,321)	(106,446,857)	(263,201,343)
Sale of investment securities	121,919,851	136,492,535	235,958,455
Net cash (outflow) / inflow from investing activities	**(36,835,458)**	**19,624,111**	**(44,175,928)**

Cash flows from financing activities:

Subscriptions to consolidated funds	2,237,956	6,781,156	11,051,378
Redemptions from consolidated funds	(261,602)	(5,636)	(912,105)
Net cash inflow from financing activities	**1,976,354**	**6,775,520**	**10,139,273**

Net change in cash and cash equivalents	**(112,890,582)**	**(22,438,980)**	**63,543,528**
Cash and cash equivalents at the beginning of the period	159,600,938	97,298,498	97,298,498
Exchange differences in respect of cash and cash equivalents	2,289,720	(1,241,087)	(1,241,088)
Cash and cash equivalents at the end of the period	**49,000,076**	**73,618,431**	**159,600,938**

The notes on pages 22 to 50 are an integral part of the condensed consolidated financial statements.
* Certain prior period numbers have been reclassified to be consistent with current period presentation.

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2013 (unaudited)

	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 2012	48,933,422	206,226,328	(49,624)	(3,231,046)	1,069,056	(13,237,189)	(61,825)	239,649,122
Profit for the period	**—**	**—**	**—**	**—**	**—**	**991,849**	**—**	**991,849**
Other comprehensive income / (expense)								
Foreign currency translation	—	—	—	(295,183)	—	—	(47,142)	(342,325)
Changes in fair value of cash flow hedges	—	—	—	513,211	—	—	—	513,211
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	—	—	—	720,444	—	—	—	720,444
Recognition of tax asset on cash flow hedge reserve	—	—	—	(217,828)	—	—	—	(217,828)
Change in fair value of available-for-sale financial assets taken to equity	—	—	(1,585,233)	—	—	—	—	(1,585,233)
Tax on amortisation of reclassified financial assets	—	—	376,193	—	—	—	—	376,193
Total other comprehensive income	**—**	**—**	**(1,209,040)**	**720,644**	**—**	**—**	**(47,142)**	**(535,538)**
Total comprehensive income for the period	**—**	**—**	**(1,209,040)**	**720,644**	**—**	**991,849**	**(47,142)**	**456,311**
Contributions by and distributions to owners								
Share-based payment awards	—	—	—	—	78,402	—	—	78,402
Purchase of own shares	—	—	—	—	–	(3,350,000)	—	(3,350,000)
Total transactions with owners	**—**	**—**	**—**	**—**	**78,402**	**(3,350,000)**	**—**	**(3,271,598)**
Balance at 30 June 2013	**48,933,422**	**206,226,328**	**(1,258,664)**	**(2,510,402)**	**1,147,458**	**(15,595,340)**	**(108,967)**	**236,833,835**

Fair value reserve

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.

Cash flow hedging reserve

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

Share-based payment reserve

Share-based payment reserve includes the amortised portion of the fair value of equity instruments. The transfer to other liabilities relates to the reclassification of the Deferred Annual Bonus Scheme from equity settled to cash settled accounting.

Foreign currency translation reserve

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

The notes on pages 22 to 50 are an integral part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity continued

For the six months ended 30 June 2013 (unaudited)

	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 2011	48,933,422	206,226,328	213,567	(4,186,084)	4,403,930	(16,877,944)	(72,757)	238,640,462
Profit for the period	**—**	**—**	**—**	**—**	**—**	**2,161,313**	**—**	**2,161,313**
Other comprehensive income / (expense)								
Foreign currency translation	—	—	—	81,067	—	—	22,744	103,811
Changes in fair value of cash flow hedges	—	—	—	328,180	—	—	—	328,180
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	—	—	—	94,880	—	—	—	94,880
Recognition of tax asset on cash flow hedge reserve	—	—	—	(134,599)	—	—	—	(134,599)
Change in fair value of available-for-sale financial assets taken to equity	—	—	(214,843)	—	—	—	—	(214,843)
Transfer to income statement in respect of amortisation of reclassified financial assets	—	—	74,324	—	—	—	—	74,324
Tax on amortisation of reclassified financial assets	—	—	37,723	—	—	—	—	37,723
Total other comprehensive income	**—**	**—**	**(102,796)**	**369,528**	**—**	**—**	**22,744**	**289,476**
Total comprehensive income for the period	**—**	**—**	**(102,796)**	**369,528**	**—**	**2,161,313**	**22,744**	**2,450,789**
Contributions by and distributions to owners								
Share-based payment awards	—	—	—	—	108,678	—	—	108,678
Settlement of share-based payment awards	—	—	—	—	(2,288,333)	—	—	(2,288,333)
Transfer to other liabilities	—	—	—	—	(1,182,168)	—	—	(1,182,168)
Purchase of own shares	—	—	—	—	—	(100,000)	—	(100,000)
Total transactions with owners	**—**	**—**	**—**	**—**	**(3,361,823)**	**(100,000)**	**—**	**(3,461,823)**
Balance at 30 June 2012	**48,933,422**	**206,226,328**	**110,771**	**(3,816,556)**	**1,042,107**	**(14,816,631)**	**(50,013)**	**237,629,428**

The notes on pages 22 to 50 are an integral part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity continued

For the six months ended 30 June 2013 (unaudited)

	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 30 June 2012	48,933,422	206,226,328	110,771	(3,816,556)	1,042,107	(14,816,631)	(50,013)	237,629,428
Profit for the period	**—**	**—**	**—**	**—**	**—**	**1,679,442**	**—**	**1,679,442**
Other comprehensive income / (expense)								
Foreign currency translation	—	—	—	171,108	—	—	(11,812)	159,296
Changes in fair value of cash flow hedges	—	—	—	433,716	—	—	—	433,716
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	—	—	—	176,121	—	—	—	176,121
Recognition of tax asset on cash flow hedge reserve	—	—	—	(195,435)	—	—	—	(195,435)
Change in fair value of available-for-sale financial assets taken to equity	—	—	(179,006)	—	—	—	—	(179,006)
Tax on amortisation of reclassified financial assets	—	—	18,611	—	—	—	—	18,611
Total other comprehensive income	**—**	**—**	**(160,395)**	**585,510**	**—**	**—**	**(11,812)**	**413,303**
Total comprehensive income for the period	**—**	**—**	**(160,395)**	**585,510**	**—**	**1,679,442**	**(11,812)**	**2,092,745**
Contributions by and distributions to owners								
Share-based payment awards	—	—	—	—	26,949	—	—	26,949
Purchase of own shares	—	—	—	—	—	(100,000)	—	(100,000)
Total transactions with owners	**—**	**—**	**—**	**—**	**26,949**	**(100,000)**	**—**	**(73,051)**
Balance at 31 December 2012	**48,933,422**	**206,226,328**	**(49,624)**	**(3,231,046)**	**1,069,056**	**(13,237,189)**	**(61,825)**	**239,649,122**

The notes on pages 22 to 50 are an integral part of the condensed consolidated financial statements.


LONDON BRIDGE
OPENED BY HER MAJESTY QUEEN ELIZABETH II
in the presence of
the Rt. Hon. the Lord Mayor the Lord Mais OBE ERD TD DL DSc. CEng.
Norman L Hall MBE LLB Chairman City Lands & Bridge House Estates Committee
Frank N Steiner MA Chairman Planning & Communications Committee
Harold K King CBE CEng FICE FIMun.E FRICS City Engineer
Friday 16th March 1973

Notes to the condensed consolidated financial statements (unaudited)

BLME
BANK ON OUR PRINCIPLES

Notes to the condensed consolidated financial statements (unaudited)

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 Corporate Banking, Wealth Management (including Asset Management, Private Banking and Islamic Capital Markets) and Treasury activities. The condensed consolidated financial statements of the Group for the six months ended 30 June 2013 comprise the Bank and its subsidiaries (together referred to as "the Group").

2. Accounting policies and basis of preparation

The condensed consolidated interim financial statements for the six months ended 30 June 2013 have been prepared in accordance with International Accounting Standard ("IAS") 34 'Interim Financial Reporting' as adopted by the EU. The condensed consolidated interim financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2012. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. The Group's policy for preparing this interim financial information is to use the accounting policies adopted by the Group in its last annual financial statements as updated by any changes in accounting policies it intends to make in its next annual financial statements as a result of new or updated IFRSs that are applicable or available for early adoption at that time. Except as described below, the Group is adopting the same accounting policies as applied in the preparation of the Group's published financial statements for the year ended 31 December 2012.

a. Adoption of new and amended accounting standards in 2013:

Amendments to IAS 1, 'Presentation of financial statements'

These amendments, effective from annual periods beginning 1 January 2013, require items in other comprehensive income to be presented separately based on whether or not they may be recycled to profit or loss in the future. The Group has adopted these amendments for half year 2013 and amended the presentation of the condensed consolidated statement of other comprehensive income, with no impact on the Group's results and financial position.

Amendments to IFRS 7, 'Financial Instruments: Disclosures - Offsetting Financial Assets and Financial Liabilities'

The disclosure as required by this amendment in respect of all recognised financial instruments that have been offset in accordance with IAS 32 will be included in the Group's 2013 annual financial statements if applicable.

IFRS 13, 'Fair value measurement'

In May 2011, the IASB issued IFRS 13, 'Fair value measurement' standard which creates a uniform framework to explain how to measure fair value and aims to enhance fair value disclosures, but it does not change when to measure fair value or require additional fair value measurements.

The standard requires additional disclosure on the fair value of non-financial assets and liabilities and enhanced disclosures of recurring Level 3 fair value measurements. The standard is effective from annual periods beginning on or after 1 January 2013, with no adjustment to comparative results. The standard has had no material impact on the fair value measurement of the Group's assets and liabilities. The additional and enhanced disclosures required by the standard will be included in the Group's 2013 annual financial statements.

b. Presentation of comparative figures

The comparative figures for the financial year ended 31 December 2012 are not the Group's statutory accounts for that financial year. Those accounts have been reported on by the Group's auditors and delivered to the Registrar of Companies. The report of the auditors was i) unqualified, ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report, and iii) did not contain a statement under section 498 of the Companies Act 2006.

3. Use of estimates and judgements

a. Allowance for credit losses

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

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

b. Determining fair values

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

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

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

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

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

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

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

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

4. Segmental information

The Group has three operating segments as described below, which are based on the Group's strategic business divisions. The strategic business divisions offer different products and services and are managed separately based on the Group's management and internal reporting structure. The following summary describes the operations of each of the Group's reportable segments:

Corporate Banking

Corporate Banking provides senior debt and occasionally mezzanine financing for UK mid-market companies ranging from FTSE250 companies to family owned businesses. Our facilities are provided by our specialist product teams covering: Leasing, Property Finance, Trade Finance, Acquisition Finance and ABL Finance. Facilities are either separate or offered as one package. We have provided senior debt syndicated facilities and have introduced financing counterparties from the GCC for additional capital.

Wealth Management

Wealth Management comprises BLME's complementary businesses of Private Banking, Islamic Capital Markets and Asset Management which are based together in our West End office. The Private Banking business focuses on providing private banking services, in particular, residential lending for central London property acquisitions, to high net worth individuals. The Asset Management business offers Sharia'a compliant fund management services and funds based on a Luxembourg platform. Islamic Capital Markets organises and participates in syndicated transactions and sells down assets from the bank's financing portfolios.

Treasury

The Treasury Division funds the Bank's financing activities in Corporate Banking and Wealth Management, manages BLME's capital and liquidity and provides innovative Sharia'a compliant hedging, yield and FX structures.

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

For the six months ended 30 June 2013	Treasury Division £	Corporate Banking £	Wealth Management £	Unallocated Items £	Total £
Net margin from financing and investing activities	2,240,771	5,448,797	1,687,069	–	9,376,637
Operating lease income	777,892	12,747,206	–	–	13,525,098
Net fee income	294,778	493,819	360,565	46,891	1,196,053
Net fair value (losses) / gains on investment securities	(348,930)	–	(743,615)	–	(1,092,545)
Net fair value gains / (losses) on investment properties	–	–	178,426	–	178,426
Other operating income	465,029	290,445	1,356,826	–	2,112,300
Total operating income	**3,429,540**	**18,980,267**	**2,839,271**	**46,891**	**25,295,969**
Directly attributable segment expenses	(478,644)	(1,917,535)	(2,291,515)	(37,544)	(4,725,238)
Operating lease depreciation	–	(10,758,982)	–	–	(10,758,982)
Net impairment charge on financial assets	–	(1,019,375)	–	–	(1,019,375)
Changes in third party interest in consolidated funds	–	–	(148,553)	–	(148,553)
Net segment contribution	**2,950,896**	**5,284,375**	**399,203**	**9,347**	**8,643,821**
Common costs not directly attributable to segments					(7,193,493)
Net operating profit before tax					**1,450,328**
Reportable segment assets	**295,528,991**	**628,961,013**	**202,887,836**	**9,738,635**	**1,137,116,475**

For the six months ended 30 June 2012	Treasury Division £	Corporate Banking £	Wealth Management £	Unallocated Items £	Total £
Net margin from financing and investing activities	3,235,489	3,497,420	2,059,417	–	8,792,326
Operating lease income	739,952	13,137,078	–	–	13,877,030
Net fee income	98,890	377,861	207,224	3,202	687,177
Net fair value (losses) / gains on investment securities	595,780	–	1,483,240	–	2,079,020
Net fair value gains / (losses) on investment properties	–	–	(321,041)	–	(321,041)
Other operating income	337,184	204,332	967,249	37,751	1,546,516
Total operating income	**5,007,295**	**17,216,691**	**4,396,089**	**40,953**	**26,661,028**
Directly attributable segment expenses	(722,238)	(1,461,595)	(2,670,463)	(37,751)	(4,892,047)
Operating lease depreciation	–	(11,119,687)	–	–	(11,119,687)
Net impairment charge on financial assets	–	(927,014)	–	–	(927,014)
Changes in third party interest in consolidated funds	–	–	(234,907)	–	(234,907)
Net segment contribution	**4,285,057**	**3,708,395**	**1,490,719**	**3,202**	**9,487,373**
Common costs not directly attributable to segments					(6,628,447)
Net operating profit before tax					**2,858,926**
Reportable segment assets	**176,206,263**	**402,555,907**	**207,083,589**	**13,084,358**	**798,930,117**

For the year ended 31 December 2012	Treasury Division £	Corporate Banking £	Wealth Management £	Unallocated Items £	Total £
Net margin from financing and investing activities	6,122,485	7,067,038	3,951,935	–	17,141,458
Operating lease income	1,404,533	25,845,520	–	–	27,250,053
Net fee income	840,285	740,352	114,439	82,348	1,777,424
Net fair value (losses) / gains on investment securities	831,900	–	2,769,219	–	3,601,119
Net fair value gains / (losses) on investment properties	–	–	(1,049,455)	–	(1,049,455)
Other operating income	174,843	1,171,711	2,400,082	–	3,746,636
Total operating income	**9,374,046**	**34,824,621**	**8,186,220**	**82,348**	**52,467,235**
Directly attributable segment expenses	(949,344)	(3,063,422)	(6,371,518)	(75,917)	(10,460,201)
Operating lease depreciation	–	(21,646,350)	–	–	(21,646,350)
Net impairment charge on financial assets	–	(1,761,293)	–	–	(1,761,293)
Changes in third party interest in consolidated funds	–	–	(840,720)	–	(840,720)
Net segment contribution	**8,424,702**	**8,353,556**	**973,982**	**6,431**	**17,758,671**
Common costs not directly attributable to segments					(12,243,513)
Net operating profit before tax					**5,515,158**
Reportable segment assets	**384,132,600**	**419,712,282**	**222,143,646**	**12,969,649**	**1,038,958,177**

The Treasury Division manages the Bank's liquidity as a whole and the Bank's liabilities are not analysed by operating segment within the internally generated management information.

Entity wide disclosures

Geographical analysis of non-current assets	30 June 2013 £	30 June 2012 £	31 December 2012 £
Dubai	278,152	–	111,967
Jersey	–	3,450,000	3,350,000
Luxembourg	21,443,501	16,023,583	21,609,226
United Kingdom	56,913,208	48,304,000	56,349,252
USA	38,556,131	55,764,694	45,630,919
Others	36,572	55,602	54,114
Total	**117,227,564**	**123,597,879**	**127,105,478**

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

5. Other operating income

	6 months to 30 June 2013 £	6 months to 30 June 2012 £	Year to 31 December 2012 £
Gain on foreign exchange transactions	–	225,892	285,156
Gain on leased asset sales	313,505	87,062	1,078,236
Rental income from investment properties	1,247,604	902,844	2,272,978
Other	551,191	330,718	110,266
	2,112,300	**1,546,516**	**3,746,636**

6. Personnel expenses

	6 months to 30 June 2013 £	6 months to 30 June 2012 £	Year to 31 December 2012 £
Wages and salaries	4,659,657	5,137,271	9,519,939
Social security costs	598,509	413,284	1,228,038
Defined contribution pension scheme costs	457,721	395,485	824,204
Sharia'a Supervisory Board fees	21,355	44,066	85,544
Recruitment costs	187,913	111,285	180,856
Other staff costs	201,906	137,557	307,089
	6,127,061	**6,238,948**	**12,145,670**

	30 June 2013 Number	30 June 2012 Number	31 December 2012 Number
Number of employees at period end	95	80	86
Average for the period – management	5	5	6
Average for the period – non-management	89	74	75

7. Impairment of financial assets

For the six months ended 30 June 2013

Impairments of financial assets:	Individual £	Collective £	Total £
Balance at 1 January 2013	22,158,006	—	22,158,006
Exchange translation and other movements	1,194,250	—	1,194,250
Income statement:			
Gross impairment charge for the period	1,019,375	—	1,019,375
Amounts recovered during the period	—	—	-
Net impairment charge for the period	**1,019,375**	—	**1,019,375**
Amounts written off during the period	—	—	—
Balance as at 30 June 2013	**24,371,631**	—	**24,371,631**
Being impairments against:			
Financing arrangements	23,281,706	—	23,281,706
Finance lease receivables	20,648	—	20,648
Operating lease assets	481,006	—	481,006
Other assets - inventory	588,271	—	588,271
	24,371,631	—	**24,371,631**

For the six months ended 30 June 2012

Impairments of financial assets:	Individual £	Collective £	Total £
Balance at 1 January 2012	20,991,562	460,352	21,451,914
Exchange translation and other movements	(612,946)	(6,502)	(619,448)
Income statement:			
Gross impairment charge for the period	942,452	—	942,452
Amounts recovered during the period	(278)	(15,160)	(15,438)
Net impairment charge for the period	**942,174**	**(15,160)**	**927,014**
Amounts written off during the period	278	(57,177)	(56,899)
Balance as at 30 June 2012	**21,321,068**	**381,513**	**21,702,581**
Being impairments against:			
Financing arrangements	21,321,068	—	21,321,068
Finance lease receivables	—	381,513	381,513
	21,321,068	**381,513**	**21,702,581**

For the year ended 31 December 2012

Impairments of financial assets:	Individual £	Collective £	Total £
Balance at 1 January 2012	20,991,562	460,352	21,451,914
Exchange translation	(628,743)	(20,225)	(648,968)
Income statement:			
Gross impairment charge for the year	1,795,187	49,434	1,844,621
Amount recovered during the year	(25,278)	(58,050)	(83,328)
Net impairment charge for the year	**1,769,909**	**(8,616)**	**1,761,293**
Amounts written off during the year	25,278	(431,511)	(406,233)
Balance as at 31 December 2012	**22,158,006**	**–**	**22,158,006**
Being impairments against:			
Financing arrangements	22,091,840	—	22,091,840
Finance lease receivables	—	—	—
Operating lease assets	66,166	—	66,166
	22,158,006	—	**22,158,006**

As at 30 June 2013 there were five individual facilities (30 June 2012: 5 individual facilities and 1 collective facility and 31 December 2012: 5 individual facilities) comprising amounts due to the Group of £39.6 million (30 June 2012: £38.9 million and 31 December 2012: £37.8 million) which were determined to be impaired.

As at 30 June 2013, the individual provisions include a £5.3 million ($8.0 million) provision against the transportation sector (30 June 2012: £4.3 million / $6.7 million and 31 December 2012: £4.9 million / $8.0 million), £2.2 million (€2.5 million) in respect of a European manufacturing business (30 June 2012 and 31 December 2012: £2.1 million / €2.5 million), £0.5 million against the UK real estate sector (30 June 2012 and 31 December 2012: £0.5 million), £0.3 million ($0.5 million) against a Sukuk issued by a Bahraini based company (30 June 2012 and 31 December 2012: £0.3 million / $0.5 million) and a £14.9 million (€17.5 million) provision against a Turkish manufacturing business (30 June 2012: £14.1 million / €17.5 million and 31 December 2012: £14.2 million / €17.5 million).

The collective provision at 30 June 2012 of £0.4 million ($0.7 million) related to a US finance lease portfolio in the transportation sector.

8. Taxation

UK Corporation tax	6 months to 30 June 2013 £	6 months to 30 June 2012 £	Year to 31 December 2012 £
On current period profit	192,130	(54,818)	(123,771)
	192,130	(54,818)	(123,771)
Overseas tax for the period	107,886	669	803
Deferred tax for the period	158,463	751,762	1,797,371
Tax charge in income statement	**458,479**	**697,613**	**1,674,403**

The effective tax rate for the period is 31.6% (six months ended 30 June 2012: 24.4% and year ended 31 December 2012: 30.4%), representing the best estimate of the annual effective tax rate expected for the full year, applied to the operating profit before tax for the six month period.

The Budget announcement on 21 March 2012 to reduce the main UK Corporation Tax rate from 24% to 23% with effect from 1 April 2013 was substantially enacted on 3 July 2012. Accordingly the deferred tax assets and liabilities recognised below have been calculated using a corporation tax rate of 23% (30 June 2012: 24% and 31 December 2012: 23%).

The Chancellor's Autumn Statement announcement on 5 December 2012 included a proposal to reduce further the main UK Corporation Tax rate from 23% to 21% with effect from 1 April 2014. The Finance Bill 2013 published on 28 March 2013 included a proposal to reduce further the main UK Corporation Tax rate from 21% to 20% with effect from 1 April 2015. These proposed changes had not been enacted into UK law at the balance sheet date. The overall effect of further tax rate reductions from 23% to 20%, if applied to the deferred tax assets below at 30 June 2013, would be to reduce the Group deferred tax assets by approximately £457,000.

Tax recognised in other comprehensive income

	6 months to 30 June 2013 £	6 months to 30 June 2012 £	Year to 31 December 2012 £
Cash flow hedging reserve	(217,828)	(134,599)	(330,034)
Fair value reserve	376,193	37,723	56,334
	158,365	**(96,876)**	**(273,700)**

Deferred tax

Deferred tax assets are recognised for tax losses carried forward only to the extent that realisation of the related tax benefit is probable. It is estimated that the tax losses carried forward will be utilised by the end of the six month period ended 30 June 2016.

Recognised deferred tax assets and liabilities at 30 June 2013

	Assets £	Liabilities £	Net £
Property, equipment and software	653,345	—	653,345
Tax losses carried forward	2,454,054	—	2,454,054
Cash flow hedges	109,312	—	109,312
Share-based payment transactions	284,062	—	284,062
Net tax assets at 30 June 2013	**3,500,773**	—	**3,500,773**

Recognised deferred tax assets and liabilities at 30 June 2012

	Assets £	Liabilities £	Net £
Property, equipment and software	516,442	—	516,442
Tax losses carried forward	3,932,903	—	3,932,903
Cash flow hedges	250,948	—	250,948
Share-based payment transactions	146,189	—	146,189
Net tax assets at 30 June 2012	**4,846,482**	—	**4,846,482**

Recognised deferred tax assets and liabilities at 31 December 2012

	Assets £	Liabilities £	Net £
Property, equipment and software	450,535	—	450,535
Tax losses carried forward	2,881,140	—	2,881,140
Cash flow hedges	143,077	—	143,077
Share-based payment transactions	217,108	—	217,108
Other expenses	1,140	—	1,140
Net tax assets at 31 December 2012	**3,693,000**	—	**3,693,000**

9. Investment securities

At 30 June 2013	Listed £	Unlisted £	Total £
Fair value through profit and loss			
Sukuk	47,777,442	—	47,777,442
Available-for-sale			
Equity	219,731	2,651,565	2,871,296
Sukuk	102,288,332	—	102,288,332
	150,285,505	**2,651,565**	**152,937,070**

At 30 June 2012	Listed £	Unlisted £	Total £
Fair value through profit and loss			
Sukuk	31,890,305	—	31,890,305
Available-for-sale			
Equity	276,233	2,396,303	2,672,536
Sukuk	15,262,093	—	15,262,093
	47,428,631	**2,396,303**	**49,824,934**

At 31 December 2012	Listed £	Unlisted £	Total £
Fair value through profit and loss			
Sukuk	40,518,391	—	40,518,391
Available-for-sale			
Equity	191,031	2,213,104	2,404,135
Sukuk	61,918,227	—	61,918,227
	102,627,649	**2,213,104**	**104,840,753**

10. Investment properties

Group	At 30 June 2013 £	At 30 June 2012 £	At 31 December 2012 £
Opening valuation	27,816,788	12,858,712	12,858,712
Net exchange differences	483,518	(101,436)	(327,328)
Purchases at cost	27,450	10,138,076	16,334,859
Disposals	(8,006,182)	–	–
Movements in fair value	178,426	(321,041)	(1,049,455)
Closing valuation	**20,500,000**	**22,574,311**	**27,816,788**

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

During the period, the Group disposed of its leasehold interest in a US commercial real estate property in Bettendorf, Iowa. This investment property was valued by CB Richard Ellis at 30 June 2012: $11.8million and 31 December 2012: $11.8 million. This property was held through the SPVs ‘TP Funding Company LLC’ and ‘Medical Property Investments LLC’ (see note 14).

The purchases during 2012 related to the Group’s investment in the BLME Light Industrial Building Fund compartment of the BLME Sharia’a Umbrella Fund SICAV SIF which is consolidated into the Group’s results as disclosed in Note 14.

The income statement includes rental income from the investment properties of £1,247,604 (6 months to 30 June 2012: £902,844 and year to 31 December 2012: £2,272,978) in the line “Other operating income” and direct operating expenses of £411,793 (6 months to 30 June 2012: £474,683 and year to 31 December 2012: £728,577) including repairs and maintenance in the line “Other operating expenses”.

11. Financing arrangements

At 30 June 2013	Less than 1 year £	1 - 5 years £	Over 5 years £	Total £
Murabaha	301,412,341	176,738,005	20,922	478,171,268
Mudaraba	1,024	–	3,804,462	3,805,486
Musharaka	1,025	3,835,086	–	3,836,111
Hire Purchase	26,401	8,582,578	–	8,608,979
Istisna and Ijara	1,074	–	9,927,010	9,928,084
Sukuk	–	26,226,888	3,296,740	29,523,628
Wakala	3,461,252	–	–	3,461,252
	304,903,117	**215,382,557**	**17,049,134**	**537,334,808**
Provision for impairment				(23,281,706)
				514,053,102

At 30 June 2012	Less than 1 year £	1 - 5 years £	Over 5 years £	Total £
Murabaha	207,613,290	91,859,325	20,922	299,493,537
Mudaraba	–	–	3,812,729	3,812,729
Musharaka	1,549	4,259,823	–	4,261,372
Istisna and Ijara	1,080	–	10,088,437	10,089,517
Sukuk	4,603,270	23,328,944	–	27,932,214
Wakala	3,103,161	–	–	3,103,161
	215,322,350	**119,448,092**	**13,922,088**	**348,692,530**
Provision for impairment				(21,321,068)
				327,371,462

At 31 December 2012	Less than 1 year £	1 - 5 years £	Over 5 years £	Total £
Murabaha	197,004,139	137,100,930	20,922	334,125,991
Mudaraba	251	–	3,605,003	3,605,254
Musharaka	217	3,900,756	–	3,900,973
Istisna and Ijara	280	–	9,539,133	9,539,413
Sukuk	1,289,045	22,628,248	3,091,859	27,009,152
Wakala	–	3,290,305	–	3,290,305
	198,293,932	**166,920,239**	**16,256,917**	**381,471,088**
Provision for impairment				(22,091,840)
				359,379,248

These tables represent contractual maturities.

12. Finance lease receivables

Gross investment in finance lease receivables	At 30 June 2013 £	At 30 June 2012 £	At 31 December 2012 £
Within one year	86,950,504	67,898,718	65,962,946
One to five years	118,364,916	106,581,340	102,654,369
Over five years	3,556,316	–	–
	208,871,736	174,480,058	168,617,315
Unearned future income on finance leases	(21,589,777)	(17,549,090)	(16,692,301)
Provision for impairment	(20,648)	(381,513)	–
Net investment in finance leases	**187,261,311**	**156,549,455**	**151,925,014**

The net investment in finance leases comprises:

Within one year	79,056,524	62,102,282	60,684,864
One to five years	105,320,907	94,447,173	91,240,150
Over five years	2,883,880	–	–
	187,261,311	**156,549,455**	**151,925,014**

These tables represent contractual maturities.

13. Operating lease assets

	At 31 December 2012 £	Additions 2013 £	Disposals 2013 £	Depreciation 2013 £	Translation differences 2013 £	At 30 June 2013 £
Gross carrying amount	138,500,556	7,732,706	(14,379,680)	-	4,656,044	136,509,626
Less depreciation	(53,503,957)	–	7,097,465	(10,758,982)	(2,364,231)	(59,529,705)
	84,996,599	**7,732,706**	**(7,282,215)**	**(10,758,982)**	**2,291,813**	**76,979,921**
Provision for impairment						(481,006)
						76,498,915

	At 31 December 2011 £	Additions 2012 £	Disposals 2012 £	Depreciation 2012 £	Translation differences 2012 £	At 30 June 2012 £
Gross carrying amount	135,380,751	8,368,890	(2,755,074)	–	(1,094,330)	139,900,237
Less depreciation	(42,097,986)	–	1,609,889	(11,119,687)	398,695	(51,209,089)
	93,282,765	**8,368,890**	**(1,145,185)**	**(11,119,687)**	**(695,635)**	**88,691,148**
Provision for impairment						–
						88,691,148

	At 31 December 2011 £	Additions 2012 £	Disposals 2012 £	Depreciation 2012 £	Translation differences 2012 £	At 31 December 2012 £
Gross carrying amount	135,380,751	22,981,691	(16,457,775)	–	(3,404,111)	138,500,556
Less depreciation	(42,097,986)	–	8,663,116	(21,646,350)	1,577,263	(53,503,957)
	93,282,765	**22,981,691**	**(7,794,659)**	**(21,646,350)**	**(1,826,848)**	**84,996,599**
Provision for impairment						(66,166)
						84,930,433

Rental receipts under operating leases Future rentals are as follows:	At 30 June 2013 £	At 30 June 2012 £	At 31 December 2012 £
Less than one year	26,432,717	34,335,351	30,306,341
Between one and five years	57,576,496	66,989,948	63,257,744
More than five years	–	–	2,940,700
	84,009,213	**101,325,299**	**96,504,785**

14. Subsidiaries and other entities

Subsidiary	Country of incorporation	BLME interest in equity capital %	Issued equity capital
BLME Holdings plc	England & Wales	100	£50,001
BLME Umbrella Fund Management Sarl	Luxembourg	100	$25,000
BLME (UK) GP Limited	England & Wales	100	£100
BLME Nominees LIBF Limited	England & Wales	100	£100
Bank of London and The Middle East EBT	Jersey	100	£100

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

	30 June 2013 No of shares	30 June 2012 No of shares	31 December 2012 No of shares
BLME US$ Income Fund compartment:			
Class B shares	25,978.466	47,883.888	47,883.888
Class C shares	24,995.251	Nil	Nil
Class G shares	1,234.491	1,234.491	1,234.491
Class M shares	1	1	1
BLME Global Sukuk Fund compartment:			
Class A shares	10,000	10,000	10,000
BLME Light Industrial Building Fund compartment:			
Class A shares	10,027.628	10,019.609	10,027.628

These holdings represent a majority interest in all three active compartments of the BLME Sharia'a Umbrella Fund SICAV SIF which are therefore deemed to be controlled by the Bank and thus consolidated into the Group's results. The overall holding in the BLME Sharia'a Umbrella Fund SICAV SIF is approximately 80% of the shares issued (30 June 2012: 88% and 31 December 2012: 81.9%). The Group recognised an expense of £148,553 (6 months to 30 June 2012: £234,907 and year to 31 December 2012: £840,720) 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 20 % (30 June 2012: 12% and 31 December 2012: 18.1%) has been reported in the Group's balance sheet liabilities line "third party interest in consolidated funds".

There are five active entities (2012: six) that do not qualify as subsidiaries under UK law but which are consolidated under IAS 27 (SIC-12) as the substance of the relationship is that the entities are controlled by the Bank. These entities are deemed to be controlled by the Bank because the relationships between the Bank and the SPVs are governed by participation agreements which confer the risk and rewards to the Bank and indemnify the SPVs for losses. Therefore this gives rise to benefits and risks that are in substance no different from those that would arise were the entities subsidiaries of the Bank.

The five entities are as follows:

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

Lease assets owned by the SPVs are reported as Group operating lease assets amounting to £34,844,555 (30 June 2012: £46,133,262 and 31 December 2012: £35,875,223).

Finance leases owned by the SPVs amount to £12,325,346 (30 June 2012: £17,051,226 and 31 December 2012: £13,466,545).

During the period the BLME EBT purchased 51,538,461 of BLME shares at 6.5 pence per share for a total consideration of £3,350,000 from employees (6 months to 30 June 2012: 1,538,460 shares for £100,000 and year to 31 December 2012: 3,076,921 shares for £200,000). The BLME EBT holds a stock of own shares at a cost of £4,350,000 (30 June 2012: £900,000 and 31 December 2012: £1,000,000) which has been deducted from retained earnings in the Condensed Consolidated Statement of Changes in Equity.

During the period the Bank incurred stamp duty costs on behalf of the BLME EBT amounting to £16,750 (6 months to 30 June 2012: £500 and year to 31 December 2012: £1,000).

15. Related parties

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

Boubyan Bank K.S.C	6 months to 30 June 2013 £	6 months to 30 June 2012 £	Year to 31 December 2012 £
Wakala placement	62,480,664	—	21,548,375
Foreign exchange transactions	23,329	25,249	25,249
The Public Institution for Social Security			
Reverse Murabaha	388,166,804	378,693,762	421,962,540
SGM-Foreign Exchange Limited			
Foreign exchange transactions	–	3,596,500	7,810,137
PDQFX Limited			
Foreign exchange transactions	3,209	–	–

The amounts outstanding with Boubyan Bank K.S.C as at 30 June 2013 were as follows:

Included within:	At 30 June 2013 £	At 30 June 2012 £	At 31 December 2012 £
Cash and balances with banks			
Nostros	286,665	139,936	149,476
Due from financial institutions			
Wakala placement	9,547,527	4,186,046	9,137,766

The maximum amounts outstanding with Boubyan Bank K.S.C. during the period ended 30 June 2013 were:

On balance sheet £19,484,186 (30 June 2012: £4,186,046 and 31 December 2012: £25,734,421)

Off balance sheet £nil (30 June 2012 and 31 December 2012: £nil)

On 22nd September 2010 the Bank entered into a 5 year marketing and advisory services agreement with Boubyan Bank K.S.C. The Bank will be paying KWD 450,000, which was equivalent to £1,039,381 at the balance sheet date (30 June 2012: £1,024,824 and 31 December 2012: £989,230), annually in arrears for the services with the first payment made on 30th September 2011. In return Boubyan Bank K.S.C has committed to a comprehensive range of marketing and advisory initiatives. The cost of these services is being recognised in the income statement over the period of the agreement and is included in the line "Other operating expenses".

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

As at 30 June 2013, Boubyan Bank K.S.C held 20.92% of the Bank's shares (30 June 2012 and 31 December 2012: 21.78%). A non executive director who joined the Board on 25 September 2009, and resigned from the Board on 7 June 2013, was also the Chairman of Boubyan Bank K.S.C from 2009 until March 2012. A non-executive director who joined the Board on 6 December 2012 is the Chief Executive Officer and Vice Chairman of Boubyan Bank K.S.C.

The amounts outstanding with The Public Institution for Social Security (of Kuwait) as at 30 June 2013 were as follows:

Included within:	At 30 June 2013 £	At 30 June 2012 £	At 31 December 2012 £
Reverse Murabaha	471,676,472	322,588,359	408,750,232

The maximum amounts outstanding with The Public Institution for Social Security during the period ended 30 June 2013 were:

On balance sheet £505,581,709 (30 June 2012: £378,693,762 and 31 December 2012: £408,750,232)

Off balance sheet £nil (30 June 2012 and 31 December 2012: £nil)

As at 30 June 2013, The Public Institution for Social Security held 7.67% (30 June 2012 and 31 December 2012: 7.67%) of the Bank's shares. The Bank's Vice Chairman holds the position of Deputy Director General for Investment of The Public Institution for Social Security.

The maximum outstanding amount with SGM-Foreign Exchange Limited during the period ended 30 June 2013 was £nil (30 June 2012 and 31 December 2012: £4,463,891).

As at 30 June 2013 the Bank had no outstanding foreign currency forward contracts with SGM-Foreign Exchange Limited (30 June 2012: £2,177,823 of sell GBP / buy USD and 31 December 2012: £nil). The fair value of these contracts as at 30 June 2013 was £nil (30 June 2012: £4,721 and 31 December 2012: £nil).

SGM-Foreign Exchange Limited has pledged cash collateral deposits with BLME of £nil (30 June 2012: £150,000 and 31 December 2012: £50,000) as security against foreign currency forward contracts. The Bank's Chief Executive Officer holds a majority interest in SGM-Foreign Exchange Limited.

The maximum outstanding amount with PDQFX Limited during the period ended 30 June 2013 was £1,288 (30 June 2012 and 31 December 2012: £Nil).

There were no outstanding foreign currency forward contracts with PDQFX Limited as at 30 June 2013 (30 June 2012 and 31 December 2012: £nil). The fair value of these contracts as at 30 June 2013 was £nil (30 June 2012 and 31 December 2012: £nil). The Bank's Chief Executive Officer holds a 50% interest in PDQFX Limited.

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

	6 months to 30 June 2013 £	6 months to 30 June 2012 £	Year to 31 December 2012 £
Key management emoluments*	385,655	418,668	1,855,897
Bank contributions to pension plans	30,750	46,500	93,000
	416,405	**465,168**	**1,948,897**

*Key management emoluments include share-based payments of £30,181 (6 months to 30 June 2012: £63,751 and year to 31 December 2012: £679,979)

During the year ended 31 December 2012 one of the Executive Directors entered into spot foreign exchange transactions with the Bank totalling £19,355 (6 months to 30 June 2013 and 6 months to 30 June 2012: £nil). During the period ended 30 June 2013 one non-executive director had an interest in a BLME Premier Deposit Account with a balance of £25,000 which matured during the period (balance as at 30 June 2012 and 31 December 2012: £25,000). These transactions arose from the ordinary course of business and were conducted on the same terms as for comparable transactions with third-party counterparties.

16. Financial risk management

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

– credit risk
– liquidity risk
– market risk
– operational risk

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, Counterparty Credit Risk Committee, Operations Committee and the Investment Committee. These four 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, together with details of how these risks are managed (which have not changed significantly during the period), remain as detailed in the Group's Annual Report and Accounts 2012 and are expected to remain unchanged in the final six months of the financial year to 31 December 2013.

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.

i. Exposure

The tables below present the Group's maximum exposure to credit risk on balance sheet financial instruments as at 30 June 2013, before taking account of any collateral held or other credit enhancements. The amounts at the reporting date are indicative of the amounts at risk throughout the period.

	At 30 June 2013 £	At 30 June 2012 £	At 31 December 2012 £
Cash and balances with banks	49,000,076	73,618,431	159,600,938
Due from financial institutions:			
Murabaha	79,389,076	44,127,597	92,696,610
Wakala	33,747,503	18,493,877	39,717,136
Investment securities	152,937,070	49,824,934	104,840,753
Financing arrangements	514,053,102	327,371,462	359,379,248
Finance lease receivables	187,261,311	156,549,455	151,925,014
Total credit exposure	**1,016,388,138**	**669,985,756**	**908,159,699**

As at 30 June 2013 there were 41 off balance sheet letters of guarantee outstanding (30 June 2012: 11 and 31 December 2012: 31) with a total exposure of £10,665,905 (30 June 2012: £9,000,014 and 31 December 2012: £13,546,175).

ii. Exposure by Country

The Group's assets were dispersed across the following countries:

Group

GCC countries	At 30 June 2013 £	At 30 June 2012 £	At 31 December 2012 £
Bahrain	18,972,660	17,789,295	20,842,022
Kuwait	26,213,170	22,403,160	29,378,578
Qatar	63,578,315	34,664,758	52,618,716
Saudi Arabia	78,832,021	45,599,500	44,091,224
United Arab Emirates	98,150,142	29,849,107	69,903,453
EEA countries			
France	4,021,558	816,547	12,826,177
Italy	–	1,785,430	1,855,115
Luxembourg	4,492,065	10,295,316	4,081,282
United Kingdom	586,625,780	377,381,712	576,049,466
Other countries			
Bermuda	6,683,271	7,916,007	6,980,687
China	12,251,499	8,221,904	7,993,210
Djibouti	3,836,111	4,261,372	3,900,973
Hong Kong	200,000	200,000	200,000
Indonesia	385,837	646,134	9,522,097
Japan	–	3,071,997	–
Jersey	5,770,195	–	–
Malaysia	17,111,943	2,692,555	3,092,997
Singapore	–	274,793	201,345
South Korea	11,100,917	15,710,706	12,534,501
Switzerland	12,338,740	18,547,383	14,718,099
Turkey	21,378,284	12,568,337	15,273,884
USA	44,445,630	55,289,743	22,095,873
Total credit exposure	**1,016,388,138**	**669,985,756**	**908,159,699**

The Group has very limited direct credit exposure to institutions and governments of the European Union ("EU") outside the United Kingdom ("UK"). The non-UK EU component above represents approximately 1% (30 June 2012 and 31 December 2012: 2%) of the Group's total credit exposure. The Group had no direct exposure to either the governments of, or institutions or corporates in Greece, Portugal, Ireland, Spain or Cyprus.

iii. Exposure by economic sector

The Group's assets were dispersed across the following economic sectors:

Group	At 30 June 2013 £	At 30 June 2012 £	At 31 December 2012 £
Financial services			
GCC financial institutions	203,491,928	89,460,688	132,848,785
UK financial institutions	42,997,484	49,402,207	189,135,315
European financial institutions	7,648,464	12,080,746	17,939,803
Other financial institutions	48,354,860	47,139,451	24,874,664
Mining and quarrying	3,754,689	17,380,171	13,996,003
Manufacturing	15,540,961	22,151,386	7,439,809
Real estate	289,059,015	195,816,022	229,870,368
Transportation and storage	134,276,806	107,392,153	111,469,152
Government	24,067,651	22,661,433	45,798,174
Wholesale / Retail	89,554,289	34,502,964	59,171,072
Oil and Gas	22,859,301	12,004,530	10,993,810
Commodities	38,787,199	11,833,861	21,357,109
Energy	10,571,982	6,274,028	4,523,404
Telecoms	12,521,871	10,094,468	–
Others	72,901,638	31,791,648	38,742,231
Total credit exposure	**1,016,388,138**	**669,985,756**	**908,159,699**

iv. Credit risk quality

Credit quality is assessed using techniques that include information from the major External Credit Assessment Institutions ("ECAI") as well as BLME internal ratings for customers who are not externally rated. The latter are mapped to the ratings of the ECAI. The table below shows the breakdown of credit quality as at 30 June 2013. Of the total portfolio 36% was directly rated by at least one of the ECAI, with 64% mapped using internal ratings.

	ECAI rating		BLME Internal Rating		Unrated	
At 30 June 2013	Investment Grade £	Sub-Investment Grade £	Investment Grade £	Sub-Investment Grade £	Unlisted Equity Investments £	Total £
Cash and balances with banks	49,000,076	–	–	–	–	49,000,076
Due from financial institutions	90,058,422	–	16,484,540	6,593,617	–	113,136,579
Investment securities	138,177,261	5,298,454	6,260,385	549,405	2,651,565	152,937,070
Financing arrangements	37,340,342	9,204,249	235,530,207	231,978,304	–	514,053,102
Finance lease receivables	19,008,618	18,300,790	73,292,152	76,659,751	–	187,261,311
Total credit exposure	**333,584,719**	**32,803,493**	**331,567,284**	**315,781,077**	**2,651,565**	**1,016,388,138**

At 30 June 2012	ECAI rating Investment Grade £	ECAI rating Sub-Investment Grade £	BLME Internal Rating Investment Grade £	BLME Internal Rating Sub-Investment Grade £	Unrated Unlisted Equity Investments £	Total £
Cash and balances with banks	73,618,431	–	–	–	–	73,618,431
Due from financial institutions	46,112,485	–	–	16,508,989	–	62,621,474
Investment securities	39,922,650	5,608,990	1,301,916	594,985	2,396,303	49,824,844
Financing arrangements	29,085,038	15,461,993	177,480,592	105,343,839	–	327,371,462
Finance lease receivables	30,461,218	–	70,358,268	55,729,969	–	156,549,455
Total credit exposure	**219,199,822**	**21,070,983**	**249,140,776**	**178,177,782**	**2,396,303**	**669,985,666**

At 31 December 2012	ECAI rating Investment Grade £	ECAI rating Sub-Investment Grade £	BLME Internal Rating Investment Grade £	BLME Internal Rating Sub-Investment Grade £	Unrated Unlisted Equity Investments £	Total £
Cash and balances with banks	159,600,938	–	–	–	–	159,600,938
Due from financial institutions	104,640,815	–	–	27,772,931	–	132,413,746
Investment securities	87,444,809	12,606,340	2,076,283	500,217	2,213,104	104,840,753
Financing arrangements	27,816,498	12,214,793	189,850,275	129,497,682	–	359,379,248
Finance lease receivables	23,778,945	–	60,263,127	67,882,942	–	151,925,014
Total credit exposure	**403,282,005**	**24,821,133**	**252,189,685**	**225,653,772**	**2,213,104**	**908,159,699**

The Group's cash balances, amounts due from financial institutions and investment securities were neither past due nor impaired as at 30 June 2013, 30 June 2012 and 31 December 2012.

Analysis of past due amounts and impairments

Group	Financing Arrangements At 30 June 2013 £	Financing Arrangements At 30 June 2012 £	Financing Arrangements At 31 Dec 2012 £	Finance Leases At 30 June 2013 £	Finance Leases At 30 June 2012 £	Finance Leases At 31 Dec 2012 £
Neither past due nor impaired	476,493,890	310,580,825	343,675,757	186,929,511	156,086,799	151,925,014
Past due but not impaired	21,239,778	27,528	24,528	–	–	–
Gross exposure associated with impairment provision	39,601,140	38,084,177	37,770,803	352,448	844,169	–
Less: allowance for impairments	(23,281,706)	(21,321,068)	(22,091,840)	(20,648)	(381,513)	–
Total	**514,053,102**	**327,371,462**	**359,379,248**	**187,261,311**	**156,549,455**	**151,925,014**

Past due but not impaired	Financing Arrangements At 30 June 2013 £	Financing Arrangements At 30 June 2012 £	Financing Arrangements At 31 Dec 2012 £	Finance Leases At 30 June 2013 £	Finance Leases At 30 June 2012 £	Finance Leases At 31 Dec 2012 £
Past due up to 30 days	–	–	–	–	–	–
Past due 30 to 60 days	–	–	–	–	–	–
Past due 60 to 90 days	18,435,519	–	–	–	–	–
Past due over 90 days	2,804,259	27,528	24,528	–	–	–
Total	**21,239,778**	**27,528**	**24,528**	–	–	–

The past due but not impaired balances as at 30 June 2013 include £21,218,250 relating to real estate transactions where the facility balances are lower than the collateral values. An analysis of impairments is provided in Note 7 "Impairment of financial assets".

v. Fair value of financial assets and liabilities

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

	Note	At 30 June 2013 Carrying value £	At 30 June 2013 Fair value £	At 30 June 2012 Carrying value £	At 30 June 2012 Fair value £	At 31 Dec 2012 Carrying value £	At 31 Dec 2012 Fair value £
Due from financial institutions	i	113,136,579	113,136,579	62,621,474	62,621,474	132,413,746	132,413,746
Investment securities	ii	152,937,070	152,937,070	49,824,934	49,824,934	104,840,753	104,840,753
Financing arrangements	iii	514,053,102	489,904,486	327,371,462	315,415,424	359,379,248	344,801,118
Finance lease receivables	iv	187,261,311	173,879,500	156,549,455	146,642,537	151,925,014	143,045,931
Due to financial institutions	iv	581,109,175	579,671,146	442,591,007	440,836,576	512,113,261	511,322,591
Profit rate swaps liability	v	2,273,140	2,273,140	6,545,293	6,545,293	5,308,045	5,308,045
Due to customers	iv	287,637,215	287,637,215	91,985,708	91,985,708	257,747,298	257,747,298

Notes

i. Apart from a £2,954,048 (30 June 2012: £4,186,046 and 31 December 2012: £2,954,048) Wakala placement with Boubyan Bank, which is disclosed in further detail in Note 15, these assets represent short term liquidity with an average residual life of 4 weeks and a maximum individual residual maturity of 10 months. The assets are placed with banks with an average credit rating of BBB+. On this basis, carrying value reflects fair value.

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

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

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

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

Valuation of Financial Instruments

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

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

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

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

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

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

At 30 June 2013	Level 1 £	Level 2 £	Level 3 £	Total £
Investment securities	150,285,505	–	2,651,565	152,937,070
Profit rate swaps liability	–	2,373,140	–	2,373,140

At 30 June 2012	Level 1 £	Level 2 £	Level 3 £	Total £
Investment securities	47,428,631	–	2,396,303	49,824,934
Profit rate swaps liability	–	6,545,293	–	6,545,293

At 31 December 2012	Level 1 £	Level 2 £	Level 3 £	Total £
Investment securities	102,627,649	–	2,213,104	104,840,753
Profit rate swaps liability	–	5,308,045	–	5,308,045

During the six month period ended 30 June 2013, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into or out of Level 3 fair value measurements.

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

Investment securities	6 months to 30 June 2013 £	6 months to 30 June 2012 £	12 months to 31 December 2012 £
Balance at 1 January	2,213,104	2,096,533	2,096,533
Total gains / (losses) recognised in:			
– profit or loss	51,581	(5,754)	(19,250)
– other comprehensive income	–	–	(15,000)
Purchases	386,880	305,524	150,821
Balance at period end	**2,651,565**	**2,396,303**	**2,213,104**

vi .Financial assets and liabilities

Comprise cash and cash equivalents, derivative financial instruments, investment securities and available-for-sale financial assets.

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.

Residual contractual maturities of financial liabilities

At 30 June 2013	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	Total £
Due to financial institutions	124,720,549	65,106,797	391,321,987	676,088	–	581,825,421
Due to customers	29,381,935	11,486,704	75,269,850	192,207,372	–	308,345,861
Profit rate swaps	203,701	240,157	303,078	1,626,204	–	2,373,140
	154,306,185	**76,833,658**	**466,894,915**	**194,509,664**	–	**892,544,422**

At 30 June 2012	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	Total £
Due to financial institutions	104,773,388	60,341,742	279,680,059	1,197,520	–	445,992,709
Due to customers	17,066,471	2,016,303	21,094,184	57,829,836	–	98,006,794
Profit rate swaps	215,743	226,338	227,147	5,876,065	–	6,545,293
	122,055,602	**62,584,383**	**301,001,390**	**64,903,421**	–	**550,544,796**

At 31 December 2012	Less than 1 month £	1-3 months £	3-12 months £	1-5 years £	5+ years £	Total £
Due to financial institutions	147,263,962	96,297,596	266,133,799	4,817,493	–	514,512,850
Due to customers	19,622,424	4,822,356	52,066,728	205,287,616	–	281,799,124
Profit rate swaps	144,269	214,461	605,111	4,344,204	–	5,308,045
	167,030,655	**101,334,413**	**318,805,638**	**214,449,313**	–	**801,620,019**

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

c. Market risks

Market risk is the risk that changes in market prices will affect the Group's income. It covers profit rate risk, credit spread risk and foreign exchange risk.

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.

As at 30 June 2013, the Group's net profit rate sensitivity to profit and loss on its fixed and variable rate assets, and its capital and reserves, as measured by the discounted value of a one basis point change in market rates, was £4,833 (30 June 2012: £26,036 and 31 December 2012: £13,284). The impact of an increase or decrease of 100 basis points in profit rates at the statement of financial position date would be to increase or decrease profit and loss by £6,313,463 (30 June 2012: £5,412,089 and 31 December 2012: £3,406,026) and to increase or decrease equity by £483,293 (30 June 2012: £2,603,571 and 31 December 2012: £1,328,448).

ii. Credit spread risk

BLME operates a Sukuk Trading Book, within which the portfolio size and individual issuer risks are limited to modest proportions since BLME does not have a material appetite for Trading Risk. The value of this Trading Book as at 30 June 2013 was £11,494,233 (30 June 2012: £6,150,983 and 31 December 2012: £9,327,943). The impact of an increase or decrease of 10 per cent in Sukuk trading prices at the statement of financial position date would be to increase or decrease equity and profit or loss by £1,128,411 (6 months to 30 June 2012: £610,999 and 12 months to 31 December 2012: £920,691).

iii. Foreign exchange risk

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

A 10% strengthening or weakening of the net foreign currency positions against Sterling at the statement of financial position date would result in an FX revaluation gain or loss of £181,508 (30 June 2012: £199,573 and 31 December 2012: £76,460). The foreign exchange result for the period to 30 June 2013 was a net loss of £199,853 (6 months to 30 June 2012: £225,892 net gain and year to 31 December 2012: £285,156 net gain).

d. Operational risk

Operational risk is the risk of 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.

e. Capital adequacy

At 30 June 2013 and throughout the period the Group complied with the capital requirements that were in force as set out by the Prudential Regulation Authority and the Financial Services Authority.

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

17. Interim report and statutory accounts

The information in this interim report is unaudited and does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006. This interim report was approved by the Board of Directors on 28 August 2013. The statutory accounts for the year ended 31 December 2012 have been delivered to the Registrar of Companies for England and Wales in accordance with section 446 of the Companies Act 2006. The auditor has reported on those accounts. Its report was unqualified and did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Statement of Directors' responsibilities

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

By order of the Board:

Richard Williams
Chief Financial Officer
28 August 2013

Independent review report to Bank of London and The Middle East plc

Introduction

We have been engaged by Bank of London and The Middle East plc ("the Bank") to review the condensed set of financial statements in the Interim Report for the six months ended 30 June 2013 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Statement of Financial Position, the Condensed Consolidated Cash Flow Statement, the Condensed Consolidated Statement of Changes in Equity and the related explanatory notes set on pages 22 to 50. We have read the other information contained in the Interim Report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Bank in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Bank those matters we are required to state to it in this 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 Bank for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The Interim Report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the Interim Report in accordance with IFRSs as adopted by the EU. As disclosed in note 2, the annual financial statements of the Bank are prepared in accordance with IFRSs as adopted by the EU. The condensed set of financial statements included in this Interim Report has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU.

Our responsibility

Our responsibility is to express to the Bank a conclusion on the condensed set of financial statements in the Interim Report based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the Interim Report for the six months ended 30 June 2013 is not prepared, in all material respects, in accordance with IAS 34 as adopted by the EU.

Paul Furneaux

For and on behalf of KPMG Audit Plc
Chartered Accountants
London
28 August 2013

Notes

Bank information

Bank of London and The Middle East plc – Head Office

Sherborne House
119 Cannon Street
London
EC4N 5AT

Registered Office

Tel: +44 (0) 20 7618 0000
Fax: +44 (0) 20 7618 0001
Email: info@blme.com
Website: www.blme.com

Bank of London and The Middle East plc – Wealth Management

12 Manchester Square
London
W1U 3PP

Tel: +44 (0) 20 7487 7200
Fax: +44 (0) 20 7487 7201
Email: info@blme.com
Website: www.blme.com

Bank of London and The Middle East plc – Representative Office

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

Tel: + 971 (0) 4 365 0700
Fax: + 971 (0) 4 365 0799
Email: info@blme.com
Website: www.blme.com

Auditors:

KPMG Audit Plc
Chartered Accountants
15 Canada Square
London
E14 5GL

Website: www.kpmg.com

Registered number 05897786

Bank of London and The Middle East plc

Sherborne House
119 Cannon Street
London EC4N 5AT

Tel: +44 (0)20 7618 0000
Fax: +44 (0)20 7618 0001
Email: info@blme.com
Website: www.blme.com