Interim Report

For the six months
ended 30 June 2012

A view of 2012

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Interim Report

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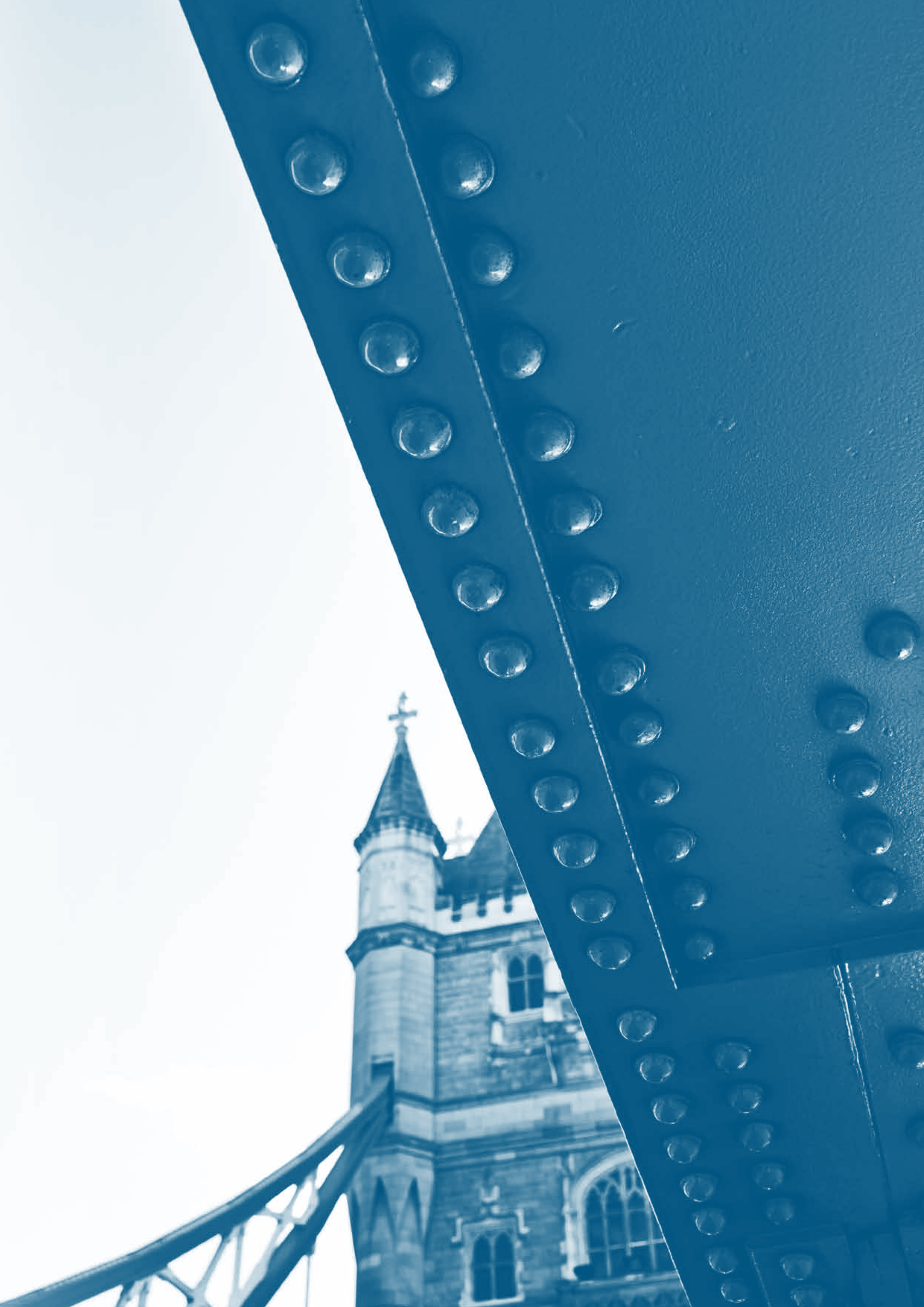

Chairman's statement

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

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

I am pleased to report to our shareholders on the improved financial performance of the Bank of London and The Middle East plc ("BLME") in the six months to 30 June 2012, where the growth in total operating income from £21.6 million to £26.7 million represented a 23% increase over the same period in 2011. This resulted in a net operating profit before tax of £2.9 million. Whilst this result includes a modest increase in the provision for an existing impaired asset, I am encouraged by the improving performance of the credit portfolio and the steps being taken to recover monies in relation to the loan loss provisions that the Bank has made during the economic crisis.

The Board continues to stress the importance of BLME achieving a balance between good risk management practices and the strategic imperative to increase revenues. In this respect I take note of the growing contribution both from the established and the recently launched Corporate Banking areas, as well as the robust performance of Treasury in the challenging market conditions which still prevail.

Having achieved a satisfactory first half result in 2012, I look forward to further progress being made to deliver the updated Business Strategy that your Board endorsed at the end of 2011. This will require further effort to increase sales of BLME products, including a strong focus on developing relationships with GCC customers and strategic partners. This particularly applies to the Wealth Management area, where BLME has developed quality

product and fund performance credentials but has yet to maximise distribution potential. However, I welcome the improving signs of product distribution, notably the interest shown in the recently launched BLME Light Industrial Building Fund as well as the Bank's growing Capital Markets reputation with London banks and institutional investors in the GCC.

Finally, I would like to express my appreciation for the continued guidance provided by our Sharia'a Supervisory Board, and my gratitude to both our shareholders for their support and our staff whose dedication and efforts are so important if BLME is to achieve its future growth and profitability targets.

Yacob Al-Muzaini
Chairman
30 August 2012

> *"I welcome the improving signs of product distribution, notably the interest shown in the recently launched BLME Light Industrial Building Fund as well as the Bank's growing Capital Markets reputation with London banks and institutional investors in the GCC"*

Chief Executive Officer's statement

The first half of 2012 saw BLME produce a profit before tax of £2.9 million, a 42% increase on the comparable period in 2011. This was driven by continued growth in total operating income which rose by 23% over this period from £21.6 million to £26.7 million, led by strong customer demand for financing solutions and improved performance across the credit portfolio. The Balance Sheet increased by 13% from £706.5 million to £798.9 million.

The notable factors behind the first half performance in 2012 were:

- An expanded suite of customer financing businesses, including Asset Based Lending and Commodity Trade Finance.
- The increasing momentum in Lease Finance and Property Development Finance, where BLME has achieved strong market credentials and expertise.
- A strengthened liability profile, aided by the healthy growth in longer term Premier Deposit Accounts.
- A steady contribution from Treasury despite the low rate environment and the increased market wide cost of liquidity.
- Increased fee income from expanded Capital Markets activities.
- The progress made since the launch of the BLME Light Industrial Building Fund, including the encouraging level of investor interest.
- The continued strong performance of BLME's core funds, where the Sharia'a US$ Income Fund has been rated 8th out of 776 funds[1] and the High Yield Fund has achieved the leading position in a peer group of 19 Sukuk funds[2].
- A charge of £0.9 million as a result of increasing the provision for an existing impaired facility.
- Tight management control of operating expenses.

The results achieved in the first half of 2012 are encouraging evidence of the Bank's core business performance. At the same time, they underline the importance of strengthening BLME's distribution and fee income capabilities. In order to achieve the Bank's targets there is an increased emphasis on the GCC, particularly in the areas of Wealth Management and Capital Markets where marketing efforts have been focused on developing strategic partners and distribution channels.

In parallel with business growth, BLME has maintained liquidity and capital adequacy positions comfortably in excess of regulatory requirements. The Bank has also continued to enhance its risk management processes to protect the growth achieved over the past five years.

The satisfactory first half results are founded on improved performance across the Bank's operating units. Within this, it is pleasing to note the growing contribution from customer activities, particularly the increased levels of repeat business. Furthermore, I am pleased that BLME's high quality product, investment and structuring expertise is translating into higher levels of business both in domestic markets and in the GCC such that the Bank can achieve greater profitability and growth in the future.

Humphrey Percy
Chief Executive Officer
30 August 2012

[1] Source: Lipper Hindsight

[2] Source: Zawya

Condensed consolidated income statement

For the six months ended 30 June 2012 (unaudited)

Income	*Note*	6 months to 30 June 2012 £	6 months to 30 June 2011 £	Year to 31 December 2011 £
Income from financing and investing activities		14,661,630	11,801,626	25,721,315
Returns to financial institutions and customers		(5,869,304)	(4,324,635)	(9,430,933)
Net margin		**8,792,326**	**7,476,991**	**16,290,382**
Fee and commission income		694,805	238,177	735,263
Fee and commission expense		(7,628)	(32,178)	(92,915)
Net fee income		**687,177**	**205,999**	**642,348**
Net fair value gains / (losses) on investment securities		2,079,020	886,537	(975,203)
Net fair value (losses) / gains on investment properties	*9*	(321,041)	61,873	(326,155)
Operating lease income		13,877,030	12,189,258	25,259,609
Other operating income	*4*	1,546,516	800,275	2,128,353
Total operating income		**26,661,028**	**21,620,933**	**43,019,334**
Expenses				
Personnel expenses	*5*	(6,238,948)	(5,450,800)	(9,519,860)
Operating lease depreciation	*12*	(11,119,687)	(10,000,396)	(20,606,721)
Other depreciation and amortisation		(189,269)	(383,308)	(667,208)
Other operating expenses		(5,092,277)	(3,731,016)	(7,820,969)
Change in third party interest in consolidated funds		(234,907)	(28,056)	(50,732)
Total operating expenses		**(22,875,088)**	**(19,593,576)**	**(38,665,490)**
Operating profit before impairment charges		**3,785,940**	**2,027,357**	**4,353,844**
Net impairment charge on financial assets	*6*	(927,014)	(11,779)	(15,202,534)
Net operating profit / (loss) before tax		**2,858,926**	**2,015,578**	**(10,848,690)**
Tax (expense) / credit	*7*	(697,613)	(1,246,925)	1,950,700
Profit / (loss) for the period		**2,161,313**	**768,653**	**(8,897,990)**

The notes on pages 20 to 34 are an integral part of the condensed consolidated financial statements.

Condensed consolidated statement of comprehensive income

For the six months ended 30 June 2012 (unaudited)

Income	6 months to 30 June 2012 £	6 months to 30 June 2011 £	Year to 31 December 2011 £
Profit / (loss) for the period	**2,161,313**	**768,653**	**(8,897,990)**

Other comprehensive income / (expense)

Foreign currency translation differences for foreign operations	22,744	91,183	3,113
Foreign currency translation differences for cash flow hedging reserve	81,067	182,170	(8,152)
Changes in fair value of cash flow hedges taken to equity	328,180	(299,932)	(755,500)
Ineffective portion of change in fair value of cash flow hedges transferred to income statement	94,880	20,437	168,294
Change in fair value of available-for-sale financial assets taken to equity	(214,843)	22,744	200,006
Transfer from fair value reserve to income statement in respect of amortisation of reclassified financial assets	74,324	315,659	377,886
Income tax on other comprehensive income	(96,876)	(78,508)	1,010
Other comprehensive income / (expense) for the period net of income tax	**289,476**	**253,753**	**(13,343)**
Total comprehensive profit / (loss) for the period	**2,450,789**	**1,022,406**	**(8,911,333)**

The notes on pages 20 to 34 are an integral part of the condensed consolidated financial statements.

Condensed consolidated statement of financial position

As at 30 June 2012 (unaudited)

Assets	*Note*	30 June 2012 £	30 June 2011 £	30 December 2011 £
Cash and balances with banks		73,618,431	60,227,114	97,298,498
Due from financial institutions		62,621,474	47,260,331	76,671,550
Investment securities	*8*	49,824,934	47,489,441	81,401,505
Financing arrangements	*10*	327,371,462	311,444,297	299,102,091
Finance lease receivables	*11*	156,549,455	126,943,860	131,012,099
Operating lease assets	*12*	88,691,148	94,320,887	93,282,765
Investment properties	*9*	22,574,311	7,038,744	12,858,712
Property and equipment		450,971	551,729	452,346
Intangible assets		568,912	316,706	474,018
Other assets		11,312,537	8,082,811	8,437,532
Current tax asset		500,000	500,000	500,000
Deferred tax assets	*7*	4,846,482	2,362,426	5,640,300
Total assets		**798,930,117**	**706,538,346**	**807,131,416**

Liabilities				
Due to financial institutions		442,591,007	411,438,541	500,474,105
Due to customers		91,985,708	29,995,828	51,031,160
Profit rate swaps		6,545,293	6,791,345	7,268,757
Third party interest in consolidated funds		8,218,527	1,108,490	1,763,834
Other liabilities		11,960,154	7,926,242	7,953,098
Total liabilities		**561,300,689**	**457,260,446**	**568,490,954**

Equity

	Note	30 June 2012 £	30 June 2011 £	30 December 2011 £
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		110,771	16,109	213,567
Cash flow hedging reserve		(3,816,556)	(3,809,600)	(4,186,084)
Share based payment reserve		1,042,107	4,307,629	4,403,930
Foreign currency translation reserve		(50,013)	15,313	(72,757)
Retained earnings		(14,816,631)	(6,411,301)	(16,877,944)
Total equity attributable to equity holders of the Bank		**237,629,428**	**249,277,900**	**238,640,462**
Total liabilities and equity		**798,930,117**	**706,538,346**	**807,131,416**

The notes on pages 20 to 34 are an integral part of the condensed consolidated financial statements.

These financial statements were approved by the Board of Directors on 30 August 2012 and were signed on its behalf by:

Humphrey Percy
Chief Executive Officer

Richard Williams
Finance Director

Condensed consolidated statement of cash flows

For the six months ended 30 June 2012 (unaudited)

Cash flows from operating activities	6 months to 30 June 2012 £	6 months to 30 June 2011 £	Year to 30 December 2011 £
Net operating profit / (loss) before tax	2,858,926	2,015,578	(10,848,690)
Adjusted for:			
Exchange differences	2,986,402	2,627,642	(3,329,833)
Fair value losses / (gains) on investment properties	321,041	(61,873)	326,155
Fair value (gains) / losses on investment securities	(67,585)	(402,692)	1,804,369
Provision for impairment	942,452	1,277,893	17,642,159
Depreciation and amortisation	11,308,956	10,383,704	21,273,929
Share based payment awards	108,678	1,263,515	1,359,816
Accretion of instruments held under financing arrangements	(71,353)	(587,038)	(686,166)
Mark to market movement in profit rate swaps	137,634	31,683	(11,181)
Amortisation of fair value reserve	74,324	315,659	377,886
	18,599,475	**16,864,071**	**27,908,444**

Net (increase) / decrease in operating assets:			
Due from financial institutions	13,964,053	46,758,187	17,790,789
Financing arrangements	(29,640,788)	12,934,257	10,476,807
Recovery of impaired assets	(15,438)	(1,266,114)	(2,439,625)
Finance lease receivables	(25,863,428)	(8,627,802)	(12,692,204)
Operating lease assets	(6,527,574)	(15,155,711)	(25,040,666)
Other assets	(2,324,437)	1,577,625	71,322
	(50,407,612)	**36,220,442**	**(11,833,577)**

Net (decrease) / increase in operating liabilities:

Due to financial institutions	(58,232,456)	(12,671,757)	78,382,251
Due to customers	40,956,117	5,741,127	26,798,326
Third party interest in consolidated funds	6,455,625	27,582	706,751
Other liabilities	566,430	(961,217)	261,172
	(10,254,284)	**(7,864,265)**	**106,148,500**
Corporation tax paid	(669)	–	(1,459)
Net cash (outflow) / inflow from operating activities	**(42,063,090)**	**45,220,248**	**122,221,908**

Purchase of property and equipment	(114,727)	(12,079)	(47,771)
Purchase of intangible assets	(168,764)	(44,309)	(350,444)
Purchase of investment properties	(10,138,076)	–	(5,938,529)
Purchase of investment securities	(106,446,857)	(37,217,285)	(123,980,422)
Sale of investment securities	136,492,535	16,022,158	68,157,041
Net cash inflow / (outflow) from investing activities	**19,624,111**	**(21,251,515)**	**(62,160,125)**

Net change in cash and cash equivalents	**(22,438,979)**	**23,968,733**	**60,061,783**
Cash and cash equivalents at the beginning of the period	97,298,498	37,228,323	37,228,323
Exchange differences in respect of cash and cash equivalents	(1,241,088)	(969,942)	8,392
Cash and cash equivalents at the end of the period	**73,618,431**	**60,227,114**	**97,298,498**

The notes on pages 20 to 34 are an integral part of the condensed consolidated financial statements.

Condensed consolidated statement of changes in equity

For the six months ended 30 June 2012 (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**

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. £74,324 of the change in the fair value reserve transferred to income statement relates to the financial assets reclassified to loans and receivables on 1 July 2008 in accordance with the amendments to IAS 39.

Cash flow hedging reserve

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 20 to 34 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 2012 (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 2010	48,933,422	206,226,328	(238,645)	(3,717,416)	3,044,114	(7,179,954)	(75,870)	246,991,979
Profit for the period	**—**	**—**	**—**	**—**	**—**	**768,653**	**—**	**768,653**
Other comprehensive income / (expense)								
Foreign currency translation	—	—	—	182,170	—	—	91,183	273,353
Changes in fair value of cash flow hedges	—	—	—	(299,932)	—	—	—	(299,932)
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	—	—	—	20,437	—	—	—	20,437
Recognition of tax asset on cash flow hedge reserve	—	—	—	5,141	—	—	—	5,141
Change in fair value of available-for-sale financial assets taken to equity	—	—	22,744	—	—	—	—	22,744
Transfer to income statement in respect of amortisation of reclassified financial assets	—	—	315,659	—	—	—	—	315,659
Tax on amortisation of reclassified financial assets	—	—	(83,649)	—	—	—	—	(83,649)
Total other comprehensive income	**—**	**—**	**254,754**	**(92,184)**	**—**	**—**	**91,183**	**253,753**
Total comprehensive income for the period	**—**	**—**	**254,754**	**(92,184)**	**—**	**768,653**	**91,183**	**1,022,406**
Contributions by and distributions to owners								
Share based payment awards	—	—	—	—	1,263,515	—	—	1,263,515
Total transactions with owners	**—**	**—**	**—**	**—**	**1,263,515**	**—**	**—**	**1,263,515**
Balance at 30 June 2011	**48,933,422**	**206,226,328**	**16,109**	**(3,809,600)**	**4,307,629**	**(6,411,301)**	**15,313**	**249,277,900**

The notes on pages 20 to 34 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 2012 (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 2011	48,933,422	206,226,328	16,109	(3,809,600)	4,307,629	(6,411,301)	15,313	249,277,900
Loss for the period	**—**	**—**	**—**	**—**	**—**	**(9,666,643)**	**—**	**(9,666,643)**
Other comprehensive income / (expense)								
Foreign currency translation	—	—	—	(190,322)	—	—	(88,070)	(278,392)
Changes in fair value of cash flow hedges	—	—	—	(455,568)	—	—	—	(455,568)
Ineffective portion of changes in fair value of cash flow hedges transferred to income statement	—	—	—	147,857	—	—	—	147,857
Recognition of tax asset on cash flow hedge reserve	—	—	—	121,549	—	—	—	121,549
Change in fair value of available-for-sale financial assets taken to equity	—	—	177,262	—	—	—	—	177,262
Transfer to income statement in respect of amortisation of reclassified financial assets	—	—	62,227	—	—	—	—	62,227
Tax on amortisation of reclassified financial assets	—	—	(42,031)	—	—	—	—	(42,031)
Total other comprehensive expense	**—**	**—**	**197,458**	**(376,484)**	**—**	**—**	**(88,070)**	**(267,096)**
Total comprehensive loss for the period	**—**	**—**	**197,458**	**(376,484)**	**—**	**(9,666,643)**	**(88,070)**	**(9,933,739)**
Contributions by and distributions to owners								
Share based payment awards	—	—	—	—	96,301	—	—	96,301
Purchase of own shares	—	—	—	—	—	(800,000)	—	(800,000)
Total transactions with owners	**—**	**—**	**—**	**—**	**96,301**	**(800,000)**	**—**	**(703,699)**
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**

The notes on pages 20 to 34 are an integral part of the condensed consolidated financial statements.

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 investment, corporate banking, private client banking and asset management. The condensed consolidated financial statements of the Group for the six months ended 30 June 2012 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 2012 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 2011. The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU. Under IAS 34 the Group has to disclose accounting policies applicable to new items appearing in the interim financial statements. There were no such new items during the current period and 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 2011.

Presentation of comparative figures

The comparative figures for the financial year ended 31 December 2011 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. Key sources of estimation uncertainty

Allowance for credit losses

Assets accounted for at amortised cost are evaluated for impairment on the basis described in note 34a (v) of the BLME Annual Report and Accounts for 31 December 2011. 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's accounting policy on fair value measurements is in accordance with IFRS 7 Financial Instruments: Disclosures and is discussed in Note 34 of the 2011 Annual Report and Accounts.

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

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

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

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

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

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

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

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

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

4. Other operating income

	6 months to 30 June 2012 £	6 months to 30 June 2011 £	Year to 31 December 2011 £
Gain on foreign exchange transactions	225,892	163,332	367,447
Gain on leased asset sales	87,062	128,390	464,477
Rental income from investment properties	902,844	372,238	957,679
Other	330,718	136,315	338,750
	1,546,516	**800,275**	**2,128,353**

5. Personnel expenses

	6 months to 30 June 2012 £	6 months to 30 June 2011 £	Year to 31 December 2011 £
Wages and salaries	5,137,271	4,331,821	7,275,784
Social security costs	413,284	496,791	1,027,138
Defined contribution pension scheme costs	395,485	367,091	730,658
Sharia'a Supervisory Board fees	44,066	36,712	75,942
Recruitment costs	111,285	48,798	178,525
Other staff costs	137,557	169,587	231,813
	6,238,948	**5,450,800**	**9,519,860**

	30 June 2012 Number	30 June 2011 Number	31 December 2011 Number
Number of employees at period end	80	67	77
Average for the period – management	5	7	6
Average for the period – non-management	74	61	64

6. Impairment of financial assets

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	(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 six months ended 30 June 2011

Impairments of financial assets:	Individual £	Collective £	Total £
Balance at 1 January 2011	6,735,503	1,468,014	8,203,517
Exchange translation	(59,759)	(51,985)	(111,744)
Income statement:			
Gross impairment charge for the period	1,277,893	—	1,277,893
Amounts recovered during the period	(954,665)	(311,449)	(1,266,114)
Net impairment charge for the period	**323,228**	**(311,449)**	**11,779**
Amounts written off during the period	—	(303,024)	(303,024)
Balance as at 30 June 2011	**6,998,972**	**801,556**	**7,800,528**
Being impairments against:			
Financing arrangements	6,998,972	—	6,998,972
Finance lease receivables	—	801,556	801,556
	6,998,972	**801,556**	**7,800,528**

For the year ended 31 December 2011

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

As at 30 June 2012, 30 June 2011 and 31 December 2011 there were six facilities (5 individual and 1 collective) comprising amounts due to the Group of £38.9 million, £18.4 million and £40.4 million respectively which were determined to be impaired.

As at 30 June 2012, the individual provisions include a £4.3 million ($6.7 million) provision against the transportation sector (30 June 2011: £3.3 million / $5.25 million and 31 December 2011: £3.4 million / $5.25 million), £2.1 million (€2.5 million) in respect of a European manufacturing business (30 June 2011: £2.3 million / €2.5 million and 31 December 2011: £2.1 million / €2.5 million), £0.5 million against the UK real estate sector (30 June 2011: £nil and 31 December 2011: £0.5 million), £0.3 million ($0.5 million) against a Sukuk issued by a Bahraini based company (30 June 2011: £nil / $nil and 31 December 2011: £0.3 million / $0.5 million) and a £14.1 million (€17.5 million) provision against a Turkish manufacturing business (30 June 2011: £nil / €nil and 31 December 2011: £14.6 million / €17.5 million).

The collective provision of £0.4 million ($0.7 million) is against a US finance lease portfolio in the transportation sector (30 June 2011: £0.8 million / $ 1.3 million and 31 December 2011: £0.5 million / $0.7 million).

7. Taxation

UK Corporation tax	6 months to 30 June 2012 £	6 months to 30 June 2011 £	Year to 31 December 2011 £
– on current period profit / (loss)	(54,818)	40,142	—
	(54,818)	40,142	—
Overseas tax for the period	669	728	1,459
Deferred tax for the period	751,762	1,206,055	(1,952,159)
Tax charge / (credit) in income statement	**697,613**	**1,246,925**	**(1,950,700)**

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

Reconciliation of effective tax rate			
Profit / (loss) before tax	2,858,926	2,015,578	(10,848,690)
Profit / (loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 24.5% (2011: 26.5%)	700,437	534,128	(2,874,903)
Expenses not deductible for tax purposes	(40,408)	45,533	30,488
Tax exempt income	(121,422)	(46,118)	(9,636)
Share based payment transactions	(43,913)	433,750	310,503
Effect of change in tax rates	202,919	115,110	401,662
Prior year adjustment to deferred tax	—	164,522	191,186
Tax charge / (credit) in income statement	**697,613**	**1,246,925**	**(1,950,700)**

The Budget announcement on 21 March 2012 to reduce the main UK Corporation Tax rate from 26% to 24% with effect from 1 April 2012 was substantially enacted on 26 March 2012. Accordingly the deferred tax assets and liabilities recognised below have been calculated using a corporation tax rate of 24% (30 June 2011: 26% and 31 December 2011: 25%).

It was also announced in the Budget on 21 March 2012 that the main UK Corporation Tax rate would be reduced further from 24% to 22% over the following two tax years. These proposed changes had not been enacted into UK law at the balance sheet date. The overall effect of further tax rate reductions from 24% to 22%, if applied to the deferred tax balances below at 30 June 2012, would be to reduce the Group’s deferred tax asset by approximately £400,000.

Tax recognised in other comprehensive income

	6 months to 30 June 2012 £	6 months to 30 June 2011 £	Year to 31 December 2011 £
Cash flow hedging reserve	(134,599)	5,141	126,690
Fair value reserve	37,723	(83,649)	(125,680)
	(96,876)	**(78,508)**	**1,010**

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 2015.

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 30 June 2011

	Assets £	Liabilities £	Net £
Property, equipment and software	—	(1,563,638)	(1,563,638)
Tax losses carried forward	3,001,545	—	3,001,545
Cash flow hedges	371,825	—	371,825
Share based payment transactions	552,694	—	552,694
Net tax assets at 30 June 2011	**3,926,064**	**(1,563,638)**	**2,362,426**

Recognised deferred tax assets at 31 December 2011

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

8. Investment securities

At 30 June 2012	Listed £	Unlisted £	Total £
Fair value through profit and loss			
Sukuk	31,890,305	—	31,890,305
Available-for-sale			
Equity	—	2,672,536	2,672,536
Sukuk	15,262,093	—	15,262,093
	47,152,398	**2,672,536**	**49,824,934**

At 30 June 2011	Listed £	Unlisted £	Total £
Fair value through profit and loss			
Sukuk	40,754,563	—	40,754,563
Designated as fair value through profit and loss			
Sharia'a compliant fund	—	1,718,390	1,718,390
Available-for-sale			
Equity	—	1,854,130	1,854,130
Sukuk	3,162,358	—	3,162,358
	43,916,921	**3,572,520**	**47,489,441**

At 31 December 2011	Listed £	Unlisted £	Total £
Fair value through profit and loss			
Sukuk	39,259,354	—	39,259,354
Available-for-sale			
Equity	—	2,359,313	2,359,313
Sukuk	39,782,838	—	39,782,838
	79,042,192	**2,359,313**	**81,401,505**

9. Investment properties

Group	At 30 June 2012 £	At 30 June 2011 £	At 31 December 2011 £
Opening valuation	12,858,712	7,232,573	7,232,573
Net exchange differences	(101,436)	(255,702)	13,765
Purchases at cost	10,138,076	—	5,938,529
Movements in fair value	(321,041)	61,873	(326,155)
Closing valuation	**22,574,311**	**7,038,744**	**12,858,712**

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.

The purchases during the period, and during 2011, relate to the Group's investment in the BLME Light Industrial Building Fund compartment of the BLME Sharia'a Umbrella Fund SICAV SIF which is consolidated into the Group's results as disclosed in note 13.

The two commercial property purchases during the period of industrial and office units in Warrington, Cheshire (£2.6 million) and Haydock, Merseyside (£6.9 million) were valued by GVA Grimley Limited. The acquisition costs of these properties totalling £607,076 are included in the above purchases at cost figure.

The Group's leasehold interest in a US commercial real estate property in Bettendorf, Iowa was valued by CB Richard Ellis at $11.8 million (30 June 2011: $11.3million and 31 December 2011: $11.3 million). This property is held through the SPVs 'TP Funding Company LLC' and 'Medical Property Investments LLC' (see note 13).

The income statement includes rental income from the investment properties of £902,844 (6 months to 30 June 2011: £372,238 and year to 31 December 2011: £957,679) in the line "Other operating income" and direct operating expenses of £474,683 (6 months to 30 June 2011: £205,078 and year to 31 December 2011: £474,683) including repairs and maintenance in the line "Other operating expenses".

10. Financing arrangements

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 30 June 2011	Less than 1 year £	1 - 5 years £	Over 5 years £	Total £
Murabaha	103,124,326	115,336,141	20,922	218,481,389
Mudaraba	12,534	2,491,591	—	2,504,125
Musharaka	979	—	4,564,355	4,565,334
Istisna and Ijara	4,812,829	—	10,330,814	15,143,643
Sukuk	41,540,847	36,207,931	—	77,748,778
	149,491,515	**154,035,663**	**14,916,091**	**318,443,269**
Provision for impairment				(6,998,972)
				311,444,297

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

These tables represent contractual maturities.

11. Finance lease receivables

Gross investment in finance lease receivables	At 30 June 2012 £	At 30 June 2011 £	At 31 December 2011 £
Within one year	67,898,718	45,362,853	52,787,159
One to five years	106,581,340	93,762,119	91,585,235
Over five years	—	3,834,374	1,423,320
	174,480,058	142,959,346	145,795,714
Unearned future income on finance leases	(17,549,090)	(15,213,930)	(14,323,263)
Provision for impairment	(381,513)	(801,556)	(460,352)
Net investment in finance leases	**156,549,455**	**126,943,860**	**131,012,099**

The net investment in finance leases comprises:

Within one year	62,102,282	40,468,499	47,987,557
One to five years	94,447,173	83,224,181	81,799,359
Over five years	—	3,251,180	1,225,183
	156,549,455	**126,943,860**	**131,012,099**

These tables represent contractual maturities.

12. Operating lease assets

	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**

	At 31 December 2010 £	Additions 2011 £	Disposals 2011 £	Depreciation 2011 £	Translation differences 2011 £	At 30 June 2011 £
Gross carrying amount	123,412,891	19,116,727	(4,735,599)	—	(3,006,310)	134,787,709
Less depreciation	(34,225,073)	—	2,785,106	(10,000,396)	973,541	(40,466,822)
	89,187,818	**19,116,727**	**(1,950,493)**	**(10,000,396)**	**(2,032,769)**	**94,320,887**

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

Rental receipts under operating leases Future rentals are as follows:	At 30 June 2012 £	At 30 June 2011 £	At 31 December 2011 £
Less than one year	34,335,351	29,804,587	29,154,337
Between one and five years	66,989,948	80,352,607	77,693,343
	101,325,299	**110,157,194**	**106,847,680**

13. 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
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 2012 No of shares	30 June 2011 No of shares	31 December 2011 No of shares
BLME US$ Income Fund compartment:			
Class B shares	47,883.888	47,883.888	47,883.888
Class G shares	1,234.491	1,234.491	1,234.491
Class M shares	1	1	1
BLME US$ High Yield Fund compartment:			
Class A shares	10,000	10,000	10,000
BLME Light Industrial Building Fund compartment:			
Class A shares	10,019.609	Nil	6,015.528

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 88% of the shares issued (30 June 2011: 97% and 31 December 2011: 96.5%). The Group recognised an expense of £234,907 (6 months to 30 June 2011: £28,056 and year to 31 December 2011: £50,732) 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 12% (30 June 2011: 3% and 31 December 2011: 3.5%) 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 because the relationships between the Bank and the SPVs are governed by participation agreements which confer the risk and rewards to the Bank and indemnify the SPVs for losses. Therefore this gives rise to benefits and risks that are in substance no different from those that would arise were the entities subsidiaries of the Bank.

The six entities are as follows:

– Kalakane Transatlantic Investors II, Inc. (USA) – Operating leases

– BLX13 Inc (USA) – Operating leases and Finance leases

– DMJ 1 LLC (USA) – Finance leases

– DMJ 2 LLC (USA) – Operating leases

– TP Funding Company LLC (USA) – Investment property

– Medical Property Investments LLC (USA) – Investment property

Lease assets owned by the SPVs are reported as Group operating lease assets amounting to £46,133,262 (30 June 2011: £50,938,534 and 31 December 2011: £46,831,291).

Finance leases owned by the SPVs amount to £17,051,226 (30 June 2011: £23,720,123 and 31 December 2011: £20,163,822).

During the period the BLME EBT purchased 1,538,460 of BLME shares at 6.5 pence per share for a total consideration of £100,000 from employees who had left the company (6 months to 30 June 2011: nil and year to 31 December 2011: 6,153,846 shares for £400,000). The BLME EBT holds a stock of own shares at a cost of £900,000 (30 June 2011: £nil and 31 December 2011: £800,000) 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 £500 (6 months to 30 June 2011: £nil and year to 31 December 2011: £2,000).

14. Related parties

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

Boubyan Bank	6 months to 30 June 2012 £	6 months to 30 June 2011 £	Year to 31 December 2011 £
Wakala placement	—	—	4,186,046
Foreign exchange transactions	25,249	—	—
SGM-FX			
Foreign exchange transactions	3,596,500	1,612,008	7,881,064

The amounts outstanding with Boubyan Bank as at 30 June 2012 were as follows:

Included within:	At 30 June 2012 £	At 30 June 2011 £	At 31 December 2011 £
Cash and balances with banks			
Nostros	139,936	119,500	128,281
Due from financial institutions			
Wakala placement	4,186,046	5,000,000	4,186,046

The maximum outstanding with Boubyan Bank during the period ended 30 June 2012 was:

On balance sheet £4,186,046 (30 June 2011 and 31 December 2011: £5,000,000)

Off balance sheet £nil (30 June 2011 and 31 December 2011: £nil)

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

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

As at 30 June 2012, Boubyan Bank held 21.78% of the Bank's shares (30 June 2011 and 31 December 2011: 19.80%). A non executive director who joined the Board on 25 September 2009 was also the Chairman of Boubyan Bank from 2009 until March 2012.

The maximum outstanding amount with SGM-FX during the period ended 30 June 2012 was £4,463,891 (30 June 2011: £7,869,181 and 31 December 2011: £9,015,920).

As at 30 June 2012 the Bank had the following outstanding foreign currency forward contracts with SGM-FX: £2,177,823 of sell GBP / buy USD (30 June 2011: £4,433,352 and 31 December 2011: £2,815,131), £nil of buy GBP / sell USD (30 June 2011: £432,211 and 31 December 2011: £nil) and £nil of buy USD / sell ZAR (30 June 2011: £3,812 and 31 December 2011: £nil). The fair value of these contracts as at 30 June 2012 was £4,721 (30 June 2011: £106,410 and 31 December 2011: £35,892).

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

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 2012 £	6 months to 30 June 2011 £	Year to 31 December 2011 £
Key management emoluments*	418,668	488,981	897,518
Bank contributions to pension plans	46,500	46,500	93,000
	465,168	**535,481**	**990,518**

*Key management emoluments include share based payments of £63,751 (6 months to 30 June 2011: £135,270 and year to 31 December 2011: £187,438)

One executive director entered spot foreign exchange transactions with the Bank totalling £686 for the 6 months to 30 June 2011 and £12,556 for the year to 31 December 2011. During the period to 30 June 2012 none of the Executive Directors entered spot foreign exchange transactions with the Bank.

As at 30 June 2012 one non-executive director had an interest in a BLME Premier Deposit Account with a balance of £25,000 (30 June 2011 and 31 December 2011: £nil). As at 30 June 2011, one Executive Director had a balance of £50,000 in a BLME Premier Deposit Account which matured during the second half of 2011. These transactions arose from the ordinary course of business and were conducted on the same terms as for comparable transactions with third-party counterparties.

15. 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 30 August 2012. The statutory accounts for the year ended 31 December 2011 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
Finance Director
30 August 2012

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 2012 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 20 to 34. 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 2012 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
30 August 2012

Notes

Bank information

Bank of London and The Middle East plc

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

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

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